Transport and Development Bank
(A Closed joint stock Company)

Financial Statements
31 December 2022

(With Independent Auditors' Report Thereon)

Glossary of abbreviation

BoM	Bank of Mongolia
CIB	Credit Information Bureau LLC
ABS	Asset Backed Securities
RMBS	Residential Mortgage Backed Securities
SFC	Security Finance Corporation
SMEs	Small and Medium Enterprises
SPC	Special Purpose Company
AC	Amortised cost
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
PD	Probability of default
LGD	Loss given default
EAD	Exposure at default
EIR	Effective interest rate
SPPI	Solely payments of principal and interest
DDM	Dividend discount model
CJSC	Closed Joint Stock Company

Contents

Transport and Development Bank CJSC

Bank Information

State registration number	2078201
Registered address	**Transport and Development Bank CJSC** Shangri-La office, 15th floor, Olympic Street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia
Shareholders as at 31 December 2022	Radnaabazar P. Minjin G. Batgerel B. Gantuya B. Ganbold U. Oyungerel D. Infrastructure LLC
Board of Directors	Davaa P. Bazarmaa R. Enerelt B. Erdenebayar B. Munkhzaya Z. Ashidmaa D. Oyuntsatsral B. Batmagnai T. Tsogtgerel G.
Chief Executive Officer	Enerelt B.
Chief Financial Officer	Bolor Ts.
Auditor	**BDO Audit LLC** Room 1502, Union Building-B, Unesco Street, Narnii Zam-62, Sukhbaatar District, Khoroo-1, Ulaanbaatar, Mongolia

Management's Responsibility Statement

The Bank's management is responsible for the preparation of the financial statements.

The financial statements of Transport and Development Bank CJSC ("the Bank") have been prepared to comply with International Financial Reporting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2022 and the financial performance and cash flows for the year then ended on that date.

Management has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in Note 2 to Note 4 thereto.

Management also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Management considers that, in preparing the financial statements, it has used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The financial statements of the Bank for the year ended 31 December 2022 were authorized for issuance by the Bank's management.

ENERELT BATBOLD	**BOLOR TSERENDORJ**
Chief Executive Officer	Chief Financial Officer

Ulaanbaatar,
Mongolia

Date: 28 March 2023

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15 - р давхар, 1502 тоот

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Transport and Development Bank (A closed Joint Stock Company)

Opinion

We have audited the financial statements of Transport and Development Bank (the Bank), which comprise of:

- The statement of financial position as at December 31, 2022;
- the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

Financial statements of Transport and Development Bank CJSC for the year ended 31 December 2021, were audited by another auditor who expressed an unqualified opinion on those statements on March 28, 2022.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Khurshid Alam

KHURSHID ALAM
BDO Audit LLC
Room 1502, Level 15, Block B, Union Building,
UNESCO street, Narnii Zam-62,
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Ulaanbaatar city, Mongolia

БДО АУДИТ ХХК
AUDIT & ASSURANCE
BDO
VALUATION SERVICES
УЛААНБААТАР ХОТ
ТТН326 2546442

Date: 2023.03.28

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2022

(In thousands of MNT)	Notes	2022	2021 Restated*
Interest income calculated using the effective interest rate	*5*	81,901,202	49,559,320
Other interest and similar income	*5*	3,220,930	1,255,420
Interest and similar expense	*5*	(45,956,759)	(24,881,973)
Net interest income		**39,165,373**	**25,932,767**
Fee and commission income	*6*	1,205,971	376,799
Fee and commission expense	*6*	(1,150,338)	(462,092)
Net fee and commission expense		**55,633**	**(85,293)**
Net trading income	*7*	4,038,048	1,457,159
Other income (expense) from other financial instruments at FVTPL	*8*	(1,947,392)	(177,896)
Revenue		**41,311,662**	**27,126,737**
Other income	*9a*	3,536,042	54,652
Impairment losses on financial instruments	*12*	(9,299,839)	(589,482)
Personnel expenses	*10*	(10,414,223)	(5,443,150)
Depreciation and amortization		(5,922,646)	(4,010,633)
Other expenses	*9b*	(5,172,801)	(3,071,270)
Non-operating expenses	*11*	(406,329)	(221,457)
Profit before tax		**13,631,866**	**13,845,397**
Income tax expense	*13*	(2,944,032)	(2,440,975)
Net profit for the year		**10,687,834**	**11,404,422**
Other comprehensive income			
Other comprehensive income transferred to profit or loss if specific conditions are met:			
Movement in fair value reserve (FVOCI debt instruments):			
- Net change in fair value		19,574	95,491
- Reclassified to profit or loss		(95,491)	(18,128)
Total comprehensive income for the year		**10,611,917**	**11,481,785**

*Restatement related to compliance with IFRS 9, please refer to note 2.(e) for details.

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Financial Position
As at 31 December 2022

(In thousands of MNT)	Notes	31 Dec 2022	31 Dec 2021 Restated*
Assets			
Cash and balances with BoM (other than mandatory reserve)	*14*	160,399,785	93,334,148
Mandatory cash balances with BoM	*14*	70,409,793	29,413,446
Due from other banks	*15*	321,818,852	37,585,022
Financial assets at FVTPL	*16*	4,748,884	2,832,448
Financial assets at FVOCI	*16*	640,791	69,765,709
Financial assets at amortised cost	*16*	6,889,076	10,348,243
Derivative financial assets	*17*	3,813,582	35,712
Loans and advances to customers	*18*	556,700,648	433,651,455
Property and equipment	*19*	5,768,529	6,544,526
Intangible assets	*20*	5,894,523	5,432,936
Right-of-use assets	*22*	14,087,808	4,501,363
Deferred tax assets	*13*	-	355,657
Other assets	*23*	6,236,675	34,728,868
Goodwill	*21*	4,591,561	4,591,561
Total assets		**1,162,000,507**	**733,121,094**
Equity and Liabilities			
Liabilities			
Deposits from financial institutions	*24*	374,088,532	90,063,973
Deposits from customers	*25*	525,090,994	318,303,255
Repurchase agreements	*26*	6,019,946	76,731,558
Borrowed funds	*27*	40,696,557	47,066,560
Derivative financial liabilities	*17*	5,839,782	20,009
Current tax liabilities	*13*	184,314	894,892
Deferred tax liabilities	*13*	178,300	-
Other liabilities	*28*	23,679,289	17,399,985
Total liabilities		**975,777,714**	**550,480,232**
Equity			
Share capital	*30*	139,442,306	146,473,811
Share premium	*30*	15,646,926	15,645,407
Reserves	*30*	1,103,813	124,009
Retained earnings		30,029,748	20,397,635
Total equity		**186,222,793**	**182,640,862**
Total equity and liabilities		**1,162,000,507**	**733,121,094**

*Restatement related to compliance with IFRS 9, please refer to note 2.(e) for details.

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Changes in Equity
For the year ended 31 December 2022

(In thousands of MNT)	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2021	**100,000,000**	**-**	**18,128**	**28,518**	**8,993,213**	**109,039,859**
Net profit for the year	-	-	-	-	11,404,422	11,404,422
Other comprehensive income:						
FVOCI debt investments:						
- Net change in fair value	-	-	95,491	-	-	95,491
- Reclassified to profit or loss	-	-	(18,128)	-	-	(18,128)
Total comprehensive income	**-**		**77,363**	**-**	**11,404,422**	**11,481,785**
Contributions from shareholders	46,473,811	15,645,407	-	-	-	62,119,218
Balance at 31 December 2021 (Restated*)	**146,473,811**	**15,645,407**	**95,491**	**28,518**	**20,397,635**	**182,640,862**
Net profit for the year	-	-	-	-	10,687,834	10,687,834
Other comprehensive income:						
FVOCI debt investments:						
- Net change in fair value	-	-	19,574	-	-	19,574
- Reclassified to profit or loss	-	-	(95,491)	-	-	(95,491)
Total comprehensive income	**-**	**-**	**(75,917)**	**-**	**10,687,834**	**10,611,917**
Buyback of shares	(7,031,505)	-	-	-	-	(7,031,505)
Recognition of equity investment invested by Credit bank in CIB	-	1,519	-	-	-	1,519
Transfer to regulatory reserve	-	-	-	1,056,292	(1,056,292)	-
Disposal of revaluation surplus on premises	-	-	-	(571)	571	-
Balance at 31 December 2022	**139,442,306**	**15,646,926**	**19,574**	**1,084,239**	**30,029,748**	**186,222,793**

Please see rest of the table in next page.

The accompanying notes form an integral part of these financial statements.

(In thousands of MNT)	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2020	**78,000,000**	**-**	**105,740**	**28,518**	**3,519,083**	**81,653,341**
Net profit for the year	-	-	-	-	5,474,130	5,474,130
Other comprehensive income:						
FVOCI debt investments:						
- Net change in fair value	-	-	18,128	-	-	18,128
- Reclassified to profit or loss	-	-	(105,740)	-	-	(105,740)
Total comprehensive income	-		(87,612)	-	5,474,130	5,386,518
Contributions from shareholders	22,000,000	-	-	-	-	22,000,000
Balance at 31 December 2020	**100,000,000**	**-**	**18,128**	**28,518**	**8,993,213**	**109,039,859**
Net profit for the year	-	-	-	-	11,404,422	11,404,422
Other comprehensive income:						
FVOCI debt investments:						
- Net change in fair value	-	-	95,491	-	-	95,491
- Reclassified to profit or loss	-	-	(18,128)	-	-	(18,128)
Total comprehensive income	-	-	77,363	-	11,404,422	11,481,785
Issuance of additional shares in relation to merger	46,473,811	15,645,407	-	-	-	62,119,218
Balance at 31 December 2021 (Restated*)	**146,473,811**	**15,645,407**	**95,491**	**28,518**	**20,397,635**	**182,640,862**

*Restatement related to compliance with IFRS 9, please refer to note 2.(e) for details.

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Cash Flows
For the year ended 31 December 2022

(In thousands of MNT)	*Notes*	2022	2021 Restated*
Cash flows from operating activities			
Profit for the year		10,687,834	11,404,422
Adjustment for:			
Depreciation of property and equipment	*19*	1,896,372	1,299,011
Depreciation of right-of-use assets	*22*	3,463,883	2,394,595
Amortisation of intangible assets	*20*	562,391	317,027
Disposal of property and equipment, excluding right-of-use assets	*9b, 19*	108,676	107,371
Loss on lease cancellation	*9b, 22*	1,058	-
Net interest income	*5*	(39,165,373)	(25,932,767)
Impairment losses, net	*12*	9,299,839	589,482
Impairment loss (reversal) of loans and advances to customers at FVTPL	*8*	(127,909)	150,382
Income tax expense	*13*	2,944,032	2,440,975
Changes in assets and liabilities:			
Reserves with BoM	*29*	(40,996,347)	(21,623,548)
Placement with foreign bank as cash collateral	*29*	-	(4,381,454)
Derivative financial assets	*17*	(5,390,309)	(566,110)
Loans and advances to customers	*18*	(114,059,064)	(83,326,243)
Other assets	*23*	29,848,128	242,999
Due to banks and other financial institutions	*24*	279,810,405	(62,866,330)
Deposit from customers	*25*	173,293,381	179,910,628
Repurchase agreements	*26*	(69,226,166)	41,620,904
Derivative financial liabilities	*17*	7,451,081	557,278
Other liabilities	*28*	(3,931,610)	1,936,211
Interest received		78,483,941	45,595,920
Interest paid		(42,711,987)	(19,646,134)
Interest paid on lease liabilities	*22*	(942,274)	(694,188)
Income taxes paid		(2,225,425)	(2,572,347)
Net cash provided by operating activities		**279,074,557**	**66,958,084**

Please see rest of the table in next page.

