Transport and Development Bank
(A Closed joint stock Company)

Financial Statements
31 December 2024

(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
OCI	Other compherensive income
IBEC	International Bank for Economic Co-operation

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 2024	Radnaabazar P. Minjin G. Batgerel B. Gantuya B. Ganbold U. Oyungerel D. Infrastructure LLC
Board of Directors	Tserendash S. Bazarmaa R. Ashidmaa D. Munkhbayar B. Baasanjav T. Erdenebayar B. Oyuntsatsral B. Zorigtbaatar Ch. Battushig B.
Chief Executive Officer	Erdenebayar B.
Chief Financial Officer	Bolor Ts.
Auditor	**Ulziit Account Audit LLC** Room 1, Building 65, Bumtsend.G Street, Chingeltei District, Khoroo-6, Ulaanbaatar, Mongolia

MANAGEMENT'S RESPONSIBILITY STATEMENT

The financial statements of Transport and Development Bank CJSC ("the Bank") have been prepared to comply with International Financial Reporting Standards (IFRS). Through providing all necessary information required for the audit, the financial statements have been prepared based on consistently applied appropriate policies, proper accounting records, in accordance with International Accounting Standard, IFRS, laws and regulations of Mongolia.

Management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2024 and the financial performance and cash flows for the year then ended on that date.

Management 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 2024 were authorized for issuance by the Bank's management.

ERDENEBAYAR BATCHULUUN	**BOLOR TSERENDORJ**
Chief Executive Officer	Chief Financial Officer

Ulaanbaatar, Mongolia

Date: 31 March 2025

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
TRANSPORT AND DEVELOPMENT BANK CJSC

Auditor's opinion on Financial statements
Unqualified 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, 2024, 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 material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Transport and Development Bank CJSC as at December 31, 2024 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), laws and regulations of Mongolia.

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' Code of Ethics for Professional Accountants (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.

Key audit matters

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatements that may arise due to fraud or error. We based our judgement on the overall Bank materiality for the financial statements as a whole and did not limit the opinion due to issues that could influence the audit context.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statement of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide separate opinion on these matters.

- Based on the audit evidence obtained in our professional judgment, no events or conditions have been observed that may cast significant doubt on the entity's ability to continue to operate as a going concern, the risk of interest payments being delayed, or the risk of future impairment of the Bank's assets.
- **Procedures we performed**: In reviewing the adequacy and appropriateness of loan stages, we reviewed information on customers' credit ratings and loan delinquency.

Other information

Our opinion on the financial statements does not extend to the other information and we do not express any form of assurance opinion thereon. 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. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

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 Accounting Standards, 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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law of regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Internal control on financial reporting

This report is prepared in accordance with Article 94 of the Company law of Mongolia, at the request of the shareholder, and does not serve any other purpose.

Independent auditor's report is prepared by "Ulziit Account Audit" LLC.

Approved and signed by:

Ulziit Account Audit LLC

Chief Executive Officer ӨЛЗИЙТ ЭКАУНТ АУДИТ ХХК УЛААНБААТАР ХОТ 9024091599 5490677 Ch.Erdenejav

Date: 31 March 2025

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2024

(In thousands of MNT)	Notes	2024	2023
Interest income calculated using the effective interest rate	*5*	132,779,556	113,486,839
Other interest and similar income	*5*	2,500,513	4,356,647
Interest and similar expense	*5*	(86,955,677)	(74,555,848)
Net interest income		**48,324,392**	**43,287,638**
Fee and commission income	*6*	1,417,183	1,091,988
Fee and commission expense	*6*	(1,627,044)	(1,498,906)
Net fees and commission income (expense)		**(209,861)**	**(406,918)**
Net trading income	*7*	7,023,252	3,255,669
Other income (expense) from other financial instruments at FVTPL	*8*	1,131,419	1,103,175
Revenue		**56,269,202**	**47,239,564**
Other income	*9a*	573,476	794,656
Impairment losses on financial instruments	*12*	(15,025,359)	(8,974,922)
Personnel expenses	*10*	(14,031,080)	(13,538,723)
Depreciation and amortization		(7,030,588)	(6,488,224)
Other expenses	*9b*	(5,987,540)	(6,788,592)
Non-operating expenses	*11*	(1,042,233)	(134,867)
Profit before tax		**13,725,878**	**12,108,892**
Income tax expense	*13*	(3,069,509)	(1,484,303)
Net profit for the year		**10,656,369**	**10,624,589**
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		6,354	71,121
- Reclassified to profit or loss		(68,842)	(19,574)
Total comprehensive income for the year		**10,593,881**	**10,676,136**

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

TRANSPORT AND DEVELOPMENT BANK CJSC
Statement of Financial Position
As at 31 December 2024

(In thousands of MNT)	Notes	31 Dec 2024	31 Dec 2023
Assets			
Cash and balances with BoM (other than mandatory reserve)	*14*	126,467,615	128,587,120
Mandatory cash balances with BoM	*14*	70,361,279	79,901,250
Due from other banks	*15*	70,425,265	198,880,626
Financial assets at FVTPL	*16*	5,068,846	4,772,703
Financial assets at FVOCI	*16*	120,470,075	37,008,923
Financial assets at amortised cost	*16*	-	20,896,193
Derivative financial assets	*17*	1,250,371	2,442,507
Loans and advances to customers	*18*	636,381,359	671,768,051
Properties held for sale	*19*	31,167,490	26,183,950
Property and equipment	*20*	7,918,941	5,330,488
Intangible assets	*21*	7,980,915	5,483,334
Right-of-use assets	*23*	8,417,683	11,154,237
Deferred tax assets	*13*	382,028	486,597
Other assets	*24*	21,330,487	16,007,031
Goodwill	*22*	4,591,561	4,591,561
Total assets		**1,112,213,915**	**1,213,494,571**
Equity and Liabilities			
Liabilities			
Due to banks and other financial institutions	*25*	127,434,418	311,527,590
Deposits from customers	*26*	579,564,597	578,007,031
Repurchase agreements	*27*	120,345,339	37,712,288
Borrowed funds	*28*	56,764,447	63,452,028
Derivative financial liabilities	*17*	1,698,431	3,408,636
Current tax liabilities	*13*	1,080,347	1,816,541
Other liabilities	*29*	17,764,684	20,671,528
Total liabilities		**904,652,263**	**1,016,595,642**
Equity			
Share capital	*31*	139,442,306	139,442,306
Share premium	*31*	15,646,926	15,646,926
Reserves	*31*	36,580	99,068
Retained earnings		52,435,840	41,710,629
Total equity		**207,561,652**	**196,898,929**
Total equity and liabilities		**1,112,213,915**	**1,213,494,571**

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

(In thousands of MNT)	Share capital	Share premium	Reserves	Retained earnings	Total equity
Balance at 1 January 2023	**139,442,306**	**15,646,926**	**1,103,813**	**30,029,748**	**186,222,793**
Net profit for the year	-	-	-	10,624,589	10,624,589
Other comprehensive income:					
FVOCI debt investments:					
- Net change in fair value	-	-	71,121	-	71,121
- Reclassified to profit or loss	-	-	(19,574)	-	(19,574)
Total comprehensive income	**-**		**51,547**	**10,624,589**	**10,676,136**
Transfer to regulatory reserve	-	-	(1,056,292)	1,056,292	-
Balance at 31 December 2023	**139,442,306**	**15,646,926**	**99,068**	**41,710,629**	**196,898,929**
Net profit for the year	-	-	-	10,656,369	10,656,369
Other comprehensive income:					
FVOCI debt investments:					
- Net change in fair value	-	-	6,354	-	6,354
- Reclassified to profit or loss	-	-	(68,842)	68,842	-
Total comprehensive income	**-**	**-**	**(62,488)**	**10,725,211**	**10,662,723**
Balance at 31 December 2024	**139,442,306**	**15,646,926**	**36,580**	**52,435,840**	**207,561,652**

