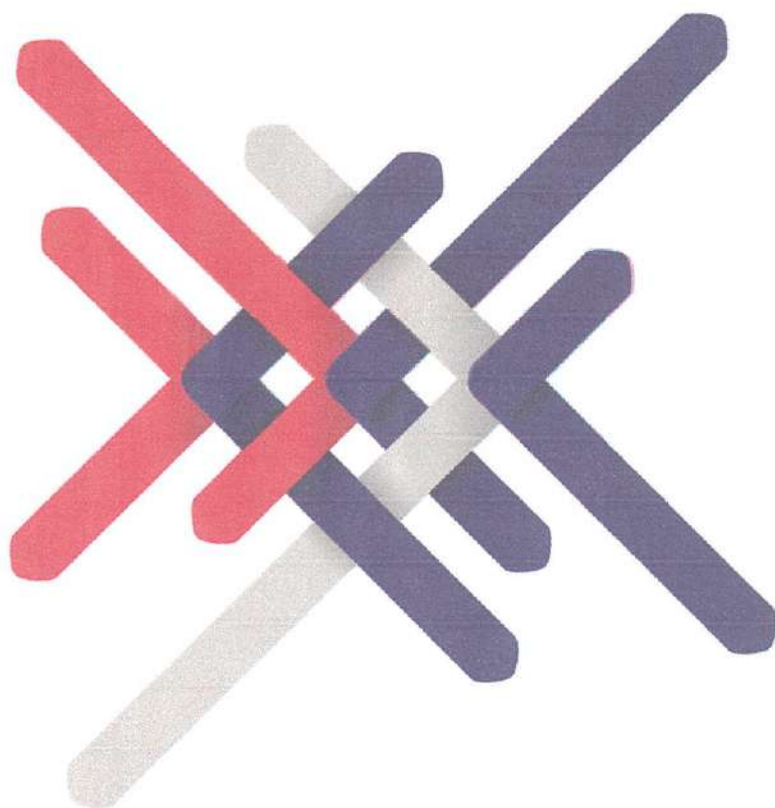


Financial Statements and Independent Auditor's Report

State Bank JSC

31 December 2022



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Bank brief information

Founding decision:	The Bank was incorporated on 23 November 2009	
Certificate and license:	The Bank was registered with the General Authority for State Registration of Mongolia on 10 June 2002 with obtaining the State Registration Certificate № 9007001011 and the State Registration Number 5341469. The Bank conducts its business under License Number # 28, granted on 23 November 2009 by the Bank of Mongolia (BoM).	
Board:	B. Telmuun	Chairman, <i>Director General of Tax Policy Department, Ministry of Finance of Mongolia</i>
	B. Ganbat	Board member, <i>First Deputy Chief Cabinet Secretary, Mongolia</i>
	D. Tsolmon	Board member, <i>Chief of Legal Policy Department, Ministry of Justice and Home Affairs, Mongolia</i>
	B. Sukh-Ochir	Board member, <i>Director of the Financial Policy Department at the Ministry of Finance, Mongolia</i>
	G. Zolboo	Board member, <i>Chairman of the Finance and Budget Research Department, Ministry of Finance, Mongolia</i>
	L. Sonor	Board member, <i>Director of Financial Markets and Insurance Division, Financial Policy Department, Ministry of Finance, Mongolia</i>
	M. Baljargal	Independent member
	D. Enkhjargal	Independent member
	S. Tsend-Auysh	Independent member
Management team:	U. Gantur	Chief Executive Officer
	Kh. Lkhagvasuren	Director of Business Policy and Planning Department
	B. Sodonbaatar	Director for Marketing and Public Relations
	E. Batbayar	Director of Credit Department
	B. Amarsanaa	Director of the Legal Department
	A. Batmunkh	Director of Internal Audit
	M. Gantuya	Director of Financial Department
	G. Enkhtamir	Director of Information Technology
	L. Bolormaa	Director of Human Resources
	D. Jadambaa	Director of the Treasury Department
	Z. Tuyatsetseg	Director of Branch Management Department
	B. Agvaantseren	Director of Insurance Department
	Sh. Allanchimeg	Director of Compliance Department

N. Ganzorig	Director of Operations Department
B. Sugar	Director of Customer Service Department
Ts. Damdinuren	Director of Risk Management Department

Principal activities:	The Bank accepts deposits from the public and extends credit, transfers payments in Mongolia and abroad, exchanges currencies, purchase, sale, storage and safekeeping of precious metals and gemstones, storage of valuables, foreign settlements and issuance, sale and purchase of securities and provides other banking services to its commercial and retail customers.
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Number of employees:	3,856
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Address:	State Bank Building, Baga Toiruu-7/1, the 1 st khoroo, Chingeltei District, Ulaanbaatar city, Mongolia
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Auditor:	Grant Thornton Audit LLC - Certified firm of audit, accounting, financial advisory, training and appraisal
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Management's statement of responsibility for financial reporting

Management is responsible for fair presentation of the State Bank JSC's financial statements for the year ended 31 December 2022, and its financial performance, cash flows and changes in equity for the period in accordance with the International Financial Reporting Standards.

Management has fulfilled the following responsibilities in preparing the financial statements:

- Complied all accounting standards through selection of and consistent adherence to appropriate accounting policy, as well as reasonable and accurate calculation and assessment.
- Taken necessary actions to safeguard the bank's assets, to prevent any fraud and misconduct, and to identify such activities.
- The Bank has prepared the financial statements on a going concern basis.
- Obligated to constantly review matters that are legitimate or derivative accountabilities as a result of past events or that may result in future losses, and it has clarified the legitimate and derivative responsibilities and contingencies.

B. Telmuun, Board Chairman of the State Bank JSC, and U. Gantur, Chief Executive Officer, and M. Gantuya, Director of Finance Department, declare that the accompanying financial statements presented in page 11 to 17 of this report give a true and fair view of the financial position of the Bank as of 31 December 2022, and its financial performance and cash flows for the period, in accordance with the International Financial Reporting Standards.



Chief Executive Officer
U. Gantur
Date: 10 March 2023

Director of Financial Department
M. Gantuya
Date: 10 March 2023

Independent Auditor's Report

"Grant Thornton Audit" LLC
A member firm of GTIL global
network for assurance, tax and
advisory services

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To shareholders of the State Bank JSC

Unqualified Opinion

We have audited the financial statements (hereinafter referred to as "financial statement") of the State Bank JSC (hereinafter referred to as "Bank"), which comprise the following statements as of 31 December 2022, including:

- Statement of profit or loss and other comprehensive income
- Statement of financial position,
- Statement of changes in equity,
- Statement of cash flows,
- A summary of significant accounting policies, and
- Notes to the financial statements.

In our opinion, the accompanying financial statements of the State Bank JSC, give a true and fair view of the financial position as of 31 December 2022 and its financial performance and its cash flows for the year then ended, in all material respects, in accordance with the International Financial Reporting Standards.

Basis for Unqualified 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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Code of Ethics for Professional Accountants of Mongolia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters, in our judgement, are matters that have significant impacts on financial statements for the current period. Within the scope of our audit on financial statements, matters were addressed as a whole, and no separate opinions were given on each matter.

Key audit matters	Response
<p data-bbox="282 351 699 409">Expected Credit Loss (ECL) allowance</p> <p data-bbox="282 427 699 750">Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.</p> <p data-bbox="282 768 699 1243">Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.</p>	<p data-bbox="703 351 1417 409">With respect to impairment methodology, our audit procedures comprised the following:</p> <ul data-bbox="703 427 1417 1877" style="list-style-type: none"> - We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9. - We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model. - We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. - We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. - For a sample of risk exposures, we checked the appropriateness of the Bank's staging. - We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions. - For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information. - We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis. - We understood the theoretical soundness and tested the mathematical integrity of the models applied. - For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data; - We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model). - We assessed the accuracy of the disclosures in the financial statements.

Emphasis of matter

Parliament of Mongolia passed an amendment to the Banking Law on 29 January 2021. Mongolia's new requirements for its systemically important banks to be listed and to cap a bank shareholder's rights at 20% will improve transparency and strengthen the banking system's corporate governance in the medium-to-longer term, ultimately contributing to the system's stability. The amendments to the Banking Law require domestic systemically important banks (D-SIB) in Mongolia to become public companies through IPOs in the stock market. In addition, all commercial banks are required to reduce shareholder concentration with a maximum of 20% of the bank's total shares for a shareholder and its related parties. Under the amendment, it will support fair competition in the banking system and prevent market dominance and any anti-competitive activities.

Pursuant to this amendment to the Banking Law and Parliament's Resolution No.16 dated 29 April 2022 "Approving Basic Guidelines for the Public Sale of Shares of State-Owned Legal Entities in 2022-2023", the State Bank offered a total of 37.5 million ordinary shares with a nominal value of 250 MNT each or 5% of its total shares to the public on 30 September 2022 and acquired the status of an open joint-stock company.

Other matters

The State Bank JSC's financial statements for the year ended 31 December 2021 was audited by the Ernst & Young Mongolia Audit LLC and they provided an unqualified opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the State Bank JSC for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 IFRSs, 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, related safeguards.

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 or 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.