(In thousands of MNT)	***Notes***	**2022**	**2021 Restated***
Cash flows from investing activities			
Cash addition as a result of the Merger		-	10,194,984
Acquisition of property and equipment	*19*	(2,101,779)	(5,838,653)
Proceeds from disposal of property, plant and equipment	*19*	872,728	655,545
Acquisition of intangible assets	*21*	(1,023,978)	(186,613)
Acquisition of financial assets at FVOCI	*16*	(355,851,000)	(579,611,716)
Proceeds from redemption of financial assets at FVOCI	*16*	425,134,000	532,776,320
Acquisition of financial assets at AC	*16*	(3,500,000)	(10,085,500)
Proceeds from redemption of financial assets at AC	*16*	5,509,600	-
Acquisition of financial assets at FVPTL	*16*	(2,482,000)	(3,540,200)
Proceeds from disposal of financial assets at FVTPL	*16*	2,002,200	961,267
Net cash provided by/ (used in) investing activities		**68,559,771**	**(54,674,566)**
Cash flows from financing activities			
Borrowed funds received	*27*	32,132,952	27,063,352
Repayment of borrowed funds	*27*	(43,783,558)	(10,576,535)
Buyback of shares	*30*	(7,031,505)	-
Payment of lease liabilities	*22*	(4,175,281)	(2,301,058)
Net cash (used in)/ provided by financing activities		**(22,857,392)**	**14,185,759**
Net change in cash and cash equivalents		**324,776,936**	**26,469,277**
Cash and cash equivalents at 1 January	*29*	126,537,716	100,752,254
Effect of foreign exchange rate fluctuation on cash held		30,903,985	(683,815)
Cash and cash equivalents at 31 December	*29*	**482,218,637**	**126,537,716**

The accompanying notes form an integral part of these financial statements.

1. Reporting entity

Transport and Development Bank CJSC ("the Bank or Transbank") is a closed joint stock company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is Shangri-La office, 15th floor, Olympic street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia.

By the resolution of the Bank of Mongolia dated 29 April 2022, permission was granted to reorganize the Transport Development Bank from a limited liability company to a closed joint stock company based on the Banking Law.
On 30 June 2022, the Bank registered with the State Registation Authority that it was reorganized from an LLC to a closed JSC.

The Bank was given permission to conduct banking activities by the Governor of the Bank of Mongolia ("BoM") on 28 February 1997 in accordance with the Banking Law of Mongolia. The Bank holds the State Registration Certificate with Registry No. 2078201 issued on 22 January 1997 by the General Authority for State Registration and Banking License No. 12 issued by the BoM.

On 21 August 2021, it was announced that the Bank and Credit bank LLC ("CB"), were officially merged under BoM resolution dated 27 July 2021 under the Banking law and Company law. The merger was governed by a Merger Agreement between the Bank and CB of which all assets, liabilities, reserves and branches of CB were to be merged into the Bank, taking effect from 21 August 2021.

As at 31 December 2022, the Bank is owned by six individuals and one company. The ultimate controlling party as at 31 December 2022 was an individual, Mr. Radnaabazar P.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

The financial statements of the Bank for the year ended 31 December 2022 were authorised for issue by the Directors on 28 March 2023.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the items described otherwise in the related notes.

(c) Functional and presentation currency

The financial statements are presented in Mongolian tugrug ("MNT") which is also the functional currency of the Bank and the currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of judgments and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. Basis of preparation, continued

(d) Use of judgments and estimates, continued

(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 35 (2): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.
- Note 4 (b)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 4 (n)(i): lease term: whether the Bank is reasonably certain to exercise extension options.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Classification of financial assets – Note 4 (b)(ii)
- Impairment of financial assets – Note 4 (b)(vi)
- Impairment of goodwill- Note 21

(iii) Fair value measurement

The Bank aims to use the best available observable inputs in the market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation method, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. Basis of preparation, continued

(d) Use of judgments and estimates, continued

(iii) Fair value measurement, continued

If various inputs used to measure the fair value of assets or liabilities are transferred between levels of the fair value hierarchy, the Bank classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value and recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

(iv) Going concern

The financial statements have been prepared on a going concern basis, which management has assessed as being appropriate.

(e) Restatement of previous year

In preparing the Bank's financial statements for the year ended 31 December 2022, accounting errors were identified during the current period and prior year adjustments were made in the financial statements to rectify the accounting errors, details which are as follows:

(i) In determining the business model and cash flow characteristics test of the debt instrument investments, the Bank considered some factors inconsistently. Therefore, a number of debt instruments were misclassified. The classification of those financial investments has been adjusted in accordance with IFRS 9. In Addition, the expected credit loss of investment was recalculated and an adjustment was made between OCI and PL.

(ii) *On 20 February 2021, the Government of Mongolia has approved a MNT 10 trillion "Economic recovery plan and citizen's health protection program". The program consisted of 5 components, the subprogram in supporting SMEs began in March 2021. As part of sub-program in supporting SMEs, the Bank participated in securitization transactions with wholly owned special purpose companies of SFC in selling SME loan pools. In 2021, the Bank sold SME loans to SFC a total of MNT 10,045 million with an interest rate of 10.5% p.a and maturity of 2-3 years, in return for which the Bank received ABS. The Bank had derecognized loans sold to SFC at the end of 2021.

As the Bank retains all the risks associated with the loans sold to the SFC in these transactions, the derecognition criteria are not met. Therefore, assets that do not qualify for derecognition and any consideration received as of December 31, 2021 have been recognized as a financial liability and restated. The related expected credit losses of the recognized financial assets have been recalculated and restated in the financial statements.

(iii) Certain loans and advances to customers originally classified as financial assets at AC were reclassified to financial instruments at FVTPL as the loans and advances were held within a business model whose objective is to sell them.

As a result of the above, comparatives have been restated and a reconciliation is disclosed as follows:

2. Basis of preparation, continued

(e) Restatement of previous year, continued

Statement of financial position

(In thousands of MNT)	Note	31/12/2021 Audited	Adjustments	31/12/2021 Restated
ASSETS				
Cash and balances with BoM (other than mandatory reserve)		93,334,148	-	93,334,148
Mandatory cash balances with BoM		29,413,446	-	29,413,446
Due from Banks		37,585,022	-	37,585,022
Financial assets at FVTPL	(i)	13,217	2,819,231	2,832,448
Financial assets at FVTOCI	(i)	80,520,228	(10,754,519)	69,765,709
Financial assets at amortised cost	(i)	2,427,215	7,921,028	10,348,243
Derivative financial assets		35,712	-	35,712
Loans and advances to customers	(ii), (iii)	423,569,662	10,081,793	433,651,455
Property and equipment		6,544,526	-	6,544,526
Intangible assets		5,432,936	-	5,432,936
Right-of-use assets		4,501,363	-	4,501,363
Deferred tax assets		355,657	-	355,657
Other assets		34,728,868	-	34,728,868
Goodwill		4,591,561	-	4,591,561
TOTAL ASSETS		**723,053,561**	**10,067,533**	**733,121,094**
EQUITY AND LIABILITIES				
Liabilities				
Due to banks and other financial institutions		90,063,973	-	90,063,973
Due to customers		318,303,255	-	318,303,255
Repurchase agreements		76,731,558	-	76,731,558
Borrowed funds		47,066,560	-	47,066,560
Derivative financial liabilities		20,009	-	20,009
Current tax liabilities		894,892	-	894,892
Deferred tax liabilities		-	-	-
Other liabilities	(ii)	7,270,068	10,129,917	17,399,985
TOTAL LIABILITIES		**540,350,315**	**10,129,917**	**550,480,232**
Equity				
Share capital		146,473,811	-	146,473,811
Share premium		15,645,407	-	15,645,407
Reserves	(i)	138,269	(14,260)	124,009
Retained earnings (losses)	(i),(ii),(iii)	20,445,759	(48,124)	20,397,635
TOTAL EQUITY		**182,703,246**	**(62,384)**	**182,640,862**
TOTAL LIABILITIES AND EQUITY		**723,053,561**	**10,067,533**	**733,121,094**

2. Basis of preparation, continued

(e) Restatement of previous year, continued

Statement of profit or loss and other comprehensive income

(In thousands of MNT)	Notes	31/12/2021 Audited	Adjustments	31/12/2021 Restated
Interest and similar income		50,814,740	-	50,814,740
Interest and similar expense		(24,881,973)	-	(24,881,973)
Net interest income		**25,932,767**	**-**	**25,932,767**
			-	
Fee and commission income		376,799	-	376,799
Fee and commission expense		(462,092)	-	(462,092)
Net fees and commission income (expense)		**(85,293)**	**-**	**(85,293)**
Net trading income/ (expense)		1,457,159	-	1,457,159
Net income (expense) from other financial instruments at FVTPL	(iii)	(27,514)	(150,382)	(177,896)
Revenue		**27,277,119**	**(150,382)**	**27,126,737**
Other income		54,652	-	54,652
Impairment (loss) / reversal	(i),(ii),(iii)	(691,740)	102,258	(589,482)
Personnel expenses		(5,443,150)	-	(5,443,150)
Depreciation and amortization		(4,010,633)	-	(4,010,633)
Other expenses		(3,071,270)	-	(3,071,270)
Non operating expenses		(221,457)	-	(221,457)
Profit before tax		**13,893,521**	**(48,124)**	**13,845,397**
Income tax expense		(2,440,975)	-	(2,440,975)
Net profit for the year		**11,452,546**	**(48,124)**	**11,404,422**
Other comprehensive income				
Other comprehensive income transferred to profit or loss if specific conditions are met:				
Movement in fair value reserve (FVOCI debt instruments):				
Net change in fair value	(i)	109,751	(14,260)	95,491
Reclassified to profit or loss		(18,128)	-	(18,128)
Total comprehensive income for the year		**11,544,169**	**(62,384)**	**11,481,785**

3. New or revised standards and interpretations

(a) New standards, interpretations and amendments effective from 1 January 2022

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The adoption of the above amendments did not have material impact on the Bank.

(b) New standards issued by the International Accounting Standards Board (IASB) which do not yet apply in the current financial year

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8);
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- IFRS 17 Insurance Contracts (effective 1 January 2023) – In June 2020, the IASB issued amendments to IFRS 17, including a deferral of its effective date to 1 January 2023.

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants).

The Bank is currently assessing the impact of these new accounting standards and amendments.

The Bank does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Bank.

4. Significant accounting policies

The significant accounting policies applied by the Bank in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to MNT at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade, which is the date on which the Bank becomes a party to contractual provisions of the instruments.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification, continued

Financial assets, continued

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification, continued

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

(iii) Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Derecognition, continued

Financial assets, continued

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a Bank of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically-identified cash flow.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different (referred to as “substantial modification”), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Modification of financial assets and financial liabilities, continued

Financial assets, continued

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- net investments in finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component*, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(vii) Designation at fair value through profit or loss

Financial assets

On initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(c) Cash and cash equivalents

Cash and cash equivalents include notes on hand, unrestricted balances held with central banks and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4. Significant accounting policies, continued

(d) Investment securities

The investment securities include:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(e) Property and equipment

Recognition and measurement

Property and equipment is initially measured at cost and after initial recognition, is carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

Subsequent costs are recognised in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing are recognised in profit or loss as incurred.

4. Significant accounting policies, continued

(e) Property and equipment, continued

Depreciation

Property and equipment is depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised as other non-operating income (loss).