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

(In thousands of MNT)	*Notes*	2024	2023
Cash flows from operating activities			
Profit for the year		10,656,369	10,624,589
Adjustment for:			
Depreciation of property and equipment	*20*	1,863,884	1,698,481
Depreciation of right-of-use assets	*23*	4,436,257	4,262,027
Amortisation of intangible assets	*21*	730,447	527,715
Disposal of property and equipment, excluding right-of-use assets	*9b*	131,252	62,455
Net interest income	*5*	(48,324,392)	(43,287,638)
Impairment losses, net	*12*	15,025,359	8,974,922
Fair value changes in loans and advances to customers at FVTPL	*8*	(1,353)	(18,597)
Investment securities revaluation gain (loss)	*8*	(295)	(278)
Fair value changes on derivatives	*8*	(632,592)	(1,084,300)
Unrealised foreign exchange (gain) / loss	*9*	(331,817)	752,021
Income tax expense	*13*	3,069,509	1,484,303
Changes in assets and liabilities:			
Reserves with BoM	*30*	9,539,971	(9,491,457)
Loans and advances to customers	*18*	15,071,634	(121,740,540)
Other assets	*24*	(33,398,732)	(36,774,833)
Due to banks and other financial institutions	*25*	(181,728,995)	(63,179,691)
Deposit from customers	*26*	3,734,688	52,510,329
Repurchase agreements	*27*	82,996,853	31,718,465
Other liabilities	*29*	(731,414)	741,429
Interest received		142,105,975	115,435,772
Interest paid		(87,032,219)	(71,037,571)
Interest paid on lease liabilities		(1,812,946)	(2,153,502)
Income taxes paid		(1,846,878)	(511,734)
Net cash (used in) /generated by operating activities		**(66,479,435)**	**(120,487,633)**

Please see rest of the table in next page.

(In thousands of MNT)	*Notes*	2024	2023
Cash flows from investing activities			
Acquisition of property and equipment	*20*	(1,722,467)	(2,254,309)
Proceeds from disposal of property, plant and equipment	*20*	131,819	36,917
Proceeds from disposal of properties held for sale	*19*	15,603,020	5,799,309
Acquisition of intangible assets	*21*	(367,126)	(3,013,964)
Acquisition of financial assets at FVOCI		(417,650,000)	(952,622,000)
Proceeds from redemption of financial assets at FVOCI		333,800,000	916,113,000
Acquisition of financial assets at AC		-	(37,947,948)
Proceeds from redemption of financial assets at AC		20,152,094	23,397,940
Acquisition of financial assets at FVPTL		(2,474,400)	(6,980,400)
Proceeds from disposal of financial assets at FVTPL		2,225,000	6,945,200
Net cash provided by/ (used in) investing activities		**(50,302,060)**	**(50,526,255)**
Cash flows from financing activities			
Borrowed funds received	*30*	266,002,692	82,946,507
Repayment of borrowed funds	*30*	(270,340,393)	(60,505,898)
Payment of lease liabilities	*23*	(5,768,624)	(5,161,250)
Net cash (used in)/ provided by financing activities		**(10,106,325)**	**17,279,359**
Net change in cash and cash equivalents		**(126,887,820)**	**(153,734,529)**
Cash and cash equivalents at 1 January	*30*	327,467,746	482,218,637
Effect of foreign exchange rate fluctuation on cash held		(3,687,046)	(1,016,362)
Cash and cash equivalents at 31 December	*30*	**196,892,880**	**327,467,746**

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.

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.

As at 31 December 2024, the Bank is owned by six individuals and one company. The ultimate controlling party as at 31 December 2024 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 2024 were authorised for issue by the Directors on 31 March 2025.

(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 36 (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 22

(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).

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.

3. New or revised standards and interpretations

(a) New standards, interpretations and amendments effective from 1 January 2024

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

- Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1); and
- Non-current Liabilities with Covenants (Amendments to IAS 1).

These amendments to various IFRS Accounting Standards are mandatorily effective for reporting periods beginning on or after 1 January 2024.

Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7)

On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.

The amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The amendments also provide guidance on characteristics of supplier finance arrangements.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

On 22 September 2022, the IASB issued amendments to IFRS 16 — Lease Liability in a Sale and Leaseback (the Amendments).

Prior to the Amendments, IFRS 16 did not contain specific measurement requirements for lease liabilities that may contain variable lease payments arising in a sale and leaseback transaction. In applying the subsequent measurement requirements of lease liabilities to a sale and leaseback transaction, the Amendments require a sellerlessee to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

These amendments had no effect on the financial statements of the Bank.

Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)

The IASB issued amendments to IAS 1 in January 2020 Classification of Liabilities as Current or Non-current and subsequently, in October 2022 Non-current Liabilities with Covenants.

The amendments clarify the following:

- An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period.
- If an entity's right to defer settlement of a liability is subject to covenants, such covenants affect whether that right exists at the end of the reporting period only if the entity is required to comply with the covenant on or before the end of the reporting period.
- The classification of a liability as current or non-current is unaffected by the likelihood that the entity will exercise its right to defer settlement.
- In case of a liability that can be settled, at the option of the counterparty, by the transfer of the entity's own equity instruments, such settlement terms do not affect the

3. New or revised standards and interpretations, continued

a) New standards, interpretations and amendments effective from 1 January 2024, continued

classification of the liability as current or non-current only if the option is classified as an equity instrument.

These amendments have no effect on the measurement of any items in the financial statements of the Bank. However, the classification of certain borrowings has changed from non-current to current as result of the application of the amendments for the current financial year as well as the comparative period.

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 annual reporting period beginning 1 January 2025:

- *Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)*

The following amendments are effective for the annual reporting period beginning 1 January 2026:

- *Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments and IFRS 7);*
- *Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7);*

The following standards and amendments are effective for the annual reporting period beginning 1 January 2027:

- *IFRS 18 Presentation and Disclosure in Financial Statements;*
- *IFRS 19 Subsidiaries without Public Accountability: Disclosures.*

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

IFRS 18 Presentation and Disclosure in Financial Statements, which was issued by the IASB in April 2024 supersedes IAS 1 and will result in major consequential amendments to IFRS Accounting Standards including IAS 8 Basis of Preparation of Financial Statements (renamed from Accounting Policies, Changes in Accounting Estimates and Errors). Even though IFRS 18 will not have any effect on the recognition and measurement of items in the Bank's financial statements, it is expected to have a significant effect on the presentation and disclosure of certain items. These changes include categorisation and sub-totals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures.

The Bank does not expect to be eligible to apply IFRS 19.

4. Accounting policies

The material accounting policies applied by the Bank in preparation of its financial statements are included below. The 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;

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances, deposits and debt securities issued 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. 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. 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. 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. 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 Accounting Standards, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

4. 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.

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.

4. Accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Restructured financial assets, continued

- 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.

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.

4. Accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

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.

(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.

4. Accounting policies, continued

(d) Investment securities, continued

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) Foreclosed assets

Foreclosed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, foreclosed assets are measured at the lower of their cost and fair value less costs to sell.
The Bank’s policy is to determine whether a foreclosed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category. Assets that are determined better to be sold are immediately transferred to 'Properties held for sale'. Foreclosed assets where the Bank is yet to determine its use are retained under this account.

(f) Properties held for sale

Properties held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Foreclosed assets are classified as properties held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

(g) 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.

4. Accounting policies, continued

(g) Property and equipment, continued

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.

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)
Premises	40
Furniture and fixtures	10
Vehicles	10
Computers and others	2-10

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.

(h) 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 10 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.

4. Accounting policies, continued

(h) Intangible assets, continued

Goodwill, continued

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.

(i) 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.

(j) 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.

4. Accounting policies, continued

(k) 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.