Engagement Partner of this Auditor's Report is N. Erdenetsog.



Date: 10 March 2023



N. ERDENETSOG
ENGAGEMENT PARTNER

Date: 10 March 2023

Statement of profit or loss and other comprehensive income

In thousand MNT	Notes	2022	2021
Interest income calculated using effective interest method	6	396,145,491	363,500,188
Interest and similar income	6	8,784,428	21,973,641
Interest and similar expenses	6	(182,859,623)	(190,840,521)
Net interest income		222,070,296	194,833,308
Fee and commission income	7	34,132,518	29,053,607
Fee and commission expense	7	(8,828,413)	(8,718,631)
Net fee and commission income		25,304,105	22,334,976
Net trading income	8	13,461,603	4,006,641
Other operating income/(expense)	9	(2,559,308)	(17,541,753)
Total operating income		258,276,698	203,633,172
Credit loss income/(expense) on financial assets	10	4,157,793	(32,012,890)
Net operating income		262,434,491	171,620,282
Operating expenses	11	(136,280,871)	(110,605,423)
Profit before tax		124,153,620	61,014,859
Income tax expense	12	(28,858,777)	(15,267,271)
Profit for the year		97,294,843	45,747,588
Earnings per share			
Earnings per share	30	0.129	257.0

Statement of profit or loss and other comprehensive income (continued)

In thousand MNT	Notes	2022	2021
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods – (after tax):</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	(15,035,131)	(4,987,873)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods – (after tax):</i>			
Revaluation of fixed assets	30	11,135	-
Disbursement of Social Development Fund	30	(37,950)	(37,378)
Other comprehensive income		(15,061,946)	(5,025,251)
Total comprehensive income for the year after tax		82,232,897	40,722,337

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 94.

Statement of financial position

In thousand MNT	Notes	31 December 2022	31 December 2021
Assets			
Cash and balances at Bank of Mongolia	13	726,398,277	250,920,891
Due from banks and others financial institutions	14	231,538,852	28,534,316
Derivative financial instruments	15	15,034,433	759,107
Loans and advances to customers	16	1,868,626,502	2,237,147,348
Financial assets held for trading	17	10,896,733	7,310,813
Financial assets at fair value through profit or loss	17	128,002,947	80,844,572
Debt instruments at fair value through other comprehensive income	18	957,771,729	967,315,767
Equity instruments at fair value through other comprehensive income	18	120,466	118,385
Debt instruments at amortized cost	18	68,223,496	67,786,597
Other assets	19	18,279,807	21,266,799
Assets held for sale	20	12,894,113	6,762,299
Investment property	21	2,848,500	2,364,878
Property and equipment	22	118,046,524	115,918,630
Intangible assets	23	5,940,582	5,630,775
Right-of-use assets	24	20,573	53,279
Total assets		4,164,641,534	3,792,734,256

Statement of financial position (continued)

In thousand MNT	Notes	31 December 2022	31 December 2021
Liabilities			
Due to banks and other financial institutions	25	315,533,091	115,952,799
Repurchase agreements	26	333,230,213	153,809,693
Due to customers	27	2,749,360,513	2,856,798,045
Derivative financial instruments	15	2,286,265	1,549,920
Borrowed funds	28	234,934,137	252,376,321
Other liabilities	29	26,360,480	15,847,976
Lease payables	24	197,130	234,557
Income tax liabilities	12	1,196,135	4,865,246
Deferred tax liabilities	12	5,334,391	2,815,761
Total liabilities		3,668,432,355	3,404,250,318
Equity attributable to equity holders of the bank			
Ordinary shares	30	188,774,063	178,000,000
Share premium	30	14,652,725	-
Other reserves	30	14,215,779	29,368,212
Retained earnings		278,566,812	181,115,726
Total equity		496,209,179	388,483,938
Total liabilities and equity		4,164,641,534	3,792,734,256

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 94.



The financial statements were approved on 10 March 2023 by:

Board Chairman
B. Tselmürin

Chief Executive Officer
U. Ganfur

Director of Financial Department
M. Gantuya

Statement of changes in equity

In thousand MNT	Ordinary shares	Share premium	Reserves	Retained earnings	Subordinate debt	Total equity
Balance 1 January 2021	133,900,000	-	34,393,463	135,368,138	44,100,000	347,761,601
Profit for the year	-	-	-	45,747,588	-	45,747,588
Other comprehensive income	-	-	(5,025,251)	-	-	(5,025,251)
Subordinate debt converted into ordinary shares	44,100,000	-	-	-	(44,100,000)	-
Total comprehensive income	178,000,000	-	29,368,212	181,115,726	-	388,483,938
Balance 31 December 2021	178,000,000	-	29,368,212	181,115,726	-	388,483,938
Profit for the year	-	-	-	97,294,843	-	97,294,843
Other comprehensive income	-	-	(15,061,946)	-	-	(15,061,946)
Total comprehensive income	-	-	(15,061,946)	97,294,843	-	82,232,897
Changes in equity	10,774,063	14,652,725	-	65,556	-	25,492,344
Realized revaluation	-	-	(90,487)	90,487	-	-
Balance 31 December 2022	188,774,063	14,652,725	14,215,779	278,566,612	-	496,209,179

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 94.

Statement of cash flows

In thousand MNT	Notes	2022	2021
Cash flows from operating activities			
Profit before tax		124,153,620	61,014,859
<i>Adjustment for:</i>			
Changes in fair value of financial derivatives		(13,538,982)	359,615
Changes in fair value of financial assets held for trading		(2,565,371)	(733)
Impairment provision for repossessed collaterals	9	4,641,891	3,553,750
Expected credit loss allowance	10	(4,157,793)	32,012,890
Depreciation of property and equipment	11	13,183,381	13,147,220
Amortization of intangible assets	11	766,441	924,743
Depreciation of right-of-use assets	11	32,706	3,621,726
Loss on disposal of property and equipment	11	223,902	174,792
Revaluation surplus of investment property		(483,622)	-
Interest expense on borrowed funds	31	6,714,912	7,201,098
Net modification loss	9,31	-	13,930,889
Net interest amortization from modification loss	31	-	(10,429,567)
Interest expense on lease payables	6	7,572	344,962
Disbursement of Social Development Fund	30	(37,950)	(37,378)
Disbursement of revaluation reserve	30	11,135	-
Non-cash items arising from financing activities		(22,880,162)	32,110
Operating profit before changes in working capital		106,071,680	125,850,986
<i>Changes in operating assets and liabilities:</i>			
Statutory deposits with BoM		(33,805,186)	(22,735,604)
Due from other banks and financial institutions		(201,939)	(142,535)
Loans and advances to customers		371,134,331	(516,812,315)
Other assets		(788,076)	1,638,393
Assets held for sale		(5,131,814)	(2,168,688)
Due to other bank and financial institutions		199,580,292	(18,212,994)
Repurchase agreement		179,420,520	82,567,237
Due to customers		(107,437,532)	178,355,689
Other liabilities		10,512,504	2,858,698
Cash flow (used in) from operating activities		718,354,780	(168,801,133)
Income taxes paid	12	(26,762,984)	(11,961,341)
Interest portion of lease payables paid	31	(7,572)	(344,962)
Interest paid on borrowed funds	31	(6,456,396)	(6,383,780)
Net cash flows (used in) from operating activities		685,127,828	(187,491,216)
Cash flows from investing activities			
Purchase of financial investment		(23,970,892,184)	(18,334,174,054)
Proceeds from disposal of financial investment		23,659,267,079	18,359,834,907
Purchase of property and equipment	22	(15,535,177)	(11,960,305)
Purchase of intangible assets	23	(1,076,248)	(1,109,742)
Net cash flows from/(used in) investing activities		(328,236,530)	12,590,806

Statement of cash flow (continued)

In thousand MNT	Notes	2022	2021
Cash flows from financing activities			
Proceeds from drawdown of borrowed funds	31	611,597,875	274,843,524
Repayment of borrowed funds	31	(636,050,526)	(250,173,749)
Payment of principal portion of lease payables	31	(37,427)	(4,256,897)
Received from issuance of share and other equity securities		25,426,788	-
Net cash flows from/ (used in) financing activities		936,610	20,412,878
Net increase in cash and cash equivalents			
		357,827,908	(154,487,532)
Cash and cash equivalents at the beginning of the year		797,998,193	952,485,725
Cash and cash equivalents at the end of the year	31	1,155,826,101	797,998,193
Non-cash movement:			
Right-of-use assets	24	-	479,609
Lease payables	24	-	(479,609)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 94.

Notes to the financial statements

1 Principal activities

The State Bank JSC, Incorporated in Mongolia, conducts its business under License Number # 26 that was granted on 23 November 2009 by the Bank of Mongolia (BoM).

The Bank accepts deposits from the public and extends credit, transfers payments in Mongolia and abroad, exchanges currencies, purchase, sale, storage and safekeeping of precious metals and gemstones, storage of valuables, foreign settlements and issuance, sale and purchase of securities and provides other banking services to its commercial and retail customers. The headquarter of the bank is located in Ulaanbaatar city and has 496 branches in Ulaanbaatar city and other regions, aimags and soums.