The estimated economic useful life for the current and comparative years of significant items of property and equipment is as follows:

	Useful lives (years)
Furniture and fixtures	10
Vehicles	10
Computers and others	2-3

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(f) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current period is 2 to 3 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Due to Merger, the one new intangible asset is identified which is the current contracts and the related customer relationship. In accordance with IFRS 3 Business combinations and IAS 38 Intangible assets, the Bank recognised a new identified intangible asset at its fair value at the date of acquisition.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree.

Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For business combinations completed, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the statement of comprehensive income on the acquisition date.

4. Significant accounting policies, continued

(g) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Equity capital

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Share premium

The amount of contribution in excess of par value is accounted for as "Share premium". Share premium also arises from additional capital contribution from stockholders.

(iii) Other reserve

'Regulatory reserve' is set up in compliance with BoM requirement. Regulatory reserve mainly represents in difference between impairment provision determined for loan loss in accordance with the regulations of BoM and impairment provision determined under IFRS. Regulatory reserve is not considered as capital for determining the capital ratios.

(i) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Bank during an accounting period, the Bank recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Social and health insurance

As required by law, companies in Mongolia make social security and health contributions to the Social and Health Insurance scheme and such contributions are recognised as an expense in the comprehensive income statement as incurred.

4. Significant accounting policies, continued

(j) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The "gross carrying amount of a financial asset" measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

4. Significant accounting policies, continued

(j) Interest, continued

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- negative interest on financial assets measured at amortised cost; and
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(k) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(l) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

4. Significant accounting policies, continued

(m) Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated at FVTPL and, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(n) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

(i) Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branch and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank’s incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

4. Significant accounting policies, continued

(n) Leases, continued

(i) Bank acting as a lessee, continued

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

4. Significant accounting policies, continued

(o) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognised, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax liability is recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized.

However, deferred tax is not recognised for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and the carrying amount reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

If there is any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognised when liabilities relating to the dividend payments are recognised.

4. Significant accounting policies, continued

(p) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(q) Financial guarantees and loan commitments

“Financial guarantees” are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. “Loan commitments” are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For loan commitments the Bank recognizes a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(r) Related parties

For the purposes of these financial statements, a party is considered to be related to the Bank if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
(ii) the Bank and the party are subject to common control;
(iii) the party is a member of key management personnel of the Bank or the Bank’s parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
(v) the party is a post-employment benefit plan which is for the benefit of employees of the Bank or of any entity that is a related party of the Bank.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

5. Interest income end expense

Interest and similar income

(In thousands of MNT)	2022	2021
Interest income calculated using the effective interest method:		
Loans and advances to customers at AC	72,333,216	43,947,878
BOM treasury bills	3,335,495	3,992,000
Due from other banks	2,586,767	859,902
Precious metals	2,436,726	168,050
Debt instruments at AC	793,647	459,191
Balance with Bank of Mongolia	415,351	132,299
	81,901,202	49,559,320
Other interest and similar income:		
Long term swaps at FVTPL	2,652,310	665,853
Loans and advances to customers at FVTPL	325,208	547,302
Debt instruments at FVTPL	243,412	42,265
	3,220,930	1,255,420
	85,122,132	**50,814,740**

Interest and similar expense

(In thousands of MNT)	2022	2021
Due to customers	25,240,229	14,540,727
Due to banks and other financial institutions	12,942,407	5,509,409
Borrowed funds	2,586,622	1,961,555
Long term swaps	2,534,030	601,835
Repurchase agreements	1,711,197	1,574,259
Interest expense on lease liabilities	942,274	694,188
	45,956,759	**24,881,973**

6. Net fee and commission income (expense)

In the following table, fee and commission income from contracts with customers is disaggregated by major type of services.

(In thousands of MNT)	2022	2021
Fee and commission income		
Trade finance service fees	629,502	221,349
Account service fees	183,304	31,805
Card service fees	179,250	43,847
Transaction fees	164,546	57,356
Loan related service fees	27,473	3,422
Other fees	21,896	19,020
	1,205,971	**376,799**

6. Net fee and commission income (expense), continued

(In thousands of MNT)	2022	2021
Fee and commission expense		
Card service fees	(462,385)	(155,953)
Bank service fees	(219,782)	(72,606)
Other fees	(468,171)	(233,533)
	(1,150,338)	**(462,092)**
Net fees and commission income (expense)	**55,633**	**(85,293)**

7. Net trading income

(In thousands of MNT)	2022	2021
Foreign exchange trading gains	11,968,088	512,596
Foreign exchange trading losses	(9,954,749)	(140,615)
Precious metals trading gains	7,113,687	2,842,182
Precious metals trading losses	(5,176,785)	(1,794,708)
Gains on disposal of securities	109,594	38,303
Losses on disposal of securities	(21,787)	(599)
	4,038,048	**1,457,159**

8. Other income (expense) from other financial instruments at FVTPL

(In thousands of MNT)	2022	2021 Restated
Fair value changes on Derivatives:		
- Foreign exchange	(2,073,302)	8,832
- Precious metal	(1,129)	1,129
Impairment loss (reversal) of loans and advances to customers at FVTPL	127,909	(150,382)
Investment securities revaluation gain (loss)	(870)	(37,475)
	(1,947,392)	**(177,896)**

9. Other income and expenses

9.a Other income is as follows:

(In thousands of MNT)	2022	2021
Foreign exchange non-trading gains, net	3,180,742	-
Promotion income from BoM	309,182	41,094
Other	46,118	13,558
	3,536,042	**54,652**

9. Other income and expenses, continued

9.b Other expenses are as follows:

(In thousands of MNT)	2022	2021
Advertising and marketing	1,165,890	501,804
Insurance	725,125	231,921
Repairs and maintenance	665,495	468,363
Professional service fees	644,023	547,132
Short-term and low value lease expenses	552,453	549,127
Security	511,178	213,481
Labour safety	177,408	57,781
IT and communication	142,989	81,984
Loss on disposal of property and equipment, net	108,676	107,371
Stationary	98,150	103,561
Transportation	80,122	30,965
Utilities	73,174	32,642
Loss on lease cancellation	1,058	-
Foreign exchange non-trading losses, net	-	52,086
Others	227,060	93,052
	5,172,801	**3,071,270**

10. Personnel expenses

(In thousands of MNT)	2022	2021
Salaries	9,008,996	4,860,686
Contributions to social and health insurance	1,156,858	540,547
Business trips	137,102	17,927
Employee trainings	30,695	11,350
Other expenses	80,572	12,640
	10,414,223	**5,443,150**

11. Non-operating expenses

(In thousands of MNT)	2022	2021
Penalties	200,000	170,006
Hospitality	124,776	16,437
Donation	3,720	4,483
Others	77,833	30,531
	406,329	**221,457**

12. Impairment (losses) or reversals on financial instruments

(In thousands of MNT)	2022	2021 Restated
Loans and advances to customers at AC (Note 18)	(8,480,920)	(144,581)
Balances with BoM	(671,106)	(334,246)
Due from banks (Note 15)	(97,040)	7,061
Financial investments at amortised cost	(68,590)	(39,023)
Other assets	(58,101)	(1,330)
Financial assets at FVOCI originated or purchased	153,281	(164,975)
Financial assets at FVOCI that have been derecognised*	(77,363)	87,612
	(9,299,839)	**(589,482)**

*In 2022, the Bank reclassified the cumulative gain previously recognized in other comprehensive income on BoM treasury bills amounting to 164,975 thousand (2021: MNT 18,128 thousand) to profit or loss as the related BoM treasury bills were derecognized.

13. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2022	2021
Income tax expense		
Current tax expense	2,410,060	2,806,988
Deferred tax expense (benefit)	533,957	(366,013)
Adjustment of previous reporting period	15	-
	2,944,032	**2,440,975**

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes is attributable to the following:

(In thousands of MNT)	2022	2021 Restated
Profit before tax	13,631,866	13,845,397
Tax at statutory rate of 10% and 25%	2,507,967	2,561,349
Effect of non-deductible expenses	816,418	101,501
Effect of income not subject to income tax	(383,557)	(222,328)
Effect of income tax subject to special tax rate	3,204	453
	2,944,032	**2,440,975**

According to Mongolian Tax Laws, 10% tax rate is applied for taxable profits up to MNT 6 billion and 25% on the portion of taxable profits above MNT 6 billion effective from 2020.

13. Income tax expense, continued

(3) Changes in deferred tax assets (liabilities) for the year ended 31 December 2022 are as follows:

(In thousands of MNT)	Opening balance	Recognised in Profit or loss	Ending balance
PPE depreciation and Intangible assets amortisation	145,041	39,397	184,438
Unrealised foreign exchange losses (gains) and revaluation losses (gains)	42,772	(281,410)	(238,638)
Other	167,844	(291,944)	(124,100)
	355,657	**(533,957)**	**(178,300)**

(4) The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, the laws and regulations affecting businesses continue to change rapidly.

These changes are sometimes characterized by poor drafting, varying interpretations and inconsistent application by the tax authorities. In particular, taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Bank believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation and status at the period-end, the above facts may create tax risks for the Bank which are not possible to quantify at this stage.

14. Cash and balances with BoM

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Cash on hand	9,801,113	4,898,892
Current account with BoM (other than mandatory reserve)	61,525,811	9,069,784
Deposit account with BoM	69,011,768	-
Securities (up to 3 months)	21,198,412	79,831,685
Mandatory cash balances with Bank of Mongolia*	70,409,793	29,413,446
Total cash and balances with BoM	**231,946,897**	**123,213,807**
Less: Allowance for impairment losses on cash and balances with BoM	**(1,137,319)**	**(466,213)**
Net cash and balances with BoM	**230,809,578**	**122,747,594**

* Current accounts and deposit accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than local currency 8% (2021: 6%), foreign currency 18% (2021: 18%) of customer deposits for a period of 2 weeks. As at 31 December 2022, the average reserve required by BoM for this period of 2 weeks was MNT 24,381,489 thousand (31 December 2021: MNT 14,561,723 thousand) for local currency and MNT 46,028,304 thousand (31 December 2021: MNT 14,851,723 thousand) for foreign currency maintained in current accounts with BoM.

14. Cash and balances with BoM, continued

A summary of the allowance for impairment losses on cash and balances with BoM is as follows:

(In thousands of MNT)	Amortized cost	
	31 Dec 2022	31 Dec 2021
Current account with BoM (MNT)	386,851	217,429
Current account with BoM (Foreign currency)	710,121	248,784
Deposit account with BoM (Foreign Currency)	40,347	-
	1,137,319	**466,213**

15. Due from other banks

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Current accounts at banks	50,130,859	7,179,142
Deposits at banks	271,824,770	30,445,618
Total due from banks	**321,955,629**	**37,624,760**
Less:Allowance for impairment losses	(136,777)	(39,738)
Net due from banks	**321,818,852**	**37,585,022**

A summary of the allowance for impairment losses on cash and balances with other banks is as follows:

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Amortized cost:		
Current accounts at banks	2,463	808
Deposits at banks	134,314	38,930
	136,777	**39,738**

16. Financial investments

(In thousands of MNT)	31 Dec 2022	31 Dec 2021 Restated
Financial assets FVTPL:		
SFC-Junior ABS	2,621,072	1,004,895
Senior RMBS	1,615,920	1,562,899
Junior RMBS	498,026	251,437
Equity investments	13,866	13,217
	4,748,884	**2,832,448**
Financial assets FVOCI:		
BoM treasury bills	640,791	69,765,709
	640,791	**69,765,709**
Financial assets at amortised cost:		
SFC-Senior ABS	6,132,948	9,177,361
Unquoted corporate bond	756,128	1,170,882
	6,889,076	**10,348,243**
Total financial investments	**12,278,751**	**82,946,400**

16. Financial investment, continued

The BoM treasury bills ("BoM bills") and bills of exchange are short-term investments acquired at a discount.