(l) 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.

4. Accounting policies, continued

(l) Interest, continued

Calculation of interest income and expense, continued

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.

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;
- 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;
- 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.

(m) 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.

4. Accounting policies, continued

(n) 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.

(o) 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.

(p) 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.

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.

4. Accounting policies, continued

(p) Leases, continued

Bank acting as a lessee, continued

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.

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.

4. Accounting policies, continued

(q) 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. Accounting policies, continued

(r) 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.

(s) 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.

(t) 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 and expense

Interest and similar income

(In thousands of MNT)	2024	2023
Interest income calculated using the effective interest method:		
Loans and advances to customers at AC	124,115,582	100,836,362
BOM treasury bills	7,031,969	5,640,577
Due from other banks	1,075,762	3,416,150
Balance with Bank of Mongolia	232,247	1,847,422
Debt instruments at AC	317,901	1,667,383
Precious metals	6,095	78,945
	132,779,556	113,486,839
Other interest and similar income:		
Long term swaps at FVTPL	1,891,531	3,664,979
Debt instruments at FVTPL	465,058	457,935
Loans and advances to customers at FVTPL	143,924	233,733
	2,500,513	4,356,647
	135,280,069	**117,843,486**

Interest and similar expense

(In thousands of MNT)	2024	2023
Due to customers	52,339,387	45,547,144
Due to banks and other financial institutions	8,820,367	18,362,298
Borrowed funds	21,231,350	3,861,711
Long term swaps	2,347,563	3,579,839
Interest expense on lease liabilities	1,753,843	2,102,568
Repurchase agreements	404,064	1,051,354
Interest expense on restoration cost liabilities	59,103	50,934
	86,955,677	**74,555,848**

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)	2024	2023
Fee and commission income		
Trade finance service fees	468,813	501,409
Transaction fees	252,545	169,638
Account service fees	152,631	165,567
Card service fees	474,102	158,575
Loan related service fees	35,809	62,884
Other fees	33,283	33,915
	1,417,183	**1,091,988**

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

(In thousands of MNT)	2024	2023
Fee and commission expenses		
Card service fees	(539,243)	(528,241)
Bank service fees	(446,876)	(341,350)
Other fees	(640,925)	(629,315)
	(1,627,044)	**(1,498,906)**
Net fees and commission income (expense)	**(209,861)**	**(406,918)**

7. Net trading income

(In thousands of MNT)	2024	2023
Foreign exchange trading gains	10,856,894	11,173,204
Foreign exchange trading losses	(4,054,741)	(8,861,090)
Precious metals trading gains	339,418	3,000,143
Precious metals trading losses	(118,379)	(2,107,352)
Gains on disposal of securities	4,531	56,230
Losses on disposal of securities	(4,471)	(5,466)
	7,023,252	**3,255,669**

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

(In thousands of MNT)	2024	2023
Fair value changes on Derivatives:		
- Foreign exchange	632,592	1,084,300
- Precious metal	497,179	-
Fair value changes on loans and advances to customers at FVTPL	1,353	18,597
Investment securities revaluation gain (loss)	295	278
	1,131,419	**1,103,175**

9. Other income and expenses

9.a Other income is as follows:

(In thousands of MNT)	2024	2023
Promotion income from BOM	126,681	164,765
Foreign exchange non-trading gains, net	331,817	-
Repayment of loans previously written-off	24,252	-
Other income	90,726	629,891
	573,476	**794,656**

9. Other income and expenses, continued

9.b Other expenses are as follows:

(In thousands of MNT)	2024	2023
Insurance	1,508,324	1,598,375
Advertising and marketing	800,087	1,369,013
Professional service fees	697,288	824,535
Repairs and maintenance	1,187,571	797,739
Foreign exchange non-trading losses, net	-	752,021
Security	544,523	530,175
Labour safety	265,327	230,828
IT and communication	157,361	156,673
Stationary	252,488	111,620
Utilities	113,433	92,626
Transportation	74,882	85,153
Short-term and low value lease expenses	106,878	83,730
Loss on disposal of property and equipment, net	131,252	62,455
Others	148,126	93,649
	5,987,540	**6,788,592**

10. Personnel expenses

(In thousands of MNT)	2024	2023
Salaries	12,153,079	11,823,673
Contributions to social and health insurance	1,582,989	1,485,595
Business trips	38,531	130,234
Employee trainings	13,955	27,085
Other expenses	242,526	72,136
	14,031,080	**13,538,723**

11. Non-operating expenses

(In thousands of MNT)	2024	2023
Hospitality	174,854	96,462
Penalties	664,076	20,051
Donation	29,247	12,139
Others	174,056	6,215
	1,042,233	**134,867**

12. Impairment (losses) or reversals on financial instruments

(In thousands of MNT)	2024	2023
Loans and advances to customers at AC (Note 18)	(13,865,519)	(8,556,958)
Other assets	(83,226)	(380,654)
Properties held for sale	(2,145,735)	-
Balances with BoM	(16,212)	(251,834)
Financial investments at amortised cost	94,487	4,392
Due from banks (Note 15)	1,361,615	72,339
Impairment allowance on off balance exposures	(364,416)	189,340
Financial assets at FVOCI originated or purchased	45,194	(127,465)
Financial assets at FVOCI that have been derecognised*	(51,547)	75,918
	(15,025,359)	**(8,974,922)**

***In 2024, the Bank reclassified the cumulative gain previously recognized in other comprehensive income on BoM treasury bills amounting to 127,465 thousand (2023: MNT 153,281 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)	2024	2023
Income tax expense		
Current tax expense	2,964,940	2,149,200
Deferred tax expense (benefit)	104,569	(664,897)
	3,069,509	**1,484,303**

(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)	2024	2023
Profit before tax	13,725,878	12,108,892
Tax at statutory rate of 10% and 25%	2,531,470	2,127,223
Effect of non-deductible expenses	713,418	225,351
Effect of income not subject to income tax	(79,475)	(76,618)
Effect of income tax subject to special tax rate	39	(368,030)
Effect of tax credit	(115,081)	(43,977)
Effect on temporary differences	19,137	(379,646)
	3,069,509	**1,484,303**

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 2024 are as follows:

(In thousands of MNT)	Opening balance	Recognised in Profit or loss	Ending balance
PPE depreciation and Intangible assets amortisation	363,183	384,315	747,498
Unrealised foreign exchange losses (gains) and revaluation losses (gains)	(83,139)	(282,331)	(365,470)
Other	206,553	(206,553)	-
	486,597	**(104,569)**	**382,028**

Changes in deferred tax assets (liabilities) for the year ended 31 December 2023 are as follows:

(In thousands of MNT)	Opening balance	Recognised in Profit or loss	Ending balance
PPE depreciation and Intangible assets amortisation	184,438	178,745	363,183
Unrealised foreign exchange losses (gains) and revaluation losses (gains)	(238,638)	155,499	(83,139)
Other	(124,100)	330,653	206,553
	(178,300)	**664,897**	**486,597**

(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 2024	31 Dec 2023
Cash on hand	6,548,045	7,075,626
Current account with BoM (other than mandatory reserve)	110,091,401	60,407,362
Securities (up to 3 months)	9,929,309	62,452,937
Mandatory cash balances with Bank of Mongolia*	70,361,279	79,901,250
Total cash and balances with BoM	**196,930,034**	**209,837,175**
Less: Allowance for impairment losses on cash and balances with BoM	(101,140)	(1,348,805)
Net cash and balances with BoM	**196,828,894**	**208,488,370**

* 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 11% (2023: 8%), foreign currency 16% (2023: 18%) of customer deposits for a period of 2 weeks. As at 31 December 2024, the average reserve required by BoM for this period of 2 weeks was MNT 47,743,207 thousand (31 December 2023: MNT 31,020,220 thousand) for local currency and MNT 22,618,072 thousand (31 December 2023: MNT 48,881,030 thousand) for foreign currency maintained in current accounts with BoM.