A total of 49.26% of the bank's shares are owned by the Ministry of Finance of Mongolia, 45.03% by the Deposit Insurance Corporation, and 5.71% by the public.

The Bank's official registered address: State Bank Building, Baga Toiruu-7/1, the 1st khoroo, Chingeltel District, Ulaanbaatar-210644, Mongolia.

The State Bank was given B3 rating by the International rating Moody's Investors Service/Standard & Poor's.

2 Mongolian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Mongolia have continuing nature and the stability and development of the Mongolian economy largely depends on these changes.

In 2002 after the recession, the Mongolian economy entered a phase of stable recovery. It is expected that the gradual improvement of the COVID-19 epidemic situation, the expansion of public-private investment will stimulate the growth of 2022. The government's efforts to improve the business environment, increase access to finance for SMEs and create opportunities for priority social spending, as well as an expanded action plan for capital market development, should contribute to the stability and development of the Mongolian economy.

These financial statements reflect management's assessment of the impact of the Mongolian business environment on the operations of the Bank. However, the future economic and political situation and its impact on the Bank's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of Mongolia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost (with the exception of assets, which are stated at revalued amount).

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Mongolian Tugrug ("MNT") since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The financial statements are presented in MNT, unless otherwise stated. All financial information expressed in Mongolian MNT is rounded to thousand MNT.

3.4 Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

The effect of main changes in presentation of the statement of financial position is as follows:

The part of the required reserves in foreign currency of the BoM from the "Cash and their equivalents" item was presented within "Amounts due from financial institutions" line.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income is the presentation of a separate line "Operating income".

3.5 Changes in accounting policies

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

No new standards and amendments applied for the first time in 2022 that have a material impact on the annual financial statements of the Bank.

Some accounting pronouncements which have become effective from 1 January 2021 and have therefore been adopted do not have a significant impact on the Bank's financial results or position.

The standards and amendments that are effective for the first time in 2022 and could be applicable to the Bank are:

- *Reference to the Conceptual Framework (Amendments to IFRS 3)*
- *COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)*
- *Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
- *Annual Improvements (2018-2020 Cycle):*
- *Subsidiary as a First-time Adopter (Amendments to IFRS 1)*
- *Fees in the '10 per cent' Test for Derecognition of Liabilities (Amendments to IFRS 9)*
- *Lease Incentives (Amendments to IFRS 16)*
- *Taxation in Fair Value Measurements (Amendments to IAS 41).*

3.6 Standards and interpretations not yet applied by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*
- *Definition of Accounting Estimates (Amendments to IAS 8)*

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

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 (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

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.

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 net 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.

Other interest income

In calculating other interest income, the nominal interest rate is applied to the gross asset value on a straight-line basis.

Fee and commission income

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is 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 fee is 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 fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

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 related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI are included in the fair value reserve in equity.

In the Bank's financial statements, all assets, liabilities and transactions of Bank entities with a functional currency other than the MNT (the Bank's presentation currency) are translated into MNT upon consolidation. The functional currency of the entities in The Bank has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into MNT at the closing rate at the reporting date. Income and expenses have been translated into the Bank's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into MNT at the closing rate.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

Foreign currency	31 December 2022	31 December 2021
USD	3,444.60	2,848.80
Euro	3,669.02	3,222.99
Ruble	48.85	38.34
Yuan	495.40	447.15
Yen	26.07	24.74
Pound	4,156.60	3,836.19
Won	2.73	2.40

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Mongolia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 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 of 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.

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

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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 (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

[The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that it represents a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding (*if applicable*).]

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 are never reclassified.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.7.4), 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 asset 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 OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as 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.

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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications 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, 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 (refer to note 4.4.3) and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

4.4.6 Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

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 on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade.

12-month ECL (12mECLs) 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.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 38.1.2.

Based on the above process, The Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, The Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, The Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 37.1.1

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 (refer to note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, The Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI 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.

In making an assessment of whether an investment in sovereign debt is credit-impaired, The Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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;
- 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.
- loan commitments and financial guarantee contracts: generally, as a provision;
 - When estimating LTECLs for undrawn loan commitments, The Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
 - 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;
 - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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. However, 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.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Mongolia and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans and advances

Loans and advances are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.9 Investment securities

The "investment securities" caption in the statement of financial position includes:

- 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 of FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as of FVOCI.

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

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

When 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. 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.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.11 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at historical cost model in accordance with IAS 40.

Rental income and operating expenses from investment property are included in revenue and other expenses, respectively.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

4.12 Leases

For any new contracts the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in

exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank,
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases

Bank as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

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.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in the other liabilities.

Bank as a lessor

As a lessor the Bank classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Upon commencement of a finance lease, the Bank recognises the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

Finance lease income is recognised based on pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of finance lease assets under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

4.13 Precious metals

Gold and other precious metals are recorded at MB prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate
Buildings	40	2.5%
Computers	2	50.0%
Vehicles	10	10.0%
Other fixed assets	10	10.0%

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.15 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.16 Repossessed assets

The Bank's policy is to determine whether a repossessed asset can be 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 at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.17 Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed 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.

4.18 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

4.19 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.20 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.

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

4.21 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.22 Equity

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include accumulated earnings of current and previous periods.

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

5 Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

5.1 Judgement

Classification of financial assets:

The Bank assesses the business model within which the assets are held and also assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the outstanding principal amount (refer to note 4.4.2).

Establish criteria for calculating ECL

The Bank establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward-looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Bank expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation arising from the changes in the market conditions.

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances

including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Impairment of financial instruments

The Bank assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL, as well as the key assumptions used in estimating recoverable cash flows (refer to Note 4.4.6).

6 Interest and similar income, expense

In thousand MNT	2022	2021
<i>Interest income calculated using effective interest rate method</i>		
Loans and advances to customers	297,867,697	264,110,046
Debt instrument at FVOCI	68,363,362	66,874,415
Cash and balances at BoM	10,358,274	4,717,491
Swap interest income	7,047,692	2,957,016
Due from other banks and financial institutions	5,638,178	227,926
Reverse repurchase agreements	165,858	27,112
Debt instruments at amortized cost	6,684,430	4,586,182
	396,145,491	363,500,188
<i>Other interest and similar income</i>		
Debt instrument measured at FVTPL	8,620,643	4,804,139
Loans and advances to customers measured at FVTPL	163,785	17,169,602
	8,784,428	21,973,641
Total interest income	404,929,919	385,473,829
Due to customers	(148,844,706)	(163,871,037)
Borrowed funds	(6,714,912)	(7,201,096)
Due to other banks and financial institutions	(8,964,910)	(7,011,837)
Repurchase agreements	(8,756,981)	(6,330,750)
Swap interest expense	(9,570,542)	(5,880,838)
Interest expense on lease payables (Note 24)	(7,572)	(344,962)
Total interest expense	(182,859,623)	(190,640,521)
Total net interest income	222,070,296	194,833,308

In 2022, the government bond in which its change in fair value is included in debt instruments at FVOCI, is MNT 11,169,148 thousand (2021: MNT 8,312,960 thousand).

7 Fee and commission income and expense

In thousand MNT	2022	2021
<i>Fee and commission income</i>		
Account service fee and commission	8,750,354	8,549,436
Card service fee and commission	12,865,870	10,816,596
E-bank service fee and commission	9,749,506	7,331,789
Credit related service fee and commission	2,297,112	1,775,743
Remittance fee and commission	469,676	580,043
Total fee and commission income	34,132,518	29,053,607
<i>Fee and commission expenses</i>		
Bank service charges	(3,535,927)	(2,799,309)
Card transaction charges	(5,092,595)	(3,738,940)
Other commission expenses	(199,891)	(182,382)
Total fee and commission expenses	(8,828,413)	(6,718,631)
Net fee and commission income	25,304,105	22,334,976

8 Net trading income

In thousand MNT	2022	2021
Foreign exchange gain, net	13,461,603	3,699,825
Debt securities	-	306,816
Total net trading income	13,461,603	4,006,641

Proceedings from debt securities includes the results of trading of the purchase and sale of debt securities, changes in their fair value, and corresponding interest income and expense. Foreign exchange income includes gains and losses from spot and forward contracts and other financial derivatives.