Asset backed securities:

From 2021, the Bank has participated in securitization transactions with the Mongolian Mortgage Corporation HFC LLC (MMC HFC) and the Securities Financing Corporation LLC (SFC).

Bank mortgages were sold to special purpose companies, owned by MMC HFC, in exchange to Senior residential mortgage-backed securities (RMBS) and Junior RMBS notes.

The asset securitization transaction with SFC involved the Bank transferring its business loans to the special purpose vehicle, and receiving loan backed securities (ABS) consisting of Senior and Junior ABS notes in return.

Bond:

The Bank invested corporate bonds, MNT 800.0 million in 2022 and MNT 1.0 billion in 2021.
Corporate bonds classified at AC represents investment securities held for satisfying the liquidity and business model in a ‘held for collect’.

17. Derivative financial instruments

	Notional amount		**Fair value**	
(In thousands of MNT)	**Receivable**	**Payable**	**Assets**	**Liabilities**
At 31 December 2022				
Currency swaps	107,083,829	107,613,203	3,753,050	3,414,197
Forwards	65,098,194	66,790,547	60,532	2,425,585
	172,182,023	**174,403,750**	**3,813,582**	**5,839,782**

	Notional amount		**Fair value**	
(In thousands of MNT)	**Receivable**	**Payable**	**Assets**	**Liabilities**
At 31 December 2021				
Currency swaps	26,603,372	26,594,255	35,712	19,725
Forwards	4,713,369	4,713,085	-	284
	31,316,741	**31,307,340**	**35,712**	**20,009**

Forward contracts are linked to the Bank's deposit products and developed to protect against foreign currency risk.

18. Loans and advances to customers

(In thousands of MNT)	31 Dec 2022	31 Dec 2021 Restated*
Gross amount of loans and advances to customers at AC	564,506,478	431,151,554
Accrued interest receivables	11,327,798	6,179,352
Less: Allowances for loans and advances to customers	(29,454,420)	(19,312,492)
Less: Deferred loan origination fees	(105,130)	(101,160)
Total loans and advances to customers at AC	**546,274,726**	**417,917,254**
Loans and advances to customers at FVTPL /Mortgage/	3,536,992	2,711,003
Loans and advances to customers at FVTPL /SME/	6,888,930	13,023,198
Net loans and advances to customers	**556,700,648**	**433,651,455**

The Bank holds a mortgage portfolio, and a SME loan portfolio financed by long term REPO financing by the BoM with business model 'hold to sell' under IFRS 9.

Loans and advances to customers at FVTPL are measured taking into account the credit risk.

From the previous year, the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned SPCs of MMC in exchange for RMBS. The Bank derecognized the loan portfolio and recognized the Senior RBMS and Junior RBMS received as financial assets (see Note 16).

Transferred financial assets that are not derecognized in their entirely:

The Bank sold SME loan pools to wholly owned SPCs of SFC in exchanges of asset-backed securities (ABS). The Bank retained substantially all the risks related to the loans sold to SPCs, the assets that do not qualify for derecognition.

In 2021, the Bank derecognized that loan pools, and that accounting error has been adjusted and restated (see Note 2.e).

A reconciliation of the allowance for impairment losses on loans and advances at AC is as follows:

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Opening balance	**19,312,492**	**16,473,742**
Charge for the year (Note 12)	8,480,920	144,581
Transferred from Credit bank due to the merger	-	2,697,040
Effect of foreign currency movements	1,661,008	(2,871)
Ending balance	**29,454,420**	**19,312,492**

Refer to Note 35.2 for credit risk.

19. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	Leasehold improvements	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2022					
Cost:					
At 31 December 2021	1,942,477	2,067,369	1,722,648	4,212,591	9,945,085
Additions	397,911	870,445	833,423	-	2,101,779
Disposal	-	-	(6,300)	(1,144,018)	(1,150,318)
At 31 December 2022	**2,340,388**	**2,937,814**	**2,549,771**	**3,068,573**	**10,896,546**
Accumulated depreciation:					
At 1 January 2022	849,097	597,318	1,244,683	709,461	3,400,559
Charge for the year	804,037	242,682	495,880	353,773	1,896,372
Disposal	-	-	(4,902)	(164,012)	(168,914)
At 31 December 2022	**1,653,134**	**840,000**	**1,735,661**	**899,222**	**5,128,017**
Net carrying amount					
At 31 December 2022	**687,254**	**2,097,814**	**814,110**	**2,169,351**	**5,768,529**

Please see rest of the table in next page.

19. Property and equipment, continued

(In thousands of MNT)	Leasehold improvements	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2021					
Cost:					
At 31 December 2020	1,431,849	1,343,021	671,864	3,663,123	7,109,857
Additions	510,628	327,047	427,853	1,103,000	2,368,528
Transfer from Credit bank	-	412,502	631,124	281,540	1,325,166
Write-off	-	(10,354)	(8,193)	-	(18,547)
Disposal	-	(4,847)	-	(835,072)	(839,919)
At 31 December 2021	**1,942,477**	**2,067,369**	**1,722,648**	**4,212,591**	**9,945,085**
Accumulated depreciation:					
At 1 January 2021	349,435	341,671	498,506	337,436	1,527,048
Charge for the year	499,662	141,505	254,014	403,830	1,299,011
Transfer from Credit bank	-	122,021	500,356	47,673	670,050
Write-off	-	(6,621)	(8,193)	-	(14,814)
Disposal	-	(1,258)	-	(79,478)	(80,736)
At 31 December 2021	**849,097**	**597,318**	**1,244,683**	**709,461**	**3,400,559**
Net carrying amount					
At 31 December 2021	**1,093,380**	**1,470,051**	**477,965**	**3,503,130**	**6,544,526**

20. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	**31 Dec 2022**	**31 Dec 2021**
Cost:		
Beginning balance	7,047,109	1,655,268
Additions	1,023,978	186,613
Transfer from Credit bank	-	140,628
Identified as a result of the merger	-	5,064,600
Write-offs	(74,880)	-
Ending balance	**7,996,207**	**7,047,109**
Accumulated amortization:		
Beginning balance	1,614,173	1,197,228
Transfer from Credit bank	-	99,918
Amortization charge	562,391	317,027
Write-offs	(74,880)	-
Ending balance	**2,101,684**	**1,614,173**
Net carrying amount	**5,894,523**	**5,432,936**

21. Goodwill

Nature of the goodwill
Goodwill arising from the acquisition of Credit bank LLC had been recognised in 2021.

Key assumptions:
Forecast is based on the historic averages primarily, with consideration of strategic developments in personal banking - branch network strengthening; in private and corporate banking - extended international network, partnership and advisory services.

Period of which management has projected dividend: 8 years

Growth rate : The long term growth rate estimated is 3%

Discount rate:
This discount rate is derived from the Bank's weighted average cost of capital, with appropriate adjustments made to reflect the risks specific to the goodwill - 28.16%

Impairment of goodwill

The Bank during the year reviewed the carrying amount of its goodwill to determine if the Bank has suffered any impairment losses. The Bank assessed the recoverable amount of goodwill that has been determined using DDM based on dividend forecast. The assumed payout rate used the dividend ratio for top banks as a basis for calculation to better reflect the dividend ratio of the market participants.

(In thousands of MNT)	Goodwill
Value in use	192,210,947
Carrying value of equity	186,222,793
Goodwill	4,591,561
Headroom/ (impairment)	1,396,593

22. Right of use assets and lease liability

(In thousands of MNT)	Right-of-use assets	Lease liabilities
As at 1 January 2022	**4,501,363**	**4,724,401**
Additions	13,928,504	13,867,082
Depreciation charge for the year	(3,463,883)	-
Interest expense (Note 5)	-	885,178
Disposal	(878,176)	(877,117)
Payments	-	(4,175,281)
As at 31 December 2022	**14,087,808**	**14,424,263**
As at 1 January 2021	3,348,131	3,530,591
Additions	3,470,125	3,540,723
Transfer from Credit bank due to the merger	77,702	86,391
Depreciation charge for the year	(2,394,595)	-
Interest expense (Note 5)	-	632,541
Payments	-	(2,995,246)
Adjustments	-	(70,599)
As at 31 December 2021	**4,501,363**	**4,724,401**

23. Other assets

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Prepayments and advances	4,672,381	15,600,214
Receivables	693,961	42,153
Supplies and materials	560,042	223,602
Precious metals*	310,291	18,862,652
Prepaid taxes	-	247
	6,236,675	**34,728,868**

* The Bank buys gold and silver and resells them in the same condition in a short period to the BoM after physical delivery. The commodity received under such a contract is accounted for under IAS 2, except for the measurement requirements for inventories. The gold and silver are measured at fair value less costs to sell. All changes in the fair value less costs to sell of such inventories are recognised in profit or loss. Such inventories are normally acquired with the purpose of selling them in the near future and generating a profit from fluctuations in price or from the Bank's trade margin.

24. Due to banks and other financial institutions

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Current accounts from banks and financial institutions	10,309,466	1,258,607
Deposit accounts from banks and financial institutions	363,779,066	88,805,366
	374,088,532	**90,063,973**

Current accounts and deposit accounts from banks and financial institutions represent foreign currency and local currency accounts and deposits placed by local commercial banks.

25. Deposits from customers

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Deposits from government sector:		
Current accounts	42,173,407	1,267,343
Demand deposits	-	-
Time deposits	62,672,764	42,198,626
Deposits from private sector:		
Current accounts	67,223,978	52,592,218
Demand deposits	-	-
Time deposits	71,285,564	17,021,003
Deposits from individuals:		
Current accounts	15,545,847	5,240,046
Demand deposits	1,484,192	862,099
Time deposits	264,705,242	199,121,920
	525,090,994	**318,303,255**

26. Repurchase agreements

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Repurchase agreement	6,019,946	76,731,558

Interest rate of repurchase agreements with BoM varies between 6% and 10.5%

During the normal course of business, the Bank borrows and lends securities and may also sell securities under agreements to repurchase (repos) and purchase securities under agreement to resell (reverse repos).

From 2021, the Bank entered in long-term repurchase agreement with BoM. The agreements were conducted under government program aimed to mitigate the adverse effect of the pandemic to the economy, based on which the Bank shall disburse SME loans to customers (Note 2.e and 18) and shall sell these loans to wholly owned SPCs of SFC in return for ABS.

27. Borrowed funds

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Borrowed funds from foreign banks and financial institutions:		
International bank for Economic Cooperation	10,902,387	12,809,228
Commerzbank	4,917,818	-
Atlantic Forfaitierungs AG	4,105,245	2,640,187
Crowd Credit Inc	3,682,156	-
China Trade Solutions	1,471,260	1,164,128
Borrowed funds from government organizations:		
Petroleum reserving program financing by BoM	9,918,949	9,303,058
Mortgage funding program by BoM and the Ministry of Finance	5,698,742	1,822,370
"Gold-2" national program financing by BoM	-	19,327,589
	40,696,557	**47,066,560**

27. Borrowed funds, continued

International Bank of Economic Co-operation

Under the Master Financing Agreement established with the International Bank for Economic Cooperation, funding of USD 1 million was obtained for a one-year tenor in January 2022 to support the trade business of customers. In addition, the Bank received EUR 2 million interbank money market loan maturing in January 2023.

Commerzbank

In October 2022, the Bank entered into a Trade Financing Agreement with Commerzbank and obtained funding of USD 1.5 million with a tenor of one year for a trade finance instrument for the post-financing to support customers' trade business.