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

	Amortized cost	
(In thousands of MNT)	**31 Dec 2024**	**31 Dec 2023**
Current account with BoM (MNT)	85,090	364,408
Current account with BoM (Foreign currency)	16,050	984,397
	101,140	**1,348,805**

15. Due from other banks

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Current accounts at banks	33,354,724	27,183,461
Deposits at banks	37,077,588	171,801,951
Total due from banks	**70,432,312**	**198,985,412**
Less:Allowance for impairment losses	(7,047)	(104,786)
Net due from banks	**70,425,265**	**198,880,626**

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

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Amortized cost:		
Current accounts at banks	371	1,258
Deposits at banks	6,676	103,528
	7,047	**104,786**

16. Financial investments

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Financial assets FVTPL:		
Senior RMBS	2,946,750	2,974,916
Junior RMBS	1,450,270	1,185,407
SFC-Senior ABS	53,448	-
SFC-Junior ABS	603,938	598,235
Equity investments	14,440	14,145
	5,068,846	**4,772,703**
Financial assets FVOCI:		
BoM treasury bills	120,470,075	37,008,923
	120,470,075	**37,008,923**
Financial assets at amortised cost:		
Government bond	-	20,352,564
SFC-Senior ABS	-	543,629
	-	**20,896,193**
Total financial investments	**125,538,921**	**62,677,819**

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 government bonds, MNT 20.0 billion in 2023. Government 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 2024				
Currency swaps	87,191,073	86,773,931	1,250,371	1,020,972
Forwards	24,510,885	25,225,881	-	677,459
	111,701,958	**111,999,812**	**1,250,371**	**1,698,431**

	Notional amount		Fair value	
(In thousands of MNT)	**Receivable**	**Payable**	**Assets**	**Liabilities**
At 31 December 2023				
Currency swaps	92,983,081	92,975,514	2,287,280	2,361,234
Forwards	55,802,355	55,406,204	155,227	1,047,402
	148,785,436	**148,381,718**	**2,442,507**	**3,408,636**

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 2024	31 Dec 2023
Gross amount of loans and advances to customers at AC	677,400,777	692,306,871
Accrued interest receivables	9,421,069	15,007,675
Less: Allowances for loans and advances to customers	(51,839,263)	(37,988,486)
Less: Deferred loan origination fees	(88,509)	(133,056)
Total loans and advances to customers at AC	**634,894,074**	**669,193,004**
Loans and advances to customers at FVTPL /Mortgage/	1,487,285	2,575,047
Net loans and advances to customers	**636,381,359**	**671,768,051**

The Bank classified a mortgage portfolio with 'hold to sell' under IFRS 9.

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

From the 2021, 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 entirety:

In previous years, 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.

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

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Opening balance	**37,988,486**	**29,454,420**
Charge for the year (Note 12)	13,865,519	8,556,958
Effect of foreign currency movements	(14,742)	(22,892)
Ending balance	**51,839,263**	**37,988,486**

Refer to Note 36.2 for credit risk.

19. Properties held for sale

Management has assessed that these properties, mining trucks and vehicles can be sold in short-term in their current condition. The sale process has commenced and the assets are expected to be sold within 1 year of their classification as held for sale.

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
At 01 January 2024	**26,183,950**	**-**
Add: Possession	22,737,295	31,983,259
Less: Sold during the year	(15,603,020)	(5,799,309)
At 31 December 2024	**33,318,225**	**26,183,950**
Less: Allowances for impairment losses	(2,150,735)	**-**
	31,167,490	**26,183,950**

20. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	Leasehold improvements	Premises	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2024						
Cost:						
At 1 January 2024	1,375,892	-	3,172,796	3,269,115	3,029,406	10,847,209
Additions	19,867	3,499,080	111,842	984,617	100,000	4,715,407
Write-off	-	-	-	-	(105,000)	(105,000)
Disposal	-	-	-	-	(296,500)	(296,500)
At 31 December 2024	**1,395,759**	**3,499,080**	**3,284,638**	**4,253,732**	**2,727,906**	**15,161,116**
Accumulated depreciation:						
At 1 January 2024	922,720	-	1,055,508	2,357,926	1,180,567	5,516,721
Charge for the year	344,063	22,034	311,900	896,150	289,737	1,863,884
Write-off	-	-	-	-	(35,997)	(35,997)
Disposal	-	-	-	-	(102,433)	(102,433)
At 31 December 2024	**1,266,783**	**22,034**	**1,367,408**	**3,254,076**	**1,331,873**	**7,242,175**
Net carrying amount						
At 31 December 2024	**128,976**	**3,477,046**	**1,917,230**	**999,656**	**1,396,033**	**7,918,941**

Please see rest of the table in next page.

20. Property and equipment, continued

(In thousands of MNT)	Leasehold improvements	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2023					
Cost:					
At 1 January 2023	2,340,388	2,937,814	2,549,771	3,068,573	10,896,546
Additions	157,962	374,119	800,732	27,000	1,359,813
Write-off	(1,122,458)	(139,137)	(81,388)	-	(1,342,983)
Disposal	-	-	-	(66,167)	(66,167)
At 31 December 2023	**1,375,892**	**3,172,796**	**3,269,115**	**3,029,406**	**10,847,209**
Accumulated depreciation:					
At 1 January 2023	1,653,134	840,000	1,735,661	899,222	5,128,017
Charge for the year	392,044	300,811	703,303	302,323	1,698,481
Write-off	(1,122,458)	(85,303)	(81,038)	-	(1,288,799)
Disposal	-	-	-	(20,978)	(20,978)
At 31 December 2023	**922,720**	**1,055,508**	**2,357,926**	**1,180,567**	**5,516,721**
Net carrying amount					
At 31 December 2023	**453,172**	**2,117,288**	**911,189**	**1,848,839**	**5,330,488**

21. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Cost:		
Beginning balance	8,112,733	7,996,207
Additions	3,228,028	116,526
Ending balance	**11,340,761**	**8,112,733**
Accumulated amortization:		
Beginning balance	2,629,399	2,101,684
Amortization charge	730,447	527,715
Ending balance	**3,359,846**	**2,629,399**
Net carrying amount	**7,980,915**	**5,483,334**

22. 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 bank infrastructure and sales capacity building developments undertaken during last two years, local branch network in private banking segment and extended international network, partnership and advisory services.

Period of which management has projected dividend: 9 years

Growth rate : The long term growth rate estimated is 5%

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 - 20.71%

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	218,331,406
Carrying value of equity	207,561,652
Goodwill	4,591,561
Headroom/ (impairment)	6,178,193

23. Right of use assets and lease liability

(In thousands of MNT)	Right-of-use assets	Lease liabilities
As at 1 January 2024	**11,154,237**	**12,826,965**
Additions	1,676,527	1,675,147
Effect of changes to the lease	23,176	11,901
Depreciation charge for the year	(4,436,257)	-
Interest expense (Note 5)	-	1,760,261
Payments	-	(5,768,624)
As at 31 December 2024	**8,417,683**	**10,505,650**
As at 1 January 2023	**14,087,808**	**14,424,263**
Additions	2,221,152	2,189,392
Effect of changes to the lease	(892,696)	(728,008)
Depreciation charge for the year	(4,262,027)	-
Interest expense (Note 5)	-	2,102,568
Payments	-	(5,161,250)
As at 31 December 2023	**11,154,237**	**12,826,965**

24. Other assets

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Prepayments and advances	971,219	8,742,588
Receivables**	7,735,644	318,447
Supplies and materials	2,187,009	726,457
Precious metals*	10,302,250	6,219,539
Prepaid taxes	134,365	-
	21,330,487	**16,007,031**
Non-current	5,411,705	6,110,623
Current	15,918,782	9,896,408
	21,330,487	**16,007,031**

* 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.