9 Other operating income/(expense)

In thousand MNT	2022	2021
Non-trading foreign exchange gain/(loss), net	(852,564)	(946,812)
Impairment provision for repossessed collaterals (Note 19)	(4,641,891)	(3,553,750)
Modification loss, net	-	(13,930,889)
Other	2,935,149	889,698
Total other operating income/(expense)	(2,559,306)	(17,541,753)

10 Credit loss income/(expense) on financial assets

Table below shows the ECL charges/(reversals) on financial assets for the year recorded in profit or loss:

Мянган төгрөгөөр	2022	2021
Cash and balances at BoM (Note 13, 14)	130,254	5,295
Loans and advances to customers (Note 16)	(2,866,859)	30,434,785
Debt instrument measured at amortized cost (Note 18)	(771,399)	1,234,614
Debt instrument measured at FVOCI (Note 18)	217,033	(39,428)
Other assets (Note 19)	(866,822)	377,624
Total	(4,157,793)	32,012,890

11 General, administrative expenses

In thousand MNT	2022	2021
Salary and bonus	71,481,651	54,004,638
Social security contributions	9,029,526	7,832,996
Depreciation for property and equipment (Note 22)	13,183,381	13,147,220
Insurance premium	5,982,122	6,230,839
Communication expenses	5,127,929	4,814,040
Depreciation of right-of-use assets (Note 24)	32,708	3,821,726
Advertising and marketing expenses	3,890,967	2,315,985
Utility expenses	2,391,208	2,157,383
Stationery expenses	3,425,535	1,858,138
Security expenses	1,481,822	1,278,679
Amortization for intangible assets (Note 23)	766,441	924,743
Business trip expenses	1,244,718	581,542
Transportation expenses	1,025,236	781,791
Audit and professional services fee	3,917,685	1,049,414
Lease expenses	5,714,442	727,050

Loss on disposal of fixed assets	223,902	174,792
Other fees and commissions	9,361,602	9,104,647
Total general, administrative expenses	138,280,871	110,605,423

12 Income tax expense

Components of income tax expense for the year ended 31 December 2022 and 2021 are as follows:

In thousand MNT	2022	2021
Current tax:		
Current income tax	23,093,873	14,700,127
Deferred income tax	3,764,904	587,144
Total income tax expense	26,858,777	15,287,271

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 6 billion (2021: MNT 6 billion) of taxable income and 25% on the excess of taxable income over MNT 6 billion (2021: MNT 6 billion). Interest income on government bonds is not subject to income tax. Impairment losses for loans and advances to customers are deductible for income tax purposes.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December 2022 is as follows:

In thousand MNT	2022	2021
Profit before tax	124,153,620	61,014,859
Tax at statutory rate of 25% (2021: 25%)	31,061,027	15,253,715
Expenses not deductible from taxable income	5,451,440	3,265,618
Tax-exempt income	(4,477,587)	(2,078,240)
Effect of tax bracket	(6,242,152)	(1,692,950)
Tax at special rate	1,066,049	519,128
Tax expense	26,858,777	15,267,271

The effective income tax rate for 2022 is 22% (2021: 25%).

12.1 Income tax payable

In thousand MNT	2022	2021
Income tax payable as at 1 January	4,865,246	2,126,460
Income tax expense for the year	23,093,873	14,700,127
Taxes paid	(26,762,984)	(11,961,341)
Income tax payable as at 31 December	1,196,135	4,865,246

12.2 Deferred tax

In thousand MNT	2022	2021
Deferred tax liabilities		
1 January	2,815,761	3,910,382
Recognized in statement of other comprehensive income (Note 30)	(1,246,274)	(1,661,765)
Recognized in statement of income	3,764,904	567,144
31 December	5,334,391	2,815,761

In thousand MNT	2022	2021
Deferred tax liability		
Impairment (temporary difference)	3,764,904	567,144
Debt and equity instruments	1,569,487	2,248,617
Total	5,334,391	2,815,761

13 Cash and balances at Bank of Mongolia

In thousand MNT	31 December 2022	31 December 2021
Cash on hand	50,185,617	45,780,309
Current account at BoM	676,357,622	205,185,650
Total	726,543,239	250,965,959
Less: Allowance for impairment losses on balances with BoM	(146,982)	(45,268)
Net cash and balances at BoM	726,396,277	250,920,691

The mandatory reserve held at BoM are determined at not less than 8.0% (local currency) and 18.0% (foreign currency) of customer deposits based on average balance of two (2) weeks. As at 31 December 2022, the average reserves required by BOM for that period of 2 weeks were MNT 190,345 million (2021: MNT 168,815 million) for local currency and MNT 61,719 million (2021: MNT 49,444 million) for foreign currency maintained on current accounts at BoM.

Impairment allowance for mandatory reserves with BOM

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach are explained in Note 37.

In thousand MNT		31 December 2022			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
AA - AA	0.002 - 0.022%	-	-	-	-
Baa - Ba	0.108 - 0.519%	-	-	-	-
B	2.37%	676,357,622	-	-	676,357,622
Caa - C	12.00%	-	-	-	-
No rated	-	50,185,617	-	-	50,185,617
Total		726,543,239	-	-	726,543,239

In thousand MNT		31 December 2021			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
AA - AA	0.002 - 0.022%	-	-	-	-
Baa - Ba	0.108 - 0.519%	-	-	-	-
B	2.41%-2.76%	205,185,650	-	-	205,185,650
Caa - C	11.997%	-	-	-	-
Not rated	-	45,780,309	-	-	45,780,309
Total		250,965,959	-	-	250,965,959

A reconciliation of changes in gross carrying amount and corresponding ECL allowances as at 31 December 2022 and 2021 is as follows:

In thousand MNT	31 December 2022	
	Stage 1	ECL
	Total	
1 January 2022	250,965,959	45,268
New assets originated or purchased	40,135,616,987	345,342
Payments and assets derecognized	(39,675,362,180)	(243,648)
Accrued interest	144,233	-

Foreign exchange adjustments	15,178,240	-
31 December 2022	726,543,239	146,962

Below table shows ECL movement for the year ended 31 December 2021:

In thousand MNT	31 December 2021	
	Stage 1	
	Total	ECL
1 January 2021	238,814,049	39,973
New assets originated or purchased	38,682,319,357	45,268
Payments and assets derecognized	(38,669,976,239)	(39,973)
Accrued interest	205,473	-
Foreign exchange adjustments	(386,681)	-
31 December 2021	250,965,959	45,268

14 Due from other banks and financial institutions

In thousand MNT	31 December 2022	31 December 2021
Due from foreign banks and financial institutions	30,476,584	22,051,825
Placement with foreign banks and financial institution as cash collateral on international card transaction	958,350	784,971
Due from local banks and financial institutions	200,132,479	5,697,520
Gross carrying amount	231,567,413	28,534,316
Less: Allowance for impairment losses	(28,561)	-
Total due from other banks and financial institutions	231,538,852	28,534,316

Due from other banks and financial institutions represent local and foreign currency current accounts maintained at foreign and local financial institutions.

15 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below.

In thousand MNT	Notional amount	Fair value of assets	Fair value of liabilities
Swaps			
2022	104,385,600	14,979,687	(2,286,265)
2021	96,877,740	759,107	(1,549,920)

Option			
2022	580,110	54,746	-
2021	-	-	-

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

The bank has signed currency swap trading agreements with the Bank of Mongolia on 5 August 2022 and 31 January 2021 which mature on 15 August 2023 and 2 February 23. Swap amounts are equivalent to USD 23 million and USD 11 million, respectively.

In the option section, the MNT bonds of "Khan-Altai" LLC issued in the domestic market on 7 December 2022, pegged to the USD exchange rate, are included.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. Risk management strategy and how it is applied to manage risks are disclosed in Note 37.

16 Loans and advances to customers

In thousand MNT	31 December 2022	31 December 2021
Business loans	681,176,479	888,371,182
Mortgage loans	260,706,562	194,488,825
Consumer loans	632,905,282	800,576,037
Agricultural loans	373,373,231	381,160,452
	1,948,161,554	2,264,596,496
Allowance for impairment losses	(191,274,581)	(193,344,129)
Net loans and advances to customers at amortized cost	1,756,886,973	2,071,252,367
Loans and advances to customers at FVTPL	111,739,529	165,894,981
Total loans and advances to customers	1,868,626,502	2,237,147,348

Impairment allowances for loans and advances to customers as of 31 December 2022:

In thousand MNT	Business loans	Mortgage loans	Consumer loans	Agricultural loans	Total
1 January 2022	157,681,287	9,831,284	25,211,344	620,214	193,344,129
New assets originated or purchased	3,380,666	286,172	6,687,855	1,541,866	11,896,559
Payments and assets derecognized	(34,104,469)	(2,429,859)	(14,534,459)	(2,204,881)	(53,273,668)
Impact on ECL of transfers	34,049,833	870,141	6,929,689	2,229,274	44,078,937
Changes in assumptions	(4,030,808)	20,998	(1,572,010)	13,133	(5,568,687)

Net charge (reversal) for the year (Note 10)	(704,778)	(1,252,548)	(2,488,925)	1,579,392	(2,866,859)
Disposal	(2,503)	-	(109,364)	(3,941)	(115,808)
Foreign exchange and other adjustments	801,220	44,064	67,835	-	913,119
31 December 2022	157,775,226	8,622,800	22,680,890	2,195,665	191,274,581
1 January 2021	126,057,444	14,290,714	22,336,766	307,093	182,992,017
New assets originated or purchased	3,025,163	202,937	4,298,418	1,476,063	9,002,581
Payments and assets derecognized	(31,395,558)	(1,124,327)	(14,724,770)	(1,935,137)	(49,179,792)
Impact on ECL of transfers	35,431,092	2,059,980	14,718,334	555,551	52,764,957
Changes in assumption	24,563,146	(5,598,020)	(1,334,731)	216,644	17,847,039
Net charge (reversal) for the year (Note 10)	31,623,843	(4,459,430)	2,957,251	313,121	30,434,785
Disposal	-	-	(37,528)	-	(37,528)
Foreign exchange and other adjustments	-	-	(45,145)	-	(45,145)
31 December 2021	157,681,287	9,831,284	25,211,344	620,214	193,344,129

Business loan

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 37.