Atlantic Forfaitierungs AG

In February 2022, the Bank entered into a Facility Agreement with Atlantic Forfaitierungs AG and obtained funding of USD 500,000, with additional funding of USD 700,000 in May 2022. The purpose of the funds was to support the import trade of customers. The first loan has a one-year term, and the second loan has a two-year term with maturity dates in February 2023 and May 2024, respectively.

Crowd Credit Inc

In December 2021, the Bank entered into a Master Facility Agreement with Crowd Credit Inc. In 2022, the Bank secured nine tranches of USD, four tranches of JPY, and five tranches of MNT funds totalling approximately USD 1.05 million for working capital purposes to support customers' businesses, with a tenor of nine months to two years. The maturity of these funds spans from February 2023 to November 2024.

China Trade Solutions

In May 2022, the Bank entered into a Facility Agreement with China Trade Solutions Ltd and obtained funding of USD 100,000. This trade-financing loan has a bullet repayment with a tenor of 730 days. The maturity of the fund is in May 2024.

Petroleum reserving program

On 13 December 2021, the Bank entered into a short-term finance source agreement with the BoM for the purpose of financing petroleum companies under the petroleum reserving program. Under the petroleum reserving program, the Bank received funding from the BoM, with the same interest rate as repurchase agreement, and the Bank issued loans with interest of additional 3%. Maturity dates of the borrowed funds are 12 months from the issuance.

Mortgage funding program

On 25 May 2020, the Bank entered into a mortgage loan finance source agreement with the BoM for the purpose of financing mortgages under the Mortgage funding program. Under the Mortgage funding program, the Bank received funding from the BoM, which bears interest rate of 1% per annum and the Bank issued mortgage loans at an interest rate of 6% and 8%.

Gold 2 national program

On 25 June 2020, the Bank entered into a long-term finance source agreement with the BoM for the purpose of financing gold mining companies under the Gold 2 national program. Under the Gold 2 national program, the Bank received funding from the BoM, with interest of 6% to 9% per annum and the Bank issued loans with interest of additional 3%. Maturity dates of the borrowed funds are 24 months from the issuance.

28. Other liabilities

(In thousands of MNT)	31 Dec 2022	31 Dec 2021 Restated
Lease liabilities	14,424,263	4,724,401
Liabilities for loans sold to SFC with recourse	6,905,488	10,129,917
Delay on clearing settlement	646,682	280,702
Restoration cost liabilities	580,744	462,226
Money transfer liabilities	332,467	1,091,578
Impairment allowance on off balance exposures	189,340	189,340
Other tax payables	64,454	124,240
Other payables	535,851	397,581
	23,679,289	**17,399,985**

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Non-current	11,130,708	12,303,198
Current	12,548,581	5,096,787
	23,679,289	**17,399,985**

29. Cash and cash equivalents

(In thousands of MNT)	Note	31 Dec 2022	31 Dec 2021
Cash and balances with BoM	*14*	209,611,166	42,915,909
Cash and balances with other banks	*15*	321,818,852	37,585,022
BoM treasury bills	*14*	21,198,412	79,831,685
		552,628,430	**160,332,616**
Less: Minimum reserve with BoM not available to finance the Bank's day to day operations		(70,409,793)	(29,413,446)
Less: Placement with foreign bank as cash collateral		-	(4,381,454)
Total cash and cash equivalents for the statement of cash flows		**482,218,637**	**126,537,716**

Cash equivalents are liquid assets convertible into cash within 90 days and without restrictions. Restricted cash equivalents are not included in cash and cash equivalents.

Reconciliation of financial liabilities arising from financial activities:

(In thousands of MNT)	2022	2021
At 1 January	**47,066,560**	**20,620,840**
New disbursement	32,132,952	37,243,989
Repayment	(43,783,558)	(10,576,535)
Interest repayment	(3,439,115)	(2,111,043)
Interest expense accrued	4,093,218	2,045,370
Other	(2,713)	(12,370)
Foreign exchange movement	4,629,213	(143,691)
At 31 December	**40,696,557**	**47,066,560**

30. Share capital and reserves

(In thousands of MNT except number of shares)	Number of ordinary shares		Share capital		Share premium	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Opening balance	146,473,810	100,000,000	146,473,811	100,000,000	15,645,407	-
Issued in relation to Credit Bank acquisition	-	46,473,810	-	46,473,811	-	15,645,407
Buyback of shares	(7,031,504)	-	(7,031,505)	-	-	-
Recognition of equity investment invested by Credit bank in CIB	-	-	-	-	1,519	-
Ending balance	**139,442,306**	**146,473,810**	**139,442,306**	**146,473,811**	**15,646,926**	**15,645,407**

In 2021, as a result of the Merger (Credit bank acquisition), the Bank has issued 46,473,810 additional shares at par value of MNT 1,000 per share. The Merger and the respective increase in capital were approved by BoM on 29 July 2021.

The total authorized number of ordinary shares are 146,473,810 shares (31 December 2021: 146,473,810 shares), of which the number of issued share are 139,442,306 shares (31 December 2021: 146,473,810 shares), with a par value of MNT 1,000 per share.

In 2022, with a decision of shareholders meeting, the Bank completed the repurchase of the 7,031,504 ordinary shares from Amarjargal B. resulting in an increase in treasury shares of MNT 7,031,505 thousand.

The shareholders of the Bank as of 31 December 2022 and 31 December 2021 and the percentages of ownership are as follows:

Shareholder	**31 December 2022 Ownership (%)**	**31 December 2021 Ownership (%)**
Radnaabazar P.	63.95%	60.88%
Minjin G.	9.26%	8.81%
Batgerel B.	7.24%	6.89%
Gantuya B.	6.77%	6.45%
Ganbold U.	5.02%	4.78%
Oyungerel D.	4.84%	4.60%
Infrastructure LLC	2.92%	2.79%
Amarjargal B.	-	4.80%
Total	**100%**	**100%**

30. Share capital and reserves, continued

Reserves

(In thousands of MNT)	FVOCI reserve	Asset revaluation reserve	Regulatory reserve	Other reserve	Total reserves
At 31 December 2022					
At 01 January 2022 (Restated*)	95,491	571	-	27,947	124,009
Net change in fair value	19,574	-	-	-	19,574
Reclassified to profit or loss / retained earnings	(95,491)	(571)	-	-	(96,062)
Transfer to regulatory reserve	-	-	1,056,292	-	1,056,292
At 31 December 2022	**19,574**	**-**	**1,056,292**	**27,947**	**1,103,813**
At 31 December 2021					
At 01 January 2021	18,128	571	-	27,947	46,646
Net change in fair value	95,491	-	-	-	95,491
Reclassified to profit or loss	(18,128)	-	-	-	(18,128)
At 31 December 2021 (Restated*)	**95,491**	**571**	**-**	**27,947**	**124,009**

*The classification of financial investments has been adjusted in accordance with IFRS 9. In Addition, the expected credit loss of investment was recalculated and an adjustment was made between OCI and PL (see Note 2.(e)).

31. Fair value of financial instruments

Determination of fair value and fair value hierarchy

Fair value is the amount at which a financial instrument or other asset could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidence by an active quoted market price. Quoted financial instruments in active markets provide the best evidence of fair value. Where quoted market prices are not available, the Bank uses valuation techniques.

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value measurement at which they are categorised. The amounts are based on the values recognised in the statement of financial position.

(In thousands of MNT)	Level 1	Level 2	Level 3	Total
At 31 December 2022				
Financial assets				
BOM treasury bills	-	-	21,178,866	21,178,866
Financial assets at FVTOCI	-	-	640,763	640,763
Financial assets at FVTPL:				
Loans and advances, at fair value	-	10,425,922	-	10,425,922
SFC-Junior ABS	-	-	2,621,072	2,621,072
Senior RMBS	-	-	1,615,920	1,615,920
Junior RMBS	-	-	498,026	498,026
Equity instruments	-	-	13,866	13,866
Derivative financial assets	-	3,813,582	-	3,813,582
	-	**14,239,504**	**26,568,513**	**40,808,017**
Financial liabilities				
Derivative financial liabilities	-	5,839,782	-	5,839,782
	-	**5,839,782**	**-**	**5,839,782**

(In thousands of MNT)	Level 1	Level 2	Level 3	Total
At 31 December 2021 (Restated)				
Financial assets				
BOM treasury bills	-	-	79,776,999	79,776,999
Financial assets at FVTOCI	-	-	69,724,905	69,724,905
Financial assets at FVTPL:				
Loans and advances, at fair value	-	15,734,201	-	15,734,201
SFC-Junior ABS	-	-	1,004,895	1,004,895
Senior RMBS	-	-	1,562,899	1,562,899
Junior RMBS	-	-	251,437	251,437
Equity instruments	-	-	13,217	13,217
Derivative financial assets	-	35,712	-	35,712
	-	**15,769,913**	**152,334,352**	**168,104,265**
Financial liabilities				
Derivative financial liabilities	-	20,009	-	20,009
	-	**20,009**	**-**	**20,009**

31.Fair value of financial instruments, continued

Determination of fair value and fair value hierarchy, continued

The description of valuation technique and description of inputs used in fair value measurement for level 2 and level 3 measurements as follow:

Financial instruments	Fair value hierarchy	Valuation technique	Inputs	Sensitivity changes in significant unobservable inputs
Loans and advances to customers at FVTPL	Level 2	Market value approach	Market price	Increase in default rate and market rate of interest will decrease the fair value and vice versa
Derivative financial instruments	Level 2	Interest rate parity analysis	Policy rate, Government bond yield, Z-spread, SOFR rates, SHIBOR rates	Increase in the USD interest rate and decrease in the MNT interest rate will increase/decrease the fair value and vice-versa
BoM treasury bills	Level 3	Market value approach	Rating migration rates of Moody's, historical data from external sources, future cash flows	Increase in default rate and market rate of interest will decrease the fair value and vice versa
SFC-Junior ABS	Level 3			
Senior RMBS	Level 3			
Junior RMBS	Level 3			
Equity instruments	Level 3	Net assets value	Share price, transaction price	Inrease in the net assets value will increase the fair value and vice versa

Transfers between levels 1, 2 and 3

There were no transfers between levels 1, 2 and 3 of the fair value hierarchy for the assets which are recorded at fair value.

Impact on fair value of level 3 assets and liabilities measured at fair value of changes to key assumptions

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments.

31.Fair value of financial instruments, continued

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

The carrying amount of the Bank's financial assets and liabilities that are not carried at fair value in the financial statements approximates to their fair values.

Movements in fair value measurements within Level 3 are as follows:

(In thousands of MNT)	2022	2021
Junior ABS		
At beginning of the year	1,004,895	-
Addition	300,000	1,009,500
Transfer from senior ABS	1,309,500	-
Interest accrued	106,601	31,530
Interest received	(71,730)	(19,969)
Change in fair value	(28,194)	(16,166)
At end of the year	**2,621,072**	**1,004,895**
Senior and Junior RMBS		
At beginning of the year	1,814,335	-
Addition	2,180,000	2,530,700
Sold	(2,002,200)	(720,400)
Interest accrued	136,811	10,735
Interest received	(10,664)	(572)
Change in fair value	(4,336)	(6,127)
At end of the year	**2,113,946**	**1,814,336**
Unquoted equity investment		
At beginning of the year	13,217	13,351
Addition	2,000	-
Change in fair value	(1,351)	(134)
At end of the year	**13,866**	**13,217**

32. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations are not recognised in the statement of financial position, they do contain credit and performance risk and are therefore part of the overall risk of the Bank (Note 35.2).