** Increase in other receivables in the current year is largely attributable to the placement by the Bank of MNT 6.2 billion under Visa collaterial agreement and card transactions payment, after the Bank successfully completed the card processings project in 2024.

25. Due to banks and other financial institutions

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Current accounts from banks and financial institutions	10,743,099	16,793,526
Deposit accounts from banks and financial institutions	116,691,319	294,734,064
	127,434,418	**311,527,590**

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

26. Deposits from customers

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Deposits from government sector:		
Current accounts	559,255	7,033,810
Demand deposits	-	-
Time deposits	38,216,362	37,472,481
Deposits from private sector:		
Current accounts	58,270,225	73,566,352
Demand deposits	-	-
Time deposits	113,650,024	105,055,995
Deposits from individuals:		
Current accounts	15,536,414	14,725,641
Demand deposits	14,053,118	16,334,939
Time deposits	339,279,199	323,817,813
	579,564,597	**578,007,031**

27. Repurchase agreements

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Bank of Mongolia	24,842,341	2,845,127
Domestic bank	95,502,998	34,867,161
	120,345,339	**37,712,288**

Interest rate of repurchase agreements with BoM and domestic bank ranging from 10% to 12% p.a. (2023: 10.5% to 14% p.a.).

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.

28. Borrowed funds

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Borrowed funds from foreign banks and financial institutions:		
International bank for Economic Cooperation	38,953,974	22,822,964
Alt Income Investments T1 PTE	-	16,517,319
Atlantic Forfaitierungs AG	4,717,675	5,979,020
Crowd Credit Inc	11,084,160	4,414,181
China Trade Solutions	1,514,711	1,431,270
Borrowed funds from government organizations:		
Petroleum reserving program financing by BoM	-	10,673,160
Mortgage funding program by BoM	493,927	1,614,114
	56,764,447	**63,452,028**

International Bank of Economic Co-operation

Under the Master Financing Agreement signed with the International Bank for Economic Cooperation, IBEC granted a trade loan for the amount of CNY 11,500,000 in March 2024, CNY 26,114,000 in May 2024, CNY 15,078,680 in June 2024 to support banks clients' green projects. The funding received from the IBEC has tenure of 1 to 2 years.

Alt Income Investments T1 PTE

In September 2023, a funding agreement was signed with Alt Income Investment Company, successfully raising USD 5,500,000 between 2023-2024 to finance the bank loan portfolio. The principal loan repayment concluded in November 2024.

Atlantic Forfaitierungs AG

The Bank received additional funding of USD 540,000 in March 2024 and USD 600,000 in May 2024 under the Facility Agreement with Atlantic Forfaitierungs AG. The purpose of the funds is to support the import trade of the customers. All fundings obtained from the Atlantic Forfaitierungs AG have tenors of 2 years. The repayment dates for the loans of $1,000,000 and $500,000 drawn in 2023 are set for May and August 2025, respectively.

Crowd Credit Inc

In December 2021, the Bank entered into a Master Facility Agreement with Crowd Credit Inc. In 2024, the Bank secured a loan of JPY 424,036,810 through eleven tranches for banks customers working capital purpose, with tenure periods ranging from 9 to 36 months. These funds expire from May to July 2025.

China Trade Solutions

In May 2024, the Bank received additional financing of USD 100,000 through a facility agreement with China Trade Solutions Ltd. The loan under this facility agreement has a tenor of 3 years. The repayment of the USD 200,000 loan received in 2023 will be made in July and August 2025, while the repayment of the USD 100,000 loan will be in November 2026.

28. Borrowed funds, continued

Petroleum reserving program

On 13 December 2021, the Bank entered into a short-term program funding agreement with the Bank of Mongolia for onlending to petroleum companies under the Petroleum Reserve program. Under this program, the funding has same interest rate as Central bank bills repurchase agreement, allowing Banks to onlend it with additional 3% interest The loan principal is - paid in 2024.

Mortgage funding program

On May 25, 2020, the Bank agreed with the Bank of Mongolia to participate in the financing of the mortgage funding program. Under the mortgage loan financing program, the Bank offers housing mortgage loans to customers at interest rates of 6% and 8% sourced with both the bank's and the funds received from BoM.

29. Other liabilities

(In thousands of MNT)	**31 Dec 2024**	**31 Dec 2023**
Lease liabilities	10,505,650	12,826,965
Money transfer liabilities	3,445,200	3,749,730
Delay on clearing settlement	88,720	2,280,647
Other payables	2,862,004	1,186,934
Restoration cost liabilities	426,312	367,209
Other tax payables	72,382	260,043
Impairment allowance on off balance exposures	364,416	-
	17,764,684	**20,671,528**
Non-current	6,754,302	12,909,498
Current	11,010,382	7,762,030
	17,764,684	**20,671,528**

30. Cash and cash equivalents

(In thousands of MNT)	Note	31 Dec 2024	31 Dec 2023
Cash and balances with BoM	*14*	186,899,585	146,035,433
Cash and balances with other banks	*15*	70,425,265	198,880,626
BoM treasury bills	*14*	9,929,309	62,452,937
		267,254,159	**407,368,996**
Less: Minimum reserve with BoM not available to finance the Bank's day to day operations		(70,361,279)	(79,901,250)
Total cash and cash equivalents for the statement of cash flows		**196,892,880**	**327,467,746**

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)	2024	2023
At 1 January	**63,452,028**	**40,696,557**
New disbursement	266,002,692	82,946,507
Repayment	(270,340,393)	(60,505,898)
Interest repayment	(22,531,073)	(3,638,773)
Interest expense accrued	20,882,856	4,863,770
Other	625,868	(731,040)
Foreign exchange movement	(1,327,531)	(179,095)
At 31 December	**56,764,447**	**63,452,028**

31. Share capital and reserves

(In thousands of MNT except number of shares)	Number of ordinary shares		Share capital		Share premium	
	12/31/2024	12/31/2023	12/31/2024	12/31/2023	12/31/2024	12/31/2023
Opening balance	139,442,306	139,442,306	139,442,306	139,442,306	15,646,926	15,646,926
Ending balance	**139,442,306**	**139,442,306**	**139,442,306**	**139,442,306**	**15,646,926**	**15,646,926**

The total authorized number of ordinary shares are 146,473,810 shares (31 December 2023: 146,473,810 shares), of which the number of issued share are 139,442,306 shares (31 December 2023: 139,442,306 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 7,031,504 thousand.

The shareholders of the Bank as of 31 December 2024 and 31 December 2023 and the percentages of ownership are as follows:

Shareholder	31 December 2024 Ownership (%)	31 December 2023 Ownership (%)
Radnaabazar P.	63.95%	63.95%
Minjin G.	9.26%	9.26%
Batgerel B.	7.24%	7.24%
Gantuya B.	6.77%	6.77%
Ganbold U.	5.02%	5.02%
Oyungerel D.	4.84%	4.84%
Infrastructure LLC	2.92%	2.92%
Total	**100%**	**100%**

31.Share capital and reserves, continued

Reserves

(In thousands of MNT)	FVOCI reserve	Regulatory reserve	Other reserve	Total reserves
At 31 December 2024				
At 01 January 2024	**71,121**	-	**27,947**	**99,068**
Net change in fair value	6,354	-	-	6,354
Reclassified to profit or loss / retained earnings	(68,842)	-	-	(68,842)
Transfer from regulatory reserve	-	-	-	-
At 31 December 2024	**8,633**	**-**	**27,947**	**36,580**
At 31 December 2023				
At 01 January 2023	**19,574**	**1,056,292**	**27,947**	**1,103,813**
Net change in fair value	71,121	-	-	71,121
Reclassified to profit or loss / retained earnings	(19,574)	-	-	(19,574)
Transfer to regulatory reserve	-	(1,056,292)	-	(1,056,292)
At 31 December 2023	**71,121**	**-**	**27,947**	**99,068**

*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)).