In thousand MNT	31 December 2022					
	Internal grading system	12 month PD range	Stage 1	Stage 2	Stage 3	Total
Excellent	0.02% - 8.36%	454,661,038	7,312,575	-	-	461,973,613
Good	0.07% - 8.4%	-	15,580,728	-	-	15,580,728
Substandard	100%	-	-	11,233,680	-	11,233,680
Doubtful	100%	-	-	13,054,900	-	13,054,900
Bad	100%	-	-	50,819,153	-	50,819,153
Individually impaired	100%	941,222	9,525,439	118,047,744	-	128,514,405
Total		455,602,260	32,418,742	193,155,477		681,176,479

In thousand MNT	12 month PD range	31 December 2021			
		Internal grading system	Stage 1	Stage 2	Stage 3
Excellent	0.001% - 8.400%	665,260,098	6,968,805	-	672,228,903
Good	0.002% - 4.628%	-	12,409,084	-	12,409,084
Substandard	100%	-	-	11,863,620	11,863,620
Doubtful	100%	-	-	14,018,841	14,018,841
Bad	100%	-	-	45,524,467	45,524,467
Individually impaired	100%	964,665	12,109,493	119,252,109	132,326,267
Total		666,224,763	31,487,382	190,659,037	888,371,182

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for business loans is as follows:

In thousand MNT	31 December 2022				
	Internal grading system	Stage 1	Stage 2	Stage 3	Total
Total					
1 January 2022		666,224,763	31,487,382	190,659,037	888,371,182
New assets originated or purchased		107,133,218	900,000	2,800,000	110,833,218
Payments and assets derecognized		(272,621,601)	(7,715,190)	(35,266,401)	(315,605,192)
Transfer to Stage 1		11,304,440	(6,319,155)	(4,985,285)	-
Transfer to Stage 2		(61,878,743)	61,878,743	-	-
Transfer to Stage 3		(3,999,272)	(37,316,058)	41,315,330	-
Accrued interest		(824,830)	212,188	(175,322)	(787,964)
Effect on restructure		-	-	-	-
Disposal		-	-	(2,503)	(2,503)
Foreign exchange and other adjustments		10,264,285	(10,709,168)	(1,187,379)	(1,632,262)
31 December 2022		455,602,260	32,418,742	193,155,477	681,176,479
Allowance for ECL					
1 January 2022		1,484,617	5,367,002	150,829,658	157,681,287
New assets originated or purchased		535,666	45,000	2,800,000	3,380,666
Payments and assets derecognized		(1,363,108)	(385,759)	(32,355,602)	(34,104,469)
Transfer to Stage 1		3,014,762	(284,362)	(2,730,400)	-
Transfer to Stage 2		(2,784,543)	2,784,543	-	-
Transfer to Stage 3		(3,079,275)	(7,463,212)	10,542,487	-
Impact on ECL on transfers		3,014,762	2,215,820	28,819,251	34,049,833
Changes in assumptions		534,035	696,963	(5,261,806)	(4,030,808)
Charges for the year		(127,701)	(2,391,007)	1,813,930	(704,778)
Disposal		-	-	(2,503)	(2,503)
Foreign exchange and other adjustments		-	-	801,220	801,220
31 December 2022		1,356,916	2,975,995	153,442,315	157,775,226

In thousand MNT	31 December 2021				
	Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Total					
1 January 2021		300,602,463	35,930,190	175,023,729	511,556,382
New assets originated or purchased		669,895,485	322,303	-	670,217,788
Payments and assets derecognized		(249,807,021)	(11,959,909)	(13,721,947)	(275,488,877)
Transfer to Stage 1		49,598,552	(39,230,640)	(10,367,912)	-
Transfer to Stage 2		(102,995,694)	102,995,694	-	-
Transfer to Stage 3		(9,814,962)	(54,885,230)	64,700,192	-
Accrued interest		(948,075)	(2,260,315)	(217,574)	(3,425,964)
Effect on restructure		-	-	-	-
Disposal		-	-	-	-
Foreign exchange and other adjustments		9,694,015	575,289	(24,757,451)	(14,488,147)
31 December 2021		666,224,763	31,487,382	190,659,037	888,371,182
Allowance for ECL					
1 January 2021		8,381,971	6,812,621	110,862,852	126,057,444
New assets originated or purchased		3,025,148	15	-	3,025,163
Payments and assets derecognized		(1,012,418)	(11,168,830)	(19,214,310)	(31,395,558)
Transfer to Stage 1		6,763,311	(1,765,379)	(4,997,932)	-
Transfer to Stage 2		(4,634,806)	4,634,806	-	-
Transfer to Stage 3		(4,232,396)	(10,983,533)	15,215,929	-
Impact on ECL on transfers		6,763,311	1,104,049	27,563,732	35,431,092
Changes in assumptions		(13,569,504)	16,733,253	21,399,397	24,563,146
Charges for the year		(6,897,354)	(1,445,619)	39,966,816	31,623,843
Disposal		-	-	-	-
Foreign exchange and other adjustments		-	-	-	-
31 December 2021		1,484,617	5,367,002	150,829,668	157,681,287

Mortgage loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 37.

In thousand MNT	Internal rating grade	12 month PD range	31 December 2022			Total
			Stage 1	Stage 2	Stage 3	
	Excellent	0.06% - 8.97%	251,220,774	366,110	-	251,586,884
	Good	0.07% - 8.83%	-	803,844	-	803,844
	Substandard	100%	-	-	245,799	245,799
	Doubtful	100%	-	-	168,832	168,832
	Bad	100%	-	-	7,901,203	7,901,203
	Individually impaired	100%	-	-	-	-
	Total		251,220,774	1,169,954	8,315,834	260,706,562

In thousand MNT		31 December 2021			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
Excellent	0.011% - 5.411%	183,943,995	204,251	-	184,148,246
Good	0.011% - 5.411%	-	192,322	-	192,322
Substandard	100%	-	-	1,549,479	1,549,479
Doubtful	100%	-	-	729,322	729,322
Bad	100%	-	-	7,869,456	7,869,456
Individually impaired	100%	-	-	-	-
Total		183,943,995	396,573	10,148,257	194,488,825

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for mortgage loans is as follows:

In thousand MNT		31 December 2022			
Internal rating grade		Stage 1	Stage 2	Stage 3	Total
Total					
1 January 2022		183,943,995	396,573	10,148,257	194,488,825
New assets originated or purchased		57,444,662	-	-	57,444,662
Payments and assets derecognized		(21,844,781)	(83,836)	(2,352,187)	(24,280,804)
Transfer to Stage 1		1,028,398	(360,584)	(667,814)	-
Transfer to Stage 2		(1,281,992)	1,281,992	-	-
Transfer to Stage 3		-	(285,336)	285,336	-
Accrued interest		15,481	4,450	(257)	19,674
Effect on restructure		-	-	-	-
Disposal		-	-	-	-
Foreign exchange and other adjustments		31,915,012	216,694	902,499	33,034,205
31 December 2022		251,220,775	1,169,953	8,315,834	260,706,562
Allowance for ECL					
1 January 2022		523,245	73,047	9,234,992	9,831,284
New assets originated or purchased		286,172	-	-	286,172
Payments and assets derecognized		(109,224)	(4,192)	(2,316,444)	(2,429,860)
Transfer to Stage 1		446,217	(16,226)	(429,991)	-
Transfer to Stage 2		(57,689)	57,689	-	-
Transfer to Stage 3		-	(57,067)	57,067	-
Impact on ECL on transfers		446,217	25,237	398,687	870,141
Changes in assumptions		(978,854)	(45,976)	1,045,828	20,998
Charges for the year		32,839	(40,535)	(1,244,853)	(1,252,548)
Disposal		-	-	-	-
Foreign exchange and other adjustments		27,780	-	18,285	44,065
31 December 2022		583,864	32,512	8,006,424	8,622,800

In thousand MNT	31 December 2021				
	Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Total					
1 January 2021		172,040,671	523,954	12,106,784	184,671,409
New assets originated or purchased		53,157,571	63,936	1,212	53,222,719
Payments and assets derecognized		(28,924,912)	(285,534)	(703,488)	(29,913,934)
Transfer to Stage 1		6,891,732	(2,465,368)	(4,428,354)	-
Transfer to Stage 2		(6,562,434)	6,562,434	-	-
Transfer to Stage 3		(932,230)	(4,909,170)	5,841,400	-
Accrued interest		(25,979)	(20,369)	(15,563)	(61,911)
Effect on restructure		(14,912,376)	(8,517)	-	(14,920,893)
Disposal		-	-	(3,849)	(3,849)
Foreign exchange and other adjustments		3,211,952	935,207	(2,651,875)	1,495,284
31 December 2021		183,943,995	396,573	10,148,257	194,488,825
Allowance for ECL					
1 January 2021		3,814,972	31,295	10,444,447	14,290,714
New assets originated or purchased		201,851	-	1,086	202,937
Payments and assets derecognized		(113,982)	(253,168)	(757,177)	(1,124,327)
Transfer to Stage 1		2,140,958	(110,942)	(2,030,016)	-
Transfer to Stage 2		(295,310)	295,310	-	-
Transfer to Stage 3		(753,522)	(1,353,453)	2,106,975	-
Impact on ECL on transfers		2,140,958	73,426	(154,404)	2,059,980
Changes in assumptions		(6,612,680)	1,390,579	(375,919)	(5,598,020)
Charges for the year		(3,291,727)	41,752	(1,209,455)	(4,459,430)
Disposal		-	-	-	-
Foreign exchange and other adjustments		-	-	-	-
31 December 2021		523,245	73,047	9,234,992	9,831,284

Consumer loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 37.