(In thousands of MNT)	31 Dec 2022	31 Dec 2021
Contingent liabilities		
Performance and tender guarantees	4,717,663	2,991,404
Counter guarantee	4,586,275	4,028,738
Advance payment guarantee	1,180,140	-
Standby letter of credit (SBLC)	-	4,381,454
Undrawn credit lines	594,280	5,348,036
	11,078,358	**16,749,632**
Capital related commitments		
Property and intangible assets	3,798,127	-
	14,876,485	**16,749,632**

Contingent liabilities

Guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act. Guarantees carry the same risk as loans even though they are of a contingent nature.

Commitments

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.
However, the potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Capital related commitments

The Bank has a number of commitments to purchase property and intangible assets, which are related to the Bank’s growth and business expansions, as at the year end.

Lease commitments - Bank as lessee

The Bank as lessee has entered into leases of various buildings under cancellable lease agreements. The Bank is required to give 6 months’ notice for the termination of those agreements. The leases have no purchase option or escalation clauses included in the agreements. There are no restrictions placed upon the Bank by entering these leases.

32.Contingent liabilities and commitments, continued

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial standing.

Lawsuit against the Development Bank of Mongolia

On March 4, 2022, the Bank filed a lawsuit against the Development Bank of Mongolia in the civil court. As the Master Agreement of Deposit concluded between the parties, possesses significant harm to the rights and interests of the Bank, the claim was filed to the court to acknowledge this clause as invalid and imposing penalty based on this clause as unjustified. The Development Bank of Mongolia responded by rejecting this claim. Moreover, on April 25, 2022, the Development Bank filed a counterclaim demanding the Bank in accordance with the Master Agreement of Deposit. Subsequently, on June 6th, Development bank increased their counterclaim for the damage caused to the Development Bank.
The first instance court trial took place on January 09, 2023.
The Bank disagreed with the court decision and filed an appeal against the court decision on March 13, 2023. The Development bank of Mongolia filed an appeal against the court decision as well. As of today, the court trial for appeal is not scheduled.

Tax contingencies

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible the transactions and activities that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for four (until 2019: five) calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

As Mongolian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

33. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 35.3 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

(In thousands of MNT)	Less than 12 months	More than 12 months	Total
At 31 December 2022			
Financial assets			
Cash and balances with BoM	230,809,578	-	230,809,578
Due from Banks	321,818,852	-	321,818,852
Financial assets at FVTPL	-	4,748,884	4,748,884
Financial assets at FVOCI	640,791	-	640,791
Financial assets at amortised cost	-	6,889,076	6,889,076
Derivative financial assets	2,209,715	1,603,867	3,813,582
Loans and advances to customers	293,144,085	263,556,563	556,700,648
Other assets[1]	1,004,252	-	1,004,252
Total	**849,627,273**	**276,798,390**	**1,126,425,663**
Financial liabilities			
Due to banks and other financial institutions	(370,556,247)	(3,532,285)	(374,088,532)
Due to customers	(418,246,220)	(106,844,774)	(525,090,994)
Repurchase agreements	(3,445,170)	(2,574,776)	(6,019,946)
Borrowed funds	(34,277,880)	(6,418,677)	(40,696,557)
Derivative financial liabilities	(4,667,445)	(1,172,337)	(5,839,782)
Other liabilities	(12,548,581)	(11,130,708)	(23,679,289)
Total	**(843,741,543)**	**(131,673,557)**	**(975,415,100)**
Net	**5,885,730**	**145,124,833**	**151,010,563**

Please see rest of the table in next page.

33.Maturity analysis of assets and liabilities, continued

(In thousands of MNT)	Less than 12 months	More than 12 months	Total
At 31 December 2021 (Restated)			
Financial assets			
Cash and balances with BoM	122,747,594	-	122,747,594
Due from Banks	37,585,022	-	37,585,022
Financial assets at FVTPL	653,072	2,179,376	2,832,448
Financial assets at FVOCI	69,765,709	-	69,765,709
Financial assets at amortised cost	1,170,882	9,177,361	10,348,243
Derivative financial assets	9,117	26,595	35,712
Loans and advances to customers	272,694,727	160,956,728	433,651,455
Other assets[1]	18,905,052	-	18,905,052
Total	**523,531,175**	**172,340,060**	**695,871,235**
Financial liabilities			
Due to banks and other financial institutions	(89,793,185)	(270,788)	(90,063,973)
Due to customers	(276,265,062)	(42,038,193)	(318,303,255)
Repurchase agreements	(76,731,558)	-	(76,731,558)
Borrowed funds	(45,055,915)	(2,010,645)	(47,066,560)
Derivative financial liabilities	(284)	(19,725)	(20,009)
Other liabilities	(5,096,787)	(12,303,198)	(17,399,985)
Total	**(492,942,791)**	**(56,642,549)**	**(549,585,340)**
Net	**30,588,384**	**115,697,511**	**146,285,895**

(1) Prepayments and inventory supplies were excluded.

34. Related party disclosures

(1) As at 31 December 2022, the main related parties to the Bank are as follows:

Name of party	Relationship at 31 December 2022
a. Shareholders	The shareholders detailed in Note 30
b. Companies and individuals related to shareholders	
c. Key management personnel	Executive management and Board of Directors
d. Companies and individuals related to management	
e. Others	

A number of banking transactions are entered into with related parties during the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

(2) Related party balances

(In thousands of MNT)

	Relationship	31 Dec 2022	31 Dec 2021
Loans and advances to customers:			
Loans	Shareholders	32,492	572
	Companies and individuals related to shareholders	26,336,196	24,484,843
	Management	274,333	264,777
	Companies and individuals related to management	-	104,192
	Others	6,847,105	2,330,500
		33,490,126	**27,184,884**
Deposits and current accounts:			
Deposits	Shareholders	2,038	1,687
	Companies and individuals related to shareholders	438,739	100,312
	Management	498,622	506,934
	Companies and individuals related to management	1,655,075	3,833,027
	Others	68,840	1,530
		2,663,314	**4,443,490**

34.Related party disclosures, continued

(2) Related party balances, continued

(In thousands of MNT)	Relationship	31 Dec 2022	31 Dec 2021
Deposits and current accounts:			
Current accounts	Shareholders	1,255	39,387
	Companies and individuals related to shareholders	3,138,967	12,030,304
	Management	43,896	42,363
	Companies and individuals related to management	140,534	99,161
	Others	45,507	1,777
		3,370,159	**12,212,992**
Commitments:			
Credit line undrawn	Shareholders	67,459	99,428
	Companies and individuals related to shareholders	125,885	206,597
	Management	60,897	17,293
		254,241	**323,318**

(3) Related party transactions:

Loans and advances to customers:			
Loans issued to	Shareholders	(42,714)	(572)
	Companies and individuals related to shareholders	(35,553,279)	(7,667,647)
	Management	(384,150)	(508,996)
	Companies and individuals related to management	(813,376)	(264,000)
	Others	(219,842)	(18,086)
Loans repaid from	Shareholders	10,794	500
	Companies and individuals related to shareholders	35,293,417	28,393,556
	Management	275,028	238,549
	Companies and individuals related to management	917,568	161,808
	Others	6,757,581	3,015,493
Interest expense	All related parties	169,960	209,616
Interest income	All related parties	4,352,333	3,832,939
Impairment losses on Stage 3 loans	Companies and individuals related to shareholders	-	-

(4) Compensation of key management personnel

(In thousands of MNT)	2022	2021
Short term employee benefits:		
Salaries	1,002,829	627,304
Bonus and compensation	81,345	22,707
Contribution to social and health fund	130,273	62,994
	1,214,447	**713,005**

35. Risk management

35.1 Introduction

The Bank manages credit risk, market risk, liquidity risk, operational and information technology risk, and compliance risk. Effective, efficient and iterative risk management is important for the Bank to achieve its strategic goals, improve its profitability and ensure continuous and proper operation of the Bank.

The Bank's risk management policy is approved by the Board of Directors, and the Risk Management Units are responsible for setting risk policies, procedures, guideline and limit proposals. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Risk management structure

The Board of Directors are responsible for approving the Bank's risk management policy, and the committees are responsible for performing the functions set forth in the risk policy.

Board Risk Management Committee

The Board Risk Management Committee approves the Bank's risk management framework policy in line with the Bank's overall risk exposure and monitors its implementation. The Board Risk Management Committee regularly reviews significant risks and issues reported periodically by the Risk Management Committee of the Bank and also ensures that the Bank adheres to risk appetite and applicable limits established by the Board.

Board Audit Committee

The Board Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Bank’s financial statements and disclosures, its compliance with legal and regulatory requirements, and internal controls and audit functions.

Executive Management Committee

The Executive Management Committee which consists of all the executive management of the Bank holds weekly meetings to discuss and decide the Bank’s strategic issues and planning required for sustainable business management.

Risk Management Committee

The Risk Management Committee meets twice a month to monitor the level of losses and significant risks, assesses the Bank's risk tolerance, prevent and reduce risks, and monitor the reliability of the control framework by risk universe defined in the risk management policy. Stress tests for core risks are monitored to improve preventive and controlling actions in the Risk Management Committee.

Assets and Liability Committee

Assets and Liability Committee is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed.

35.Risk management, continued

35.1 Introduction, continued

Credit Committee

The Bank's Credit Committee is responsible for loan approval and monitoring in accordance with the Bank's Credit policy, monitoring the quality of the loan portfolio, preventing the risk of default, and taking decisions related to collateral and overdue and non-performing loans.

Internal Audit

Risk management main processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee and the Board of Directors.

Compliance Division

The Bank structures its Compliance Division under direct supervision of the Chief Executive Officer as an independent and integral part of its business activities. The purpose of the division is to inform and prevent management of the Bank from facing compliance risks and build compliance culture within the Bank by providing clear and coherent internal procedures, adequate and systematic trainings to employees of the Bank. The Compliance Division functions to ensure and monitor appropriate actions are taken to prevent compliance risks, including risks associated with financial crimes. The division’s operation, relevant policy and implementations are routinely audited by internal audit department to enhance its efficiency.

Risk measurement and reporting system

The Bank measures risk using historical data utilizing relevant statistical models for core risk types.

In addition, the risk management units monitor the implementation of the BoM's relevant prudential ratios for all risk types and report the performance of the risk limits set by the Risk Management Committee with the stress tests to the committee.

Risk mitigation

The Bank implements “Three Lines of Defense” to mitigate risk and provide proactive control and the business units manage their own risks within the limits set by the Risk Management Committee. Risk management units define the potential risks and ways to mitigate them, formulate and regulate relevant policies, procedures and limits, and monitor the performance of limits.

35. Risk management, continued

35.2 Credit risk

Excessive Risk Concentration

The Bank follows prudential ratio limits issued by the BoM and internal policy, in order to manage credit and concentration risk. The Internal standards set in order to limit concentration risk are as follows;

i. The maximum amount of the overall net credit portfolio shall not exceed 70% of the total assets of the Bank.
ii. The maximum amount of the credit exposures issued and other credit equivalent assets to an individual and his/her related persons shall not exceed 20% of the capital of the Bank.
iii. The maximum amount of the credit exposures issued and other credit equivalent assets to shall not exceed 5% of the capital for one related person the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the capital of the Bank.
iv. The share of credit exposures to a single economic sector shall not exceed 35% of the total credit exposure.
v. The share of foreign currency credit exposure shall not exceed 30% of the total credit exposure.
vi. The total amount of assets to large borrowers determined in accordance with the Policy for calculating, securing, reporting and supervising the Bank's operations shall not exceed 280% of the capital.
vii. The share of the total loan provision shall not exceed 50% of the total non-performing loan portfolio.
viii. Total non-performing loans shall not exceed average of all commercial banks.