32. 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 2024				
Financial assets				
BOM treasury bills	-	-	9,928,294	9,928,294
Financial assets at FVTOCI	-	-	120,462,457	120,462,457
Financial assets at FVTPL:				
Loans and advances, at fair value	-	1,487,285	-	1,487,285
SFC-Junior ABS	-	-	603,938	603,938
Senior RMBS	-	-	2,946,750	2,946,750
Junior RMBS	-	-	1,450,270	1,450,270
Equity instruments	-	-	14,440	14,440
Derivative financial assets	-	1,250,371	-	1,250,371
	-	**2,737,656**	**135,406,149**	**138,143,805**
Financial liabilities				
Derivative financial liabilities	-	1,698,431	-	1,698,431
	-	**1,698,431**	**-**	1,698,431

(In thousands of MNT)	Level 1	Level 2	Level 3	Total
At 31 December 2023				
Financial assets				
BOM treasury bills	-	-	62,400,489	62,400,489
Financial assets at FVTOCI	-	-	36,990,250	36,990,250
Financial assets at FVTPL:				
Loans and advances, at fair value	-	2,575,047	-	2,575,047
SFC-Junior ABS	-	-	598,235	598,235
Senior RMBS	-	-	2,974,916	2,974,916
Junior RMBS	-	-	1,185,407	1,185,407
Equity instruments	-	-	14,145	14,145
Derivative financial assets	-	2,442,507	-	2,442,507
	-	**5,017,554**	**104,163,442**	**109,180,996**
Financial liabilities				
Derivative financial liabilities	-	3,408,636	-	3,408,636
	-	**3,408,636**	**-**	**3,408,636**

32.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.

32.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)	**2024**	**2023**
Junior ABS		
At beginning of the year	598,235	2,621,072
Transfer from AC	53,448	-
Sold	-	(2,019,000)
Interest accrued	57,156	199,849
Interest received	(60,996)	(237,117)
Change in fair value	9,543	33,431
At end of the year	**657,386**	**598,235**
Senior and Junior RMBS		
At beginning of the year	4,160,323	2,113,946
Addition	2,474,400	6,980,400
Sold	(2,225,000)	(4,926,200)
Interest accrued	378,401	254,683
Interest received	(410,758)	(246,432)
Change in fair value	(19,654)	(16,074)
At end of the year	**4,397,020**	**4,160,323**
Unquoted equity investment		
At beginning of the year	14,145	13,866
Addition	-	-
Change in fair value	295	279
At end of the year	**14,440**	**14,145**

33. 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 36.2).

(In thousands of MNT)	31 Dec 2024	31 Dec 2023
Contingent liabilities		
Performance and tender guarantees	6,684,209	5,161,254
Counter guarantee	4,599,317	4,744,574
Advance payment guarantee	-	10,350
Standby letter of credit (SBLC)	-	4,565,422
Undrawn credit lines	2,524,495	2,278,074
	13,808,021	**16,759,674**
Capital related commitments		
Property and intangible assets	149,050	1,617,582
	13,957,071	**18,377,256**

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 no significant commitments to purchase fixed assets or intangible assets 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.

33.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 in connection with the Master Deposit Agreement signed with the Development Bank of Mongolia. After the legal proceedings, on November 21, 2024, by the decision of the Sukhbaatar District Court, the claim was invalidated.

Lawsuit with the Innovative Funding Enterprise LLC

On April 20, 2022, the Bank entered into a real estate purchase agreement with Innovative Funding Enterprise LLC (the seller).
The Bank refused to pay the remaining due amount on the ground that the seller had breached the agreement. Innovative Funding Enterprise LLC filed a claim to the civil court on May 22, 2024. As of the reporting date, the date of the first-instance trial has not been set.

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.

34. 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 36.3 '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 2024			
Financial assets			
Cash and balances with BoM	196,828,894	-	196,828,894
Due from Banks	70,425,265	-	70,425,265
Financial assets at FVTPL	598,235	4,470,611	5,068,846
Financial assets at FVOCI	120,470,075	-	120,470,075
Derivative financial assets	909,176	341,195	1,250,371
Loans and advances to customers	261,167,082	375,214,277	636,381,359
Other assets[1]	18,037,894	-	18,037,894
Total	**668,436,620**	**380,026,084**	**1,048,462,704**
Financial liabilities			
Due to banks and other financial institutions	(122,879,242)	(4,555,176)	(127,434,418)
Due to customers	(538,099,835)	(41,464,762)	(579,564,597)
Repurchase agreements	(120,345,339)	-	(120,345,339)
Borrowed funds	(19,488,437)	(37,276,010)	(56,764,447)
Derivative financial liabilities	(1,176,707)	(521,724)	(1,698,431)
Other liabilities	(11,010,382)	(6,754,302)	(17,764,684)
Total	**(812,999,942)**	**(90,571,975)**	**(903,571,917)**
Net	**(144,563,322)**	**289,454,109**	**144,890,787**

Please see rest of the table in next page.

34.Maturity analysis of assets and liabilities, continued

(In thousands of MNT)	Less than 12 months	More than 12 months	Total
At 31 December 2023			
Financial assets			
Cash and balances with BoM	208,488,370	-	208,488,370
Due from Banks	198,880,626	-	198,880,626
Financial assets at FVTPL	598,235	4,174,468	4,772,703
Financial assets at FVOCI	37,008,923	-	37,008,923
Financial assets at amortised cost	20,896,193	-	20,896,193
Derivative financial assets	157,021	2,285,486	2,442,507
Loans and advances to customers	334,255,529	337,512,522	671,768,051
Other assets[1]	6,537,986	-	6,537,986
Total	**806,822,883**	**343,972,476**	**1,150,795,359**
Financial liabilities			
Due to banks and other financial institutions	(300,517,677)	(11,009,913)	(311,527,590)
Due to customers	(443,796,617)	(134,210,414)	(578,007,031)
Repurchase agreements	(37,712,288)	-	(37,712,288)
Borrowed funds	(41,532,311)	(21,919,717)	(63,452,028)
Derivative financial liabilities	(1,049,145)	(2,359,491)	(3,408,636)
Other liabilities	(7,762,030)	(12,909,498)	(20,671,528)
Total	**(832,370,068)**	**(182,409,033)**	**(1,014,779,101)**
Net	**(25,547,185)**	**161,563,443**	**136,016,258**

(1) Prepayments and inventory supplies were excluded.

35. Related party disclosures

***(1)* As at 31 December 2024, the main related parties to the Bank are as follows:**

Name of party	Relationship
a. Shareholders	The shareholders detailed in Note 31
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 2024	31 Dec 2023
Loans and advances to customers:			
Loans	Shareholders	7,922	509
	Companies and individuals related to shareholders	19,918,445	17,278,360
	Management	987,641	354,365
	Companies and individuals related to management	-	77,000
	Others	68,731	5,344,725
		20,982,739	**23,054,959**
Deposits and current accounts:			
Deposits	Shareholders	2,075	2,043
	Companies and individuals related to shareholders	415,974	102,265
	Management	1,058,202	470,555
	Companies and individuals related to management	625,158	13,418,677
	Others	13	41,843
		2,101,422	**14,035,383**

35.Related party disclosures, continued

(2) Related party balances, continued

(In thousands of MNT)	Relationship	31 Dec 2024	31 Dec 2023
Deposits and current accounts:			
Current accounts	Shareholders	996	1,030
	Companies and individuals related to shareholders	170,681	150,902
	Management	117,123	91,741
	Companies and individuals related to management	490	2,681,449
	Others	71,965	54,572
		361,255	**2,979,694**
Commitments:			
Credit line undrawn	Shareholders	92,078	99,491
	Companies and individuals related to shareholders	162,303	94,688
	Management	50,000	48,609
		304,381	**242,788**