In thousand MNT	Internal rating grade	12 month PD range	31 December 2022			Total
			Stage 1	Stage 2	Stage 3	
	Excellent	0.02% - 8.75%	600,716,138	81,514	-	600,797,652
	Good	0.05% - 7.84%	-	4,202,543	589	4,203,132
	Substandard	100%	-	-	3,673,958	3,673,958
	Doubtful	100%	-	-	4,033,229	4,033,229
	Bad	100%	-	-	20,197,311	20,197,311
	Individually impaired	100%	-	-	-	-
	Total		600,716,138	4,284,057	27,905,087	632,905,282

In thousand MNT		31 December 2021			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
Excellent	0.001% - 8.400%	764,724,493	189,355	-	764,913,848
Good	0.001% - 8.400%	-	3,405,384	237,106	3,642,490
Substandard	100%	-	-	3,480,795	3,480,795
Doubtful	100%	-	-	8,801,107	8,801,107
Bad	100%	-	-	19,737,797	19,737,797
Individually impaired	100%	-	-	-	-
Total		764,724,493	3,594,739	32,256,805	800,576,037

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for consumer loans is as follows:

In thousand MNT		31 December 2022			
Internal rating grade		Stage 1	Stage 2	Stage 3	Total
Total amount					
1 January 2022		764,724,493	3,594,739	32,256,805	800,576,037
New assets originated or purchased		1,311,778,545	110,666	311,909	1,312,201,140
Payments and assets derecognized		(1,443,041,923)	(6,998,360)	(10,504,239)	(1,460,544,522)
Transfer to Stage 1		21,106,775	(17,267,947)	(3,838,828)	-
Transfer to Stage 2		(38,577,519)	36,538,041	39,478	-
Transfer to Stage 3		(96,499)	(11,567,678)	11,664,177	-
Accrued interest		946,346	(19,171)	(7,779)	919,396
Effect on restructure		-	-	-	-
Disposal		-	-	(109,364)	(109,364)
Foreign exchange and other adjustments		(18,124,080)	(106,253)	(1,907,072)	(20,137,405)
31 December 2022		600,716,138	4,284,057	27,905,087	632,905,282
Allowance for ECL					
1 January 2022		622,764	969,281	23,619,299	25,211,344
New assets originated or purchased		6,556,147	4,646	127,062	6,687,855
Payments and assets derecognized		(7,215,210)	(339,885)	(6,979,564)	(14,534,459)
Transfer to Stage 1		2,843,610	(777,057)	(2,066,553)	-
Transfer to Stage 2		(1,645,988)	1,658,686	(12,698)	-
Transfer to Stage 3		(60,149)	(2,330,942)	2,391,091	-
Impact on ECL on transfers		2,843,611	104,571	3,981,507	6,929,689
Changes in assumptions		(3,894,103)	1,201,320	920,773	(1,572,010)
Charges for the year		(372,082)	(478,461)	(1,638,382)	(2,488,925)
Disposal		-	-	(109,364)	(109,364)
Foreign exchange and other adjustments		28,646	-	39,189	67,835
31 December 2022		279,328	490,820	21,910,742	22,680,890

In thousand MNT	31 December 2021				
	Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Total amount					
1 January 2021		756,806,723	2,256,100	26,442,951	785,505,774
New assets originated or purchased		1,124,768,580	1,880,032	731,915	1,127,380,527
Payments and assets derecognized		(1,105,937,546)	(2,703,197)	(5,706,531)	(1,114,347,274)
Transfer to Stage 1		12,725,366	(5,084,565)	(7,640,801)	-
Transfer to Stage 2		(27,052,624)	27,052,624	-	-
Transfer to Stage 3		(4,012,263)	(20,015,287)	24,027,550	-
Accrued interest		(1,441,938)	(112,990)	(52,181)	(1,607,109)
Effect on restructure		-	-	-	-
Disposal		-	-	(37,528)	(37,528)
Foreign exchange and other adjustments		8,868,195	322,022	(5,508,570)	3,681,647
31 December 2021		764,724,493	3,594,739	32,256,805	800,576,037
Allowance for ECL					
1 January 2021		3,694,106	142,469	18,500,191	22,336,766
Additions		3,849,379	110,091	338,948	4,298,418
Deductions		(3,995,123)	(5,116,510)	(5,613,137)	(14,724,770)
Transfer to Stage 1		3,931,739	(255,806)	(3,675,933)	-
Transfer to Stage 2		(1,394,967)	1,425,572	(30,605)	-
Transfer to Stage 3		(1,124,708)	(4,481,152)	5,605,860	-
Impact on ECL on transfers		3,931,739	913,961	9,872,634	14,718,334
Changes in assumptions		(8,269,401)	8,230,656	(1,295,986)	(1,334,731)
Charges for the year		(3,071,342)	826,812	5,201,781	2,957,251
Disposal		-	-	(37,528)	(37,528)
Foreign exchange and other adjustments		-	-	(45,145)	(45,145)
31 December 2021		622,764	969,281	23,619,299	25,211,344

Agricultural loan

The table below illustrates the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 37.

In thousand MNT	12 month PD range	31 December 2022			Total
		Stage 1	Stage 2	Stage 3	
Excellent	0% - 9.18%	366,016,270	-	-	366,016,270
Good	0% - 9.18%	-	3,191,769	-	3,191,769
Substandard	100%	-	-	1,663,465	1,663,465
Doubtful	100%	-	-	1,337,949	1,337,949
Bad	100%	-	-	1,163,778	1,163,778
Individually impaired	100%	-	-	-	-
Total		366,016,270	3,191,769	4,165,192	373,373,231

In thousand MNT		31 December 2021			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
Excellent	0.001% - 3.630%	379,703,869	-	-	379,703,869
Good	0.001% - 3.630%	-	255,510	41,758	297,268
Substandard	100%	-	-	262,972	262,972
Doubtful	100%	-	-	502,344	502,344
Bad	100%	-	-	373,999	373,999
Individually impaired	100%	-	-	-	-
Total		379,703,869	255,510	1,201,073	381,160,452

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for agricultural loans is as follows:

In thousand MNT		31 December 2022			
Internal rating grade		Stage 1	Stage 2	Stage 3	Total
Total amount					
1 January 2022		379,703,869	255,510	1,201,073	381,160,452
New assets originated or purchased		308,373,200	-	-	308,373,200
Payments and assets derecognized		(309,508,752)	(3,501,499)	(1,080,244)	(314,090,495)
Transfer to Stage 1		7,736,296	(7,467,550)	(268,746)	-
Transfer to Stage 2		(17,392,204)	17,392,204	-	-
Transfer to Stage 3		-	(4,129,598)	4,129,598	-
Accrued interest		(3,484,858)	195,398	42,038	(3,247,422)
Effect on restructure		-	-	-	-
Disposal		-	-	(3,941)	(3,941)
Foreign exchange and other adjustments		588,719	447,304	145,414	1,181,437
31 December 2022		366,016,270	3,191,769	4,165,192	373,373,231
Allowance for ECL					
1 January 2022		26,840	11,673	581,701	620,214
New assets originated or purchased		1,541,866	-	-	1,541,866
Payments and assets derecognized		(1,547,544)	(175,075)	(482,262)	(2,204,881)
Transfer to Stage 1		415,182	(336,040)	(79,142)	-
Transfer to Stage 2		(782,649)	782,649	-	-
Transfer to Stage 3		-	(825,920)	825,920	-
Impact on ECL on transfers		415,182	110,570	1,703,522	2,229,274
Changes in assumptions		(42,678)	630,530	(574,719)	13,133
Charges for the year		(641)	186,714	1,393,319	1,579,392
Disposal		-	-	(3,941)	(3,941)
Foreign exchange and other adjustments		-	-	-	-
31 December 2022		26,199	198,387	1,971,079	2,195,665