In addition to the concentration risk, the Bank manages credit risk by measuring and monitoring economic conditions, legal risks, borrower risk, and collateral risk.

Maximum exposure to credit risk without taking account of collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

(In thousands of MNT)	31 Dec 2022 Gross maximum exposure	31 Dec 2021 Gross maximum exposure
Balances with BoM	221,008,465	117,848,702
Due from other banks	321,818,852	37,585,022
Financial assets at FVTPL	4,748,884	2,832,448
Financial assets at FVTOCI	640,791	69,765,709
Financial assets at amortised cost	6,889,076	10,348,243
Derivative financial assets	3,813,582	35,712
Loans and advances to customers	556,700,648	433,651,455
Total on balance sheet	**1,115,620,298**	**672,067,291**
Contingent liabilities	11,267,698	16,938,972
Commitments	3,798,127	-
Total off-balance sheet	**15,065,825**	**16,938,972**
Total credit risk exposure	**1,130,686,123**	**689,006,263**

35.Risk management, continued

35.2 Credit risk, continued

Maximum exposure to credit risk without taking account of collateral and other credit enhancements, continued

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations by industry

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 18 in gross amounts).

	31-Dec-22		31-Dec-21	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Mining and exploration	154,906,561	27%	154,637,000	36%
Construction	117,138,769	21%	57,739,172	13%
Trading	116,767,116	21%	92,492,189	22%
Transportation	86,987,607	15%	80,109,865	19%
Electricity & Power	7,112,737	1%	7,898,983	2%
Real estate	698,115	0%	548,065	0%
Communications	-	0%	-	0%
Other	80,895,573	14%	37,726,280	9%
	564,506,478	**100%**	**431,151,554**	**100%**
Accrued interest receivabels	11,327,798		6,179,352	
Impairment allowances	(29,454,420)		(19,312,492)	
Deferred loan origination fees	(105,130)		(101,160)	
Net loans and advances to customers at amortized cost	**546,274,726**		**417,917,254**	
Loans and advances to customers at FVTPL /Mortgage/	3,536,992		2,711,003	
Loans and advances to customers at FVTPL /SME/	6,888,930		13,023,198	
Total loans and advances to customers	**556,700,648**		**433,651,455**	

35.Risk management, continued

35.2 Credit risk, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost based on the Bank's internal credit grading. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 4 (b)(vi).

	2022			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	23,759,092	2,989	-	23,762,081
Grade A	181,395	-	-	181,395
Grade BB	867,667	-	-	867,667
Grade B	25,714,005	7,013,513	2,250,000	34,977,518
Grade CC	81,592,434	72,864,453	18,315,287	172,772,174
Grade C	98,014,826	80,379,376	5,318,067	183,712,269
Grade DD	22,768,539	52,359,727	20,135,811	95,264,077
Grade D	25,579,402	14,495,889	12,894,006	52,969,297
Loss allowance	(2,003,445)	(3,418,079)	(24,032,896)	(29,454,420)
Accrued interest receivables	4,172,204	6,422,309	733,285	11,327,798
Deferred loan origination fees	(80,607)	(17,267)	(7,256)	(105,130)
Net Loan and advances to customers at amortized cost	**280,565,512**	**230,102,910**	**35,606,304**	**546,274,726**

	2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	9,571,940	-	35,548	9,607,488
Grade A	3,000,081	-	29,130	3,029,211
Grade BB	-	-	316,417	316,417
Grade B	25,540,362	11,005,600	2,444,367	38,990,329
Grade CC	27,852,300	302,839	1,311,256	29,466,395
Grade C	76,133,192	8,212,727	808,016	85,153,935
Grade DD	89,550,088	31,822,039	5,365,962	126,738,089
Grade D	97,252,386	39,327,266	1,270,038	137,849,690
Loss allowance	(8,210,017)	(4,581,411)	(6,521,064)	(19,312,492)
Accrued interest receivables	4,599,034	1,580,318	-	6,179,352
Deferred loan origination fees	(84,558)	(16,379)	(223)	(101,160)
Net Loan and advances to customers at amortized cost	**325,204,808**	**87,652,999**	**5,059,447**	**417,917,254**

35.Risk management, continued

35.2 Credit risk, continued

Credit quality analysis, continued

The following table sets out information about the overdue status of loans and advances to customers in Stage 1, 2 and 3.

	2022			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers - retail customers				
Overdue less than 30 days	25,139,830	-	-	25,139,830
Overdue 31-90 days	-	16,503	-	16,503
Overdue 91-180 days	-	-	293,050	293,050
Overdue 181-360 days	-	-	-	-
Overdue more than 360 days	-	-	87,461	87,461
Gross amount	**25,139,830**	**16,503**	**380,511**	**25,536,844**
Loans and advances to customers - corporate customers				
Overdue less than 30 days	253,337,530	88,553,399	5,998,000	347,888,929
Overdue 31-90 days	-	138,546,045	17,301,072	155,847,117
Overdue 91-180 days	-	-	21,520,502	21,520,502
Overdue 182-360 days	-	-	5,787,595	5,787,595
Overdue more than 360 days	-	-	7,925,491	7,925,491
Gross amount	**253,337,530**	**227,099,444**	**58,532,660**	**538,969,634**

	2021			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loans and advances to retail customers at amortized cost				
Overdue less than 30 days	9,767,344	500,000	-	10,267,344
Overdue 31-90 days	-	-	-	-
Overdue 91-180 days	-	-	49,054	49,054
Overdue 181-360 days	-	-	35,592	35,592
Overdue more than 360 days	-	-	97,283	97,283
Gross amount	**9,767,344**	**500,000**	**181,929**	**10,449,273**
Loans and advances to corporate customers at amortized cost				
Overdue less than 30 days	319,133,007	71,265,560	-	390,398,567
Overdue 31-90 days	-	18,904,911	-	18,904,911
Overdue 91-180 days	-	-	785,255	785,255
Overdue 181-360 days	-	-	7,156,454	7,156,454
Overdue more than 360 days	-	-	3,457,094	3,457,094
Gross amount	**319,133,007**	**90,170,471**	**11,398,803**	**420,702,281**

35.Risk management, continued

35.2 Credit risk, continued

Credit quality analysis, continued

	31 Dec 2022			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	594,280	-	-	594,280
Loss allowance	-	-	-	-
	594,280	**-**	**-**	**594,280**
Financial guarantee contracts				
Grade B	10,294,738	-	189,340	10,484,078
Loss allowance	-	-	(189,340)	(189,340)
	10,294,738	**-**	**-**	**10,294,738**

	31 Dec 2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	5,348,036	-	-	5,348,036
Loss allowance	-	-	-	-
	5,348,036	**-**	**-**	**5,348,036**
Financial guarantee contracts				
Grade B	11,401,596	-	189,340	11,590,936
Loss allowance	-	-	(189,340)	(189,340)
	11,401,596	**-**	**-**	**11,401,596**

35.Risk management, continued

35.2 Credit risk, continued

Collateral and other credit enhancements

The Bank maintains collateral coverage in order to mitigate credit risk. The following table sets out the principal types of collateral held against different types of financials assets.

Type of credit exposure

	% of exposure that is subject to collateral requirements		
	31 Dec 2022	**31 Dec 2021**	**Principal type of collateral held**
Loans and advances to corporate customers			
Investment loans	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty
Working capital loans	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty
Credit lines	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty

	% of exposure that is subject to collateral requirements		
	31 Dec 2022	**31 Dec 2021**	**Principal type of collateral held**
Loans and advances to retail customers			
Mortgages	100	100	Residential property
Credit cards	100	100	Salary and other income
Loans pledged by deposits	100	100	Deposits
Consumer loans	100	100	Salary and vehicles

Loan and advances to corporate customers

The Bank takes collateral in the form of real estate, movable assets, intangible assets which are not prohibited by law, legally owned and transferred by proxy.

If the borrower's collateral is not sufficient to meet its obligations under the agreement, a third party may issue collateral, guarantees or warranties to cover the loan in full or in part.

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank follows the collateral guidelines set by the Credit Committee in determining the type and value of collateral to be obtained.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

35.Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop indicator: if more than 30 days past due, or restructured and internal and external ratings decreased by two or more grades, financial asset is assigned to Stage 2; if more than 90 days past due and thus defaulted, financial asset is allocated to Stage 3.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades AA and A is smaller than the difference between credit risk grades A and BB.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Borrower's financial condition, use of credit, restructuring of contract, repayment history, stability of income, economic movement, reference from law enforcement agencies are considered in order to determine the impairment of financial asset.

In response to the outbreak of the Covid-19 virus, regulators have taken a series of decisions to extend the loan term classification period, restructure assets within the specified period, maintain the classification, defer loan repayment, and exclude restructured assets. The Bank complied with these guidelines and took them into account when classifying and evaluating loans.

35. Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour - e.g. utilisation of credit card facilities • Affordability matrix • External data from credit reference agencies, including industry-standard credit scores	• Payment record - this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

The table below provides an indicative mapping of how the Bank's internal credit rating grades relate to PD and, for the wholesale portfolio, to the external credit ratings of Rating Agency Moody's.

Wholesale

The wholesale portfolio of the Bank is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Grading	12-month weighted average PD	External rating
AA	4.83%	B3
A	4.83%	B3
BB	4.59%	Caa1
B	4.59%	Caa1
CC	8.89%	Caa2
C	8.89%	Caa2
DD	20.25%	Caa3
F	37.61%	Ca-C

35.Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Retail

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Grading	12-month weighted average PD
AA	4.83%
A	4.83%
BB	4.59%
B	4.59%
CC	8.89%
C	8.89%
DD	20.25%
D	20.25%
F	37.61%

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank uses information from external international credit reference agencies.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list.

Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on a financial instrument return to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

35.Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Determining whether credit risk has increased significantly, continued

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- Insolvency: The borrower is considered insolvent for the following reasons:
  - Significant financial deterioration
  - Having difficulty pay interest or principal payment
  - Obligator is likely to go bankrupt or other financial restructuring
- Past due more than 90 days.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 37.36% (2021: 40.2%) probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30.77% (2021: 31%) and 31.87% (2021: 28.8%) probability of occurring respectively. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The Bank updated the weighting of upside, downside and base case economic scenarios in response to disruptions and considered updated scenarios to better reflect the impact of the post-pandemic and geopolitical misbalances.

35.Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. Exposures with no past due and no restructuring are graded as stage 1 exposure. Exposures past due within 90 days and restructured loans are be graded as stage 2 exposures. Exposures past due more than 90 days or defaulted are be graded as stage 3 exposure.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is magnitude of the likely loss if there is a default. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery cost of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on the historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank’s exposure to credit losses to the contractual notice period.

35.Risk management, continued

35.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Measurement of ECL, continued

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

The Bank has limited historical data, therefore external benchmark information is used to supplement the internally available data. The external benchmark information which represents a significant input into the measurement of ECL is as follows.