(3) Related party transactions:

Loans and advances to customers:			
Loans issued to	Shareholders	(20,698)	(16,100)
	Companies and individuals related to shareholders	(366,151)	(102,392)
	Management	(835,514)	(1,632,728)
	Companies and individuals related to management	-	(4,377,000)
	Others	-	(10,100)
Loans repaid from	Shareholders	13,284	48,083
	Companies and individuals related to shareholders	2,926,055	9,160,228
	Management	202,239	1,552,696
	Companies and individuals related to management	77,000	4,300,000
	Others	76,005	1,512,480
Interest expense	All related parties	154,095	353,467
Interest income	All related parties	4,706,535	5,348,626
Impairment losses on Stage 3 loans	Companies and individuals related to shareholders	-	-

(4) Compensation of key management personnel

(In thousands of MNT)	2024	2023
Short term employee benefits:		
Salaries	1,060,791	1,561,850
Bonus and compensation	96,060	106,603
Contribution to social and health fund	144,359	201,955
	1,301,210	**1,870,408**

36. Risk management

36.1 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 regularly 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.

36. Risk management, continued

36.1 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.

36. Risk management, continued

36.2 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 40% 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 9.5%.

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 2024 Gross maximum exposure**	**31 Dec 2023 Gross maximum exposure**
Balances with BoM	190,280,849	201,412,744
Due from other banks	70,425,265	198,880,626
Financial assets at FVTPL	5,068,846	4,772,703
Financial assets at FVTOCI	120,470,075	37,008,923
Financial assets at amortised cost	-	20,896,193
Derivative financial assets	1,250,371	2,442,507
Loans and advances to customers	636,381,359	671,768,051
Total on balance sheet	**1,023,876,765**	**1,137,181,747**
Contingent liabilities	13,808,021	16,759,674
Commitments	149,050	1,617,582
Total off-balance sheet	**13,957,071**	**18,377,256**
Total credit risk exposure	**1,037,833,836**	**1,155,559,003**

36.Risk management, continued

36.2 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-24		31-Dec-23	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Mining and exploration	253,882,808	37%	210,470,237	30%
Construction	146,483,602	22%	182,765,830	26%
Trading	92,180,457	14%	102,779,027	15%
Transportation	47,850,757	7%	59,338,021	9%
Real estate	24,884,057	4%	13,243,963	2%
Electricity & Power	7,300,000	1%	7,699,989	1%
Other	104,819,096	15%	116,009,804	17%
	677,400,777	**100%**	**692,306,871**	**100%**
Accrued interest receivabels	9,421,069		15,007,675	
Impairment allowances	(51,839,263)		(37,988,486)	
Deferred loan origination fees	(88,509)		(133,056)	
Net loans and advances to customers at amortized cost	**634,894,074**		**669,193,004**	
Loans and advances to customers at FVTPL /Mortgage/	1,487,285		2,575,047	
Total loans and advances to customers	**636,381,359**		**671,768,051**	

36.Risk management, continued

36.2 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).

	2024			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	29,681,984	-	-	29,681,984
Grade A	1,024,156	-	55,550	1,079,706
Grade BB	546,500	-	-	546,500
Grade B	8,439,272	3,718,242	19,349	12,176,863
Grade CC	89,893,785	28,567,700	56,412,680	174,874,165
Grade C	138,417,242	91,312,667	14,697,719	244,427,628
Grade DD	110,963,400	25,115,116	14,874,009	150,952,525
Grade D	27,720,646	31,695,616	4,245,144	63,661,406
Total	**406,686,985**	**180,409,341**	**90,304,451**	**677,400,777**
Loss allowance	(5,502,100)	(3,182,970)	(43,154,193)	(51,839,263)
Accrued interest receivables	5,954,394	3,067,158	399,517	9,421,069
Deferred loan origination fees	(64,004)	(17,930)	(6,576)	(88,509)
Net Loan and advances to customers at amortized cost	**407,075,275**	**180,275,599**	**47,543,199**	**634,894,074**

	2023			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	21,495,039	-	-	21,495,039
Grade A	1,118,266	-	-	1,118,266
Grade BB	333,000	-	-	333,000
Grade B	14,394,476	-	-	14,394,476
Grade CC	113,743,105	76,248,557	62,367,126	252,358,788
Grade C	112,693,750	60,219,522	51,472,975	224,386,247
Grade DD	37,389,195	49,014,494	21,553,600	107,957,289
Grade D	48,364,974	21,824,705	74,087	70,263,766
Total	**349,531,805**	**207,307,278**	**135,467,788**	**692,306,871**
Loss allowance	(2,303,352)	(3,202,196)	(32,482,938)	(37,988,486)
Accrued interest receivables	6,919,932	6,755,092	1,332,651	15,007,675
Deferred loan origination fees	(96,192)	(22,095)	(14,769)	(133,056)
Net Loan and advances to customers at amortized cost	**354,052,193**	**210,838,079**	**104,302,732**	**669,193,004**

36.Risk management, continued

36.2 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.

	2024			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers - retail customers				
Overdue less than 30 days	52,013,554	36,946	74,899	52,125,399
Overdue 31-90 days	-	-	-	-
Overdue 91-180 days	-	-	-	-
Overdue 181-360 days	-	-	-	-
Overdue more than 360 days	-	-	228,186	228,186
Gross amount	**52,013,554**	**36,946**	**303,085**	**52,353,585**
Loans and advances to customers - corporate customers				
Overdue less than 30 days	354,673,431	135,866,797	18,650,000	509,190,228
Overdue 31-90 days	-	44,505,598	1,826,971	46,332,569
Overdue 91-180 days	-	-	14,739,015	14,739,015
Overdue 182-360 days	-	-	25,728,256	25,728,256
Overdue more than 360 days	-	-	29,057,124	29,057,124
Gross amount	**354,673,431**	**180,372,395**	**90,001,366**	**625,047,192**

	2023			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers - retail customers				
Overdue less than 30 days	23,626,050	125,624	50,011	23,801,685
Overdue 31-90 days	-	-	-	-
Overdue 91-180 days	-	-	228,989	228,989
Overdue 181-360 days	-	-	-	-
Overdue more than 360 days	-	-	12,742	12,742
Gross amount	**23,626,050**	**125,624**	**291,742**	**24,043,416**
Loans and advances to customers - corporate customers				
Overdue less than 30 days	325,905,754	124,293,157	23,466,399	473,665,310
Overdue 31-90 days	-	82,888,497	31,152,985	114,041,482
Overdue 91-180 days	-	-	23,506,279	23,506,279
Overdue 181-360 days	-	-	39,545,724	39,545,724
Overdue more than 360 days	-	-	17,504,660	17,504,660
Gross amount	**325,905,754**	**207,181,654**	**135,176,047**	**668,263,455**

36.Risk management, continued

36.2 Credit risk, continued

Credit quality analysis, continued

	31 Dec 2024			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	2,524,495	-	-	2,524,495
Loss allowance	-	-	-	-
	2,524,495	**-**	**-**	**2,524,495**
Financial guarantee contracts				
Grade B	11,283,526	-	-	11,283,526
Loss allowance	(364,416)	-	-	(364,416)
	10,919,110	**-**	**-**	**10,919,110**

	31 Dec 2023			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	2,278,074	-	-	2,278,074
Loss allowance	-	-	-	-
	2,278,074	**-**	**-**	**2,278,074**
Financial guarantee contracts				
Grade B	14,481,600	-	-	14,481,600
Loss allowance	-	-	-	-
	14,481,600	**-**	**-**	**14,481,600**

36. Risk management, continued

36.2 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 2024	**31 Dec 2023**	**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 2024	**31 Dec 2023**	**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 Policy and Operations of Credit procedure 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.