In thousand MNT	31 December 2021			Total
	Stage 1	Stage 2	Stage 3	
Internal rating grade				
Total amount				
1 January 2021	359,624,664	51,766	572,385	360,248,817
New assets originated or purchased	376,156,590	404,720	-	376,561,310
Payments and assets derecognized	(354,333,389)	(530,456)	(343,746)	(355,207,593)
Transfer to Stage 1	672,207	(340,200)	(332,007)	-
Transfer to Stage 2	(2,025,494)	2,025,494	-	-
Transfer to Stage 3	(266,810)	(1,156,068)	1,422,878	-
Accrued interest	(230,529)	14,894	20,509	(195,126)
Effect on restructure	-	-	-	-
Disposal	-	-	-	-
Foreign exchange and other adjustments	106,630	(214,640)	(138,946)	(246,956)
31 December 2021	379,703,869	255,510	1,201,073	381,160,452
Allowance for ECL				
1 January 2021	21,140	587	285,366	307,093
New assets originated or purchased	1,476,063	-	-	1,476,063
Payments and assets derecognized	(1,401,778)	(271,298)	(262,061)	(1,935,137)
Transfer to Stage 1	118,175	(15,309)	(102,868)	-
Transfer to Stage 2	(91,147)	91,147	-	-
Transfer to Stage 3	(65,368)	(231,214)	296,582	-
Impact on ECL on transfers	118,175	60,529	376,847	555,551
Changes in assumptions	(148,420)	377,231	(12,167)	216,644
Charges for the year	5,700	11,086	296,335	313,121
Disposal	-	-	-	-
Foreign exchange and other adjustments	-	-	-	-
31 December 2021	26,840	11,673	581,701	620,214

17 Financial assets at fair value through profit or loss

In thousand MNT	31 December 2022	31 December 2021
Financial assets held for trading:		
Quoted bonds at fair value	9,876,322	7,310,813
Quoted equities at fair value	1,020,411	-
	10,896,733	7,310,813
Financial assets at fair value through profit or loss:		
Junior RMBS	62,065,399	44,059,005
Senior RMBS	61,218,970	36,628,636
Junior ABS	1,638,404	156,931
Senior ABS pledged as collateral	3,080,174	-
	128,002,947	80,844,572

Quoted equities represent investments in equity shares quoted on the Mongolian Stock Exchange.

Quoted equities include closed bonds of BiD NBFJ LLC and Khan-Altai LLC .

The bank has sold fixed rate mortgage loans to wholly owned special purpose companies of MIK Holding JSC and received Senior and Junior "RMBS" are interest-bearing long-term securities issued by MIK Holding JSC in exchange. Junior "RMBS" are interest-bearing long-term securities issued by MIK Holding JSC which per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years.

Asset backed securities ("ABS") represent Senior and Junior tranches of an interest-bearing, long-term securities issued by wholly owned special purpose companies of Securities Financing Corporation LLC ("SFC"). The bank transferred fixed rate repurchase financed business loans to SFC with recourse and received the ABSs in exchange.

18 Financial investments other than those measured at fair value through profit or loss

In thousand MNT	31 December 2022	31 December 2021
Debt instrument measured at FVOCI:		
Unquoted BoM treasury bills	517,515,755	737,541,744
Unquoted BoM treasury bills pledged as collateral*****	250,771,751	88,014,308
Quoted government bonds at fair value	55,817,874	30,875,417
Quoted government bonds at fair value pledges as collateral**	133,666,349	111,084,298
	957,771,729	967,315,767
Equity instrument measured at FVOCI		
Unquoted equity ***	120,468	118,385
Debt instruments measured at amortized cost		
Quoted government bonds****	68,223,496	67,467,667
Senior ABS	-	318,930
	68,223,496	67,786,597

** On 9 August 2022, the Bank has made agreement with FCC Securities B.V in Netherland and obtained USD 23 million loan which bears 4.46% interest and maturity date is 19 August 2023. As per agreement the bank has pledged its quoted government bonds at fair value with nominal amount of USD 42.5 million (2021: USD 36.8 million).

*** Unquoted equities represent investments made in unquoted companies. Investments in unquoted equities are recorded at cost as management determined the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be insignificant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

**** Quoted government bonds at amortised cost represent Erdenes Tavan Tolgoi JSC's quoted bond with term of 10% annual interest and matures at 2023 and 2024. Nominal values of bonds were MNT 67.0 billion.

***** Unquoted BOM treasury bills pledged as collateral represent collaterals for the repurchase agreement made with Bank of Mongolia (Note 26).

Impairment losses on financial investments subject to impairment assessment
Debt instrument measured at FVOCI

The table below shows the fair value of the Bank's debt instrument measured at FVOCI by credit risk, based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach are explained in Note 37.

In thousand MNT		31 December 2022			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
AA - A	0.002 - 0.022%	-	-	-	-
Baa - Ba	0.108 - 0.519%	-	-	-	-
B	2.37%	957,771,729	-	-	957,771,729
Caa - C	12.00%	-	-	-	-
Not rated	-	-	-	-	-
Total		957,771,729	-	-	957,771,729

In thousand MNT		31 December 2021			
Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
AA - A	0.002 - 0.022%	-	-	-	-
Baa - Ba	0.108 - 0.519%	-	-	-	-
B	2.41% - 2.76%	967,315,767	-	-	967,315,767
Caa - C	12.00%	-	-	-	-
Not rated	-	-	-	-	-
Total		967,315,767	-	-	967,315,767

A reconciliation of changes in the fair value and gross carrying amount and corresponding allowance for ECL for debt instruments measured at FVOCI and debt instruments at amortised cost respectively is as follows:

In thousand MNT	31 December 2022			
	Debt instruments measured at FVOCI		Debt instrument measured at amortized cost	
	Fair value	ECL	Fair value	ECL
1 January 2022	967,315,767	1,014,264	69,021,211	1,234,614
Additions	23,364,579,802	529,871	-	-
Deductions	(23,387,869,454)	(312,839)	(2,015,322)	(771,399)
Changes in fair value (Note 35)	(16,498,437)	-	-	-
Accrued interest receivables	611,837	-	1,680,822	-
Foreign exchange adjustments	29,632,214	-	-	-
31 December 2022	957,771,729	1,231,296	68,686,711	463,215

In thousand MNT	31 December 2021			
	Debt instruments measured at FVOCI		Debt instrument measured at amortized cost	
	Fair value	ECL	Fair value	ECL
1 January 2021	1,217,540,739	1,053,691	-	-
Additions	17,996,666,501	260,176	67,340,389	1,234,814
Deductions	(18,242,157,747)	(299,604)	-	-
Changes in fair value (Note 35)	(6,610,210)	-	-	-
Accrued interest receivables	1,913,980	-	1,680,822	-
Foreign exchange adjustments	(37,496)	-	-	-
31 December 2021	967,315,767	1,014,263	69,021,211	1,234,814

19 Other assets

In thousand MNT	31 December 2022	31 December 2021
Other financial assets		
Promissory notes	8,236,600	7,436,601
Other receivables	14,401,162	6,692,491
Less: Allowance for impairment	(12,621,477)	(13,482,505)
	8,016,285	646,587
Other non-financial assets		
Repossessed collaterals	15,014,328	19,111,533
Less: Allowance for impairment	(13,685,082)	(9,124,811)
	1,329,246	9,986,722
Consumables and other office supplies	3,380,201	2,849,606
Prepaid expenses	5,554,075	7,633,295
Non-current asset investment	-	150,589
	8,934,276	10,633,490
Total other assets	18,279,807	21,266,799

In thousand MNT	31 December 2022	31 December 2021
Impairment allowance on other financial assets		
1 January	13,482,505	13,104,912
Charge for the year	533,093	798,206
Reversal	(1,399,915)	(420,582)
Net charge for the period (Note 10)	(866,822)	377,524
Write-off	-	-

Foreign exchange difference	5,794	(31)
31 December	12,621,477	13,482,505
Impairment allowance on other non-financial assets		
1 January	9,124,811	5,571,061
Charge for the year	11,727,236	5,323,348
Reversal	(7,085,345)	(1,769,598)
Net charge for the period (Note 9)	4,641,891	3,553,750
Write-off	(81,620)	-
31 December	13,685,082	9,124,811

Repossessed collaterals represent real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of these assets in the foreseeable future. Allowance for other non-financial assets relate to those repossessed collaterals.

20 Assets held for sale

In thousand MNT	31 December 2022	31 December 2021
Buildings and real estate		
1 January	6,762,299	4,593,611
Additions	15,165,652	6,762,299
Less: Sold during the year	(7,663,867)	(3,421,465)
Less: Transfer to repossessed collaterals	(1,389,971)	(1,172,145)
Balance on assets held for sale	12,894,113	6,762,299

21 Investment property

In thousand MNT	31 December 2022	31 December 2021
Investment property	2,848,500	2,364,878
Balance on investment property	2,848,500	2,364,878