External benchmarks used

PD	LGD
- Moody's Corporate Default and Recovery rates, 1983-2021 - Moody's structured rating transitions, October 2020 - Moody's structured rating transitions, October 2021	- Moody's Corporate Default and Recovery rates, 1983-2021 - Basel's Quantitative Impact Study 3, Technical Guidance, LGD Foundation Approach

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	2022			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost				
Balance at 1 January	8,210,017	4,581,411	6,521,064	19,312,492
Transfer to Stage 1	26,182	(26,182)	-	-
Transfer to Stage 2	(4,174,120)	4,174,120	-	-
Transfer to Stage 3	(688,236)	(545,160)	1,233,396	-
Net remeasurement of loss allowance	(758,745)	(4,097,486)	17,355,864	12,499,633
New financial assets originated or purchased	1,236,361	411,800	2,056,816	3,704,977
Reversal of impairment allowance	(1,848,014)	(1,080,424)	(3,134,244)	(6,062,682)
Balance at 31 December	**2,003,445**	**3,418,079**	**24,032,896**	**29,454,420**

35. Risk management, continued

35.2 Credit risk, continued

Loss allowance, continued

	2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	796,855	4,320,211	11,356,676	16,473,742
Transfer to Stage 1	869,990	(869,990)	-	-
Transfer to Stage 2	(32,211)	32,211	-	-
Transfer to Stage 3	(1,299)	(36,023)	37,322	-
Net remeasurement of loss allowance	442,300	286,310	1,480,888	2,209,498
New financial assets originated or purchased	7,151,595	3,491,576	316,119	10,959,290
Reversal of impairment allowance	(1,017,213)	(2,642,884)	(6,669,941)	(10,330,038)
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	**8,210,017**	**4,581,411**	**6,521,064**	**19,312,492**

35.3 Liquidity risk

The Bank is exposed to the liquidity risk that the Bank will be unable to meet its payment obligations to its counterparties in a timely manner or significant amount of expense is incurred in performing the obligation. In order to prevent and reduce liquidity risk, the Bank complies with the BoM's prudential ratios and calculates monthly liquidity stress tests and reports to the Risk Management Committee.

35.Risk management, continued

35.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	As at 31 December 2022						
(In thousands of MNT)	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total undiscounted financial liabilities**	**Carrying value**
Due to banks and other financial institutions	10,386,051	349,062,543	13,226,287	3,921,446	-	376,596,327	374,088,532
Due to customers	130,130,579	154,303,167	145,398,417	115,893,641	-	545,725,804	525,090,994
Repurchase agreements	-	3,514,039	-	3,025,697	-	6,539,736	6,019,946
Borrowed funds	-	17,404,411	15,060,066	8,264,541	-	40,729,018	40,696,557
Derivative financial liabilities	-	4,210,856	418,940	1,172,337	-	5,802,133	5,839,782
Lease liabilities	-	2,280,466	2,326,148	15,560,600	-	20,167,214	14,424,263
Other liabilities	2,349,538	4,111,973	2,793,515	-	-	9,255,026	9,255,026
Guarantees	310,109	6,120,896	1,615,417	2,437,656	-	10,484,078	10,484,078
Loan commitments	549,280	5,000	-	40,000	-	594,280	594,280
Total	**143,725,557**	**541,013,351**	**180,838,790**	**150,315,918**	**-**	**1,015,893,616**	**986,493,458**

Please see rest of the table in next page.

35.Risk management, continued

35.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities, continued

	As at 31 December 2021						
(In thousands of MNT)	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total undiscounted financial liabilities**	**Carrying value**
Due to banks and other financial institutions	1,695,309	79,799,274	9,789,998	315,270	-	91,599,851	90,063,973
Due to customers	60,056,656	120,829,175	103,581,215	49,550,520	3,511	334,021,077	318,303,255
Repurchase agreements	-	76,896,454	-	-	-	76,896,454	76,731,558
Borrowed funds	-	3,577,149	41,920,253	3,825,591	-	49,322,993	47,066,560
Derivative financial liabilities	-	20,009	-	-	-	20,009	20,009
Lease liabilities	-	1,835,226	1,156,786	2,418,541	-	5,410,553	4,724,401
Other liabilities	2,545,667	-	-	10,129,917	-	12,675,584	12,675,584
Guarantees	972,781	8,727,313	401,502	1,300,000	-	11,401,596	11,401,596
Loan commitments	328,036	-	5,020,000	-	-	5,348,036	5,348,036
Total	**65,598,449**	**291,684,600**	**161,869,754**	**67,539,839**	**3,511**	**586,696,153**	**566,334,972**

35. Risk management, continued

35.4 Market risk

The Bank is exposed to market risk which is a potential loss that the Bank may bear due to a change in the value of a financial instrument it holds caused by the likely fluctuation of market factors.

Interest rate risk

Interest rate risk is the adverse effect of changes in market interest rates on the Bank's income and economic value when there is a difference between positions that are sensitive to changes in interest rates held by the Bank. Losses due to changes in market interest rates and the difference between the Bank's interest rate sensitive assets and liabilities directly affect the Bank's projected net interest income. The Market Risk Management Department calculates on a weekly basis the ratio of losses from interest rate sensitive assets and liabilities that may arise from changes in interest rates to the Bank's projected net interest income. In addition, interest rate stress tests are calculated on a monthly basis and reported to the Risk Management Committee, which monitors interest rate risk levels within the limits set by the Risk Committee.

Currency risk

Currency risk is the loss from fluctuations in foreign exchange rates on the valuation of an open foreign currency position and foreign exchange trading. In order to reduce currency risk, the Bank complies the BoM's prudential ratios, and uses the Value at risk (VAR) to measure the maximum amount of losses that can be lost from an open position on a daily basis. Moreover, the Bank monitors the volume of transactions with individuals, foreign and domestic banks and organizations, and losses from the trading and revaluation within the limits approved by the Risk Management Committee. The performance of the limit is reported to the Asset and Liabilities Committee, while the currency risk stress test is presented to the Risk Management Committee.

35. Risk management, continued

35.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2022 and 31 December 2021. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2022

(In thousands of MNT)	Notes	MNT	USD	Euro	Other	Total
Financial assets						
Cash and balances with BoM	14	70,766,006	142,928,465	3,666,430	13,448,677	230,809,578
Due from other banks	15	127,733,347	162,501,196	20,419,395	11,164,914	321,818,852
Financial assets at fair value	16	4,748,884	-	-	-	4,748,884
Financial assets at FVOCI	16	640,791	-	-	-	640,791
Financial assets at amortised cost	16	6,889,076	-	-	-	6,889,076
Derivative financial assets	17	3,813,582	-	-	-	3,813,582
Loans and advances to customers	18	496,994,382	55,724,139	166,123	3,816,004	556,700,648
Other assets	23	4,778,138	1,037,032	111,212	310,293	6,236,675
		716,364,206	**362,190,832**	**24,363,160**	**28,739,888**	**1,131,658,086**
Financial liabilities						
Due to banks and other financial institutions	24	250,058,965	123,585,559	548	443,460	374,088,532
Due to customers	25	284,765,319	204,923,741	17,313,569	18,088,365	525,090,994
Repurchase agreements	26	6,019,946	-	-	-	6,019,946
Borrowed funds	27	16,058,045	11,061,847	7,457,334	6,119,331	40,696,557
Derivative financial liabilities	17	5,839,782	-	-	-	5,839,782
Other liabilities	28	23,305,998	249,415	8,762	115,114	23,679,289
		586,048,055	**339,820,562**	**24,780,213**	**24,766,270**	**975,415,100**
Net position		**130,316,151**	**22,370,270**	**(417,053)**	**3,973,618**	**156,242,986**

Please see rest of the table in next page.

35. Risk management, continued

35.4 Market risk, continued

As at 31 December 2021

(In thousands of MNT)	Notes	MNT	USD	Euro	Other	Total
Financial assets						
Cash and balances with BoM	14	100,083,413	10,496,497	8,142,917	4,024,767	122,747,594
Due from other banks	15	15,973,806	20,453,788	715,091	442,337	37,585,022
Financial assets at fair value	16	2,832,448	-	-	-	2,832,448
Financial assets at FVOCI	16	69,765,709	-	-	-	69,765,709
Financial assets at amortised cost	16	10,348,243	-	-	-	10,348,243
Derivative financial assets	17	35,712	-	-	-	35,712
Loans and advances to customers	18	364,624,999	66,443,586	2,582,870	-	433,651,455
Other assets	23	17,133,197	750,353	56,833	16,788,485	34,728,868
		580,797,527	**98,144,224**	**11,497,711**	**21,255,589**	**711,695,051**
Financial liabilities						
Due to banks and other financial institutions	24	69,291,305	20,772,063	517	88	90,063,973
Due to customers	25	241,224,257	48,000,508	8,306,430	20,772,060	318,303,255
Repurchase agreements	26	76,731,558	-	-	-	76,731,558
Borrowed funds	27	30,453,017	13,344,464	3,269,079	-	47,066,560
Derivative financial liabilities	17	20,009	-	-	-	20,009
Other liabilities	28	16,279,379	1,112,449	7,778	379	17,399,985
		433,999,525	**83,229,484**	**11,583,804**	**20,772,527**	**549,585,340**
Net position		**146,798,002**	**14,914,740**	**(86,093)**	**483,062**	**162,109,711**

35. Risk management, continued

35.4 Market risk, continued

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income.

Operational risk

Operational risk is the risk of loss due to inadequacy or failure of internal processes, human or systemic, or external events. Within the framework of operational risk management, "Three lines of Defense" is implemented and the first line of defense, risk and control management, or the owner is responsible for identifying, evaluating, and managing risk in day-to-day operations; the second line of defense, risk management controlling unit is responsible for set the risk management framework, risk management policies, procedures, standards and methodologies and support Line 1; and the third line of defense and the unit implementing independent assurance is responsible for reviewing and evaluating the effectiveness of Line 1 risk management, Line 2 framework, and operational effectiveness.

36. Capital adequacy

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the BoM.

Capital management

BoM sets and monitors capital requirements for the banks in Mongolia as a whole.

A minimum capital adequacy ratio was established as 12% as at 31 December 2022 (31 December 2021: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2022 (31 December 2021: 9%), calculated on the basis of total Tier 1 capital and total assets adjusted for their risk.

The ratios of the Bank's capital adequacy as at 31 December 2022 and 31 December 2021 were as follows:

(In thousands of MNT)	**31 Dec 2022**	**31 Dec 2021**
Tier 1 capital	185,146,902	182,544,775
Tier 2 capital	-	-
Total Tier 1 and Tier 2 capital	**185,146,902**	**182,544,775**
Risk weighted assets	661,446,118	544,774,977
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	27.99%	33.51%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	27.99%	33.51%

36. Capital adequacy, continued

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December 2022 and 2021 are as follows:

(In thousands of MNT)

	31 Dec 2022		31 Dec 2021	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	234,137,830	-	205,695,037	-
20	138,131,834	3,888,096	20,865,106	4,173,021
50	17,810,914	8,905,457	2,944,004	1,472,002
100	671,252,595	497,651,564	432,590,934	432,590,934
150	100,667,334	151,001,001	71,026,013	106,539,020
Total	**1,162,000,507**	**661,446,118**	**733,121,094**	**544,774,977**

37. Subsequent events

TransBank Representative Office in Tokyo, Japan

Within the goal of expanding the operations of the Bank and increasing the market share, the TransBank has initiated actions to establish a representative office starting from October 2022 with the objectives of advertising the banking operations in the global market, expanding and strengthening correspondent banking relations, and conveying the conditions and advantages of Mongolia's economy and market to foreign businesses and entrepreneurs. The operations began with the acquiring of the approval from Financial Services Agency (FSA) of Japan on December 09, 2022 and an approval from the Bank of Mongolia on January 25, 2023. Based on these official decisions and approvals granted by authorized bodies, TransBank is in the process of commencing operations in accordance to the laws of Mongolia and Japan.

Management is not aware of any other events that occurred after the end of the reporting period until the date the financial statements were approved for release, which would have any impact on these financial statements.

38. Translation into Mongolian language

These financial statements have been prepared in both English and Mongolian. In case of differences between the versions, the report in English will prevail.