36.Risk management, continued

36.2 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.

36.Risk management, continued

36.2 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	4.81%	B3
A	4.81%	B3
BB	4.38%	Caa1
B	4.38%	Caa1
CC	7.57%	Caa2
C	7.57%	Caa3
DD	18.42%	Caa3
F	36.64%	Ca-C

36.Risk management, continued

36.2 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	4.81%
A	4.81%
BB	4.38%
B	4.38%
CC	7.57%
C	7.57%
DD	18.42%
D	18.42%
F	36.64%

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.

36.Risk management, continued

36.2 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 37.374% (2023: 32.63%) probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 31.313% (2023: 31.58%) and 31.313% (2023: 35.79%) 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.

36.Risk management, continued

36.2 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.

36.Risk management, continued

36.2 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, 1983-2023	- Moody's Corporate Default and Recovery rates, 1983-2023 - 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.

	2024			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	2,303,352	3,202,196	32,482,938	37,988,486
Transfer to Stage 1	251,187	(251,187)	-	-
Transfer to Stage 2	(287,204)	1,499,071	(1,211,867)	-
Transfer to Stage 3	(77,448)	(1,218,549)	1,295,997	-
Net remeasurement of loss allowance	(450,040)	738,373	18,817,463	19,105,796
New financial assets originated or purchased	3,817,004	202,493	944,843	4,964,340
Reversal of impairment allowance	(54,751)	(989,427)	(9,175,181)	(10,219,359)
Balance at 31 December	**5,502,100**	**3,182,970**	**43,154,193**	**51,839,263**

36.Risk management, continued

36.2 Credit risk, continued

Loss allowance, continued

	2023			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	2,003,445	3,418,079	24,032,896	29,454,420
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(166,311)	1,124,157	(957,846)	-
Transfer to Stage 3	(637,528)	(1,181,292)	1,818,820	-
Net remeasurement of loss allowance	(469,782)	(12,615)	13,028,164	12,545,767
New financial assets originated or purchased	2,054,209	1,008,815	9,013,280	12,076,304
Reversal of impairment allowance	(480,681)	(1,154,948)	(14,452,376)	(16,088,005)
Balance at 31 December	**2,303,352**	**3,202,196**	**32,482,938**	**37,988,486**

36.3 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.

36.Risk management, continued

36.3 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 2024 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 2024						
(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	10,743,099	93,441,828	24,488,277	5,644,747	-	134,317,950	127,434,418
Due to customers	84,233,892	232,504,155	255,380,177	47,529,540	-	619,647,763	579,564,597
Repurchase agreements	-	120,413,984	-	-	-	120,413,984	120,345,339
Borrowed funds	-	12,799,895	7,438,731	43,069,067	-	63,307,692	56,764,447
Derivative financial liabilities	-	471,233	735,239	491,959	-	1,698,431	1,698,431
Lease liabilities	-	2,780,264	2,648,916	7,142,692	-	12,571,872	10,505,650
Other liabilities	4,953,810	1,878,911	-	426,313	-	7,259,034	7,259,034
Guarantees	11,283,526	-	-	-	-	11,283,526	11,283,526
Loan commitments	2,524,495	-	-	-	-	2,524,495	2,524,495
Total	**113,738,822**	**464,290,270**	**290,691,340**	**104,304,316**	**-**	**973,024,748**	**917,379,937**

Please see rest of the table in next page.

36.Risk management, continued

36.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities, continued

	As at 31 December 2023						
(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	16,793,526	257,649,200	30,942,475	13,042,334	-	318,427,535	311,527,590
Due to customers	108,611,959	121,159,058	236,444,164	156,488,128	-	622,703,309	578,007,031
Repurchase agreements	-	34,893,651	3,033,550	-	-	37,927,201	37,712,288
Borrowed funds	-	16,764,499	27,524,773	27,912,290	-	72,201,562	63,452,028
Derivative financial liabilities	-	397,740	1,246,849	1,764,047	-	3,408,636	3,408,636
Lease liabilities	-	2,709,958	2,638,652	10,854,686	-	16,203,296	12,826,965
Other liabilities	6,423,986	810,663	242,705	367,209	-	7,844,563	7,844,563
Guarantees	14,481,600	-	-	-	-	14,481,600	14,481,600
Loan commitments	2,278,074	-	-	-	-	2,278,074	2,278,074
Total	**148,589,145**	**434,384,769**	**302,073,168**	**210,428,694**	**-**	**1,095,475,776**	**1,031,538,775**

36. Risk management, continued

36.4 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

The Bank defines interest rate risk as potential loss due to negative impact from adverse changes in interest rates and their implied volatility. The Bank's lending, funding and investment activities give rise to interest rate risk. Fluctuation in the interest rate has immediate effect on the Bank's net interest income. Potential long term impact on assets, liabilities and off-balance exposures result to changes in Bank's net worth. The Bank's Risk Function periodically monitors the compliance against its risk appetite on the Bank's interest rate position under hypothetical rate change scenarios through sensitivity, gap, basis risk and EVE analysis. Stress tests on interest rate volatility are conducted and reported periodically to Risk Management Committees

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2024.

All other variables held constant, under assumed, reasonable interest rate change of 100 - 200 basis points, the sensitivity of Net interest income results in potential loss from increase, or potential gain from decrease in rates, in the amounts of MNT 1.02 - 2.05 billion.

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.

36. Risk management, continued

36.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2024 and 31 December 2023. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2024 *(In thousands of MNT)*	**USD**	**EUR**	**Other foreign currencies**
Financial assets			
Cash and balances with BoM	25,918,239	884,197	6,369,846
Due from other banks	23,013,408	208,822	47,171,734
Derivative financial assets	454,990	-	-
Loans and advances to customers	78,575,074	14,208,167	-
Other assets	5,994,122	28,355	5,624,611
	133,955,833	**15,329,541**	**59,166,191**
Financial liabilities			
Due to banks and other financial institutions	7,673,270	202,789	804,932
Due to customers	109,205,099	1,092,039	23,023,417
Borrowed funds	6,232,386	9,872,405	40,165,729
Derivative financial liabilities	169,036	-	-
Other liabilities	1,636,051	8,472	2,915,062
	124,915,842	**11,175,705**	**66,909,140**
Net position	**9,039,991**	**4,153,836**	**(7,742,949)**

As at 31 December 2023 *(In thousands of MNT)*	**USD**	**EUR**	**Other foreign currencies**
Financial assets			
Cash and balances with BoM	92,062,523	643,108	11,172,012
Due from other banks	83,605,366	16,045,992	53,064,782
Financial assets at amortised cost	20,352,563	-	-
Loans and advances to customers	134,553,316	14,827,646	-
Other assets	718,639	1,081	6,144,921
	331,292,407	**31,517,827**	**70,381,715**
Financial liabilities			
Due to banks and other financial institutions	118,148,104	5,477,782	30,317,441
Due to customers	152,172,216	10,838,263	40,451,093
Borrowed funds	25,857,404	18,260,870	6,601,667
Other liabilities	520,202	9,028	3,473,577
	296,697,926	**34,585,943**	**80,843,778**
Net position	**34,594,481**	**(3,068,116)**	**(10,462,063)**

36. Risk management, continued

36.4 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.

37. 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 2024 (31 December 2023: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2024 (31 December 2023: 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 2024 and 31 December 2023 were as follows:

(In thousands of MNT) Regulatory capital	**31 Dec 2024**	**31 Dec 2023**
Tier 1 capital	202,961,433	192,236,222
Tier 2 capital	-	-
Total Tier 1 and Tier 2 capital	**202,961,433**	**192,236,222**
Risk weighted assets	847,970,562	848,671,026
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	23.93%	22.65%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	23.93%	22.65%

38. Subsequent events

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.

39. 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.