22 Property and equipment

In thousand MNT	Building	Computer and its accessories	Furniture /Equipment	Vehicle	Construction in progress	Total
Cost/revaluation						
1 January 2021	80,797,181	35,986,698	37,632,553	8,483,324	5,271,661	168,171,417
Additions	-	5,886,447	3,490,639	-	2,583,219	11,960,305
Disposal	-	(2,344,478)	(1,488,267)	(29,044)	-	(3,861,789)
Sold	-	-	-	-	-	-
Transfer from construction in progress	4,920,296	-	9,930	-	(4,930,226)	-
Reclassification	-	-	-	-	-	-
Transfer to investment property /Note 21/	(2,472,782)	-	-	-	-	(2,472,782)
31 December 2021	83,244,695	39,528,667	39,644,855	8,454,280	2,924,654	173,797,151
Additions	-	9,584,278	3,183,463	90,000	2,755,702	15,613,443
Disposal	(239,352)	(2,016,825)	(1,690,927)	-	-	(3,947,104)
Sold	-	-	-	-	-	-
Transfer from construction in progress	1,880,078	-	-	-	(1,880,078)	-
Reclassification	-	(955,703)	955,703	-	(78,266)	(78,266)
31 December 2022	84,885,421	46,140,417	42,093,094	8,544,280	3,722,012	185,385,224
Accumulated depreciation						
1 January 2021	3,060,109	24,503,151	15,761,317	5,201,625	-	48,526,202
Charge for the year (Note 11)	1,681,008	7,846,990	3,147,583	671,639	-	13,147,220
Disposal	-	(2,341,045)	(1,316,908)	(29,044)	-	(3,686,997)
Sold	-	-	-	-	-	-
Transferred to investment property /Note 21/	(107,904)	-	-	-	-	(107,904)
31 December 2021	4,633,213	29,809,096	17,591,992	5,844,220	-	57,878,521
Charge for the year (Note 11)	1,741,071	7,393,290	3,513,371	535,649	-	13,183,381
Disposal	(15,451)	(2,016,825)	(1,690,926)	-	-	(3,723,202)
31 December 2022	6,358,833	35,185,561	19,414,437	6,379,869	-	67,338,700
Net carrying value						
31 December 2022	78,526,588	10,954,856	22,678,657	2,164,411	3,722,012	118,046,524
31 December 2021	78,611,482	9,719,571	22,052,863	2,610,060	2,924,654	115,918,630

Buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2022, the carrying amount of land and buildings would have been MNT 55,939 million (2021: MNT 55,945 million).

23 Intangible assets

In thousand MNT	Software	Licenses	Land use rights	Total
Cost/revaluation				
1 January 2021	3,441,853	8,922,184	1,071,939	13,435,976
Additions	-	1,109,742	-	1,109,742
Disposal	(244,044)	(717,549)	-	(961,593)
31 December 2021	3,197,809	9,314,377	1,071,939	13,584,125
Additions	832,700	243,547	-	1,076,247
Disposal	-	(18,074)	-	(18,074)
31 December 2022	4,030,509	9,539,850	1,071,939	14,642,298
Accumulated amortization				
1 January 2021	2,965,383	5,024,817	-	7,990,200
Charge for the year (Note 11)	247,115	677,628	-	924,743
Disposal	(244,043)	(717,550)	-	(961,593)
31 December 2021	2,968,455	4,984,895	-	7,953,350
Charge for the year (Note 11)	83,199	683,242	-	766,441
Disposal	-	(18,075)	-	(18,075)
31 December 2022	3,051,654	5,650,062	-	8,701,716
Net carrying value				
31 December 2022	978,855	3,889,788	1,071,939	5,940,582
31 December 2021	229,354	4,329,482	1,071,939	5,630,775

As of December 31, 2022, the Bank has no intangible assets pledged as collateral for liabilities or restricted ownership rights.

24 Right-of-use assets and lease payables

The Bank has lease contracts for branch office spaces used in its operations. These leases on average have lease term of three years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets.

The Bank also has certain leases of garages and ATM spaces with lease terms of 12 months or less and leases of office equipment (such as computers) with low value. The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.



Set out below are the carrying amounts of right-of-use assets and lease liabilities and the reconciliation of movements during the year:

In thousand MNT	Right-of-use assets	Lease payables
1 January 2021	3,195,396	4,011,845
Additions	479,609	479,609
Depreciation charge for the year (Note 11)	(3,621,726)	-
Interest expense (Note 6)	-	344,962
Lease payments	-	(4,601,859)
31 December 2021	53,279	234,557
Additions	-	-
Depreciation charge for the year (Note 11)	(32,706)	-
Interest expense (Note 6)	-	7,572
Lease payments	-	(44,999)
31 December 2022	20,573	197,130

The maturity analysis of lease liabilities are disclosed in Note 35. The Bank recognised rent expense from short-term leases of MNT 286,213 thousand and low-value assets of MNT 404,760 thousand for the year ended 31 December 2022 (2021: MNT 623,774 thousand and 412,191 thousand, respectively). Also, the Bank has incurred variable lease payments of MNT 109,801 thousand for the year ended 31 December 2022 (2021: MNT 318,474 thousand).

25 Due to other banks and financial institutions

In thousand MNT	31 December 2022	31 December 2021
Current accounts from banks and financial institutions	41,998,833	39,956,999
Demand deposits from banks and financial institutions	-	5,743,468
Time deposits from banks and financial institutions	273,534,258	70,252,332
Total	315,533,091	115,952,799

At 31 December 2022, due to banks included current accounts and time deposits from local and foreign banks and other financial institutions. At 31 December 2022, time deposits included deposit from foreign bank denominated in USD with interest rate 1% to 4.5% per annum with maturity from 3 to 547 days, and deposits from local financial institutions denominated in MNT with interest rates from 8% to 14.5% (2021: 1% to 13.0%) per annum and original maturity from 31 to 730 days (2021 90 to 730 days).

26 Repurchase agreements

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

Securities lent and repurchase arrangements

The following table summarises the liability arising from the consideration received, including accrued interest within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank:

In thousand MNT	31 December 2022	31 December 2021
Bank of Mongolia	253,049,417	87,820,042
FCC Securities B.V	80,180,796	65,989,651
Total	333,230,213	153,809,693

The Bank concluded a short-term and long-term repurchase agreement with the Bank of Mongolia on 31 December 2021, and sold MNT 87.8 billion unquoted securities of the Bank of Mongolia with an interest rate of 7.0% and 6.5%.

The Bank entered into a one-year repurchase agreement with FCC Securities B.V from Netherland on 9 August 2021. Under this agreement FCC Securities B.V has provided State Bank with USD cash in return for government of Mongolia treasury bills under repurchase agreement. The Bank entered into a long term and overnight repurchase agreements of MNT 253.0 billion with the Bank of Mongolia.

27 Due to customers

In thousand MNT	31 December 2022	31 December 2021
Government		
-Current account	484,183,811	296,776,419
- Demand deposit	-	21,279,539
- Time deposit	21,747,047	14,120,430
Private sector		
-Current account	108,807,545	121,766,002
- Demand deposit	110,871	9,224,690
- Time deposit	60,377,487	42,230,491
- Guarantee fund	7,665,224	10,963,114
Individuals		
-Current account	238,690,526	239,725,382
- Demand deposit	250,275,006	373,514,054
- Time deposit	1,587,502,986	1,727,195,924
Total	2,749,360,513	2,856,798,045

28 Borrowed funds

In thousand MNT	31 December 2022	31 December 2021
Borrowed funds from government organizations		
Ministry of Finance	53,910,044	80,210,910
Bank of Mongolia	81,207,286	84,194,700
Ministry of Finance/Japan Bank for International Cooperation	21,442,253	26,508,641
Credit Guarantee Fund of Mongolia/Asian Development Bank	16,543,152	19,007,564
Labor Service Center/Center for Employment Service	18,432,365	5,130,812
SME Development Fund	1,131,428	1,878,820
Mongolian Mortgage Corporation LLC	298,309	408,176
Other	41,969,300	35,036,698
Total borrowed funds	234,934,137	252,376,321

The above borrowings are unsecured.

Most of the borrowing agreements require compliance with certain debt covenants, which can be grouped into the following categories:

- capital related ratios (such as risk weighted capital adequacy tier 1 capital ratio, ratio between tier 1 capital and total capital);
- financial risks related ratios (such as aggregate foreign currency open position, single currency foreign exchange risk ratio, liquidity ratio);
- credit related ratios (such as single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio);
- other ratios (non-current assets to total assets, non-performing loans to total loan ratio, etc).

In case of non-compliance with covenants e.g., if the Bank defaults, a borrowing becomes immediately payable on demand. For this reason, the Bank monitors compliance with the BOM prudential ratios and other debt covenants on a monthly basis through the Planning and Analysis Division.

The Finance Department compares the Bank's performance results against ratio requirements and presents the result to the Asset and Liability Committee. As of 31 December 2022, the Bank has no breach of covenants that would require immediate repayment of the borrowings.

29 Other liabilities

In thousand MNT	31 December 2022	31 December 2021
Payables and accrued expenses	14,751,755	8,322,777
Delay on clearing settlement	11,556,879	6,991,746
Other	51,846	533,453
Total other liabilities	26,360,480	15,847,976

Delay on clearing settlement account and card payables related to the amount of payables on cash and settlements services. Related balances were fully settled on next working day.

30 Ordinary share, other reserves and dividends

30.1 Ordinary share

As of 31 December 2022, the bank's registered, issued, circulated and statutory fund are MNT 188,774,162.5 thousand. According to the bank's charter, the share/statutory fund consists of MNT 755,096,250 ordinary shares with a nominal value of MNT 250 each.

Number of shares unless otherwise stated	Ordinary share	
	2022	2021
Shares authorized and issued	755,096,250	178,000
Number of ordinary shares (MNT 1,000,000 per share)	-	178,000,000
Number of ordinary shares (MNT 250 per share)	188,774,063	-

As of 31 December 2021, the Bank had 178,000 ordinary shares with nominal value of MNT 1,000,000 each.

At the Shareholders' Meeting on 30 June 2022, a decision was made to split the ordinary shares of the Bank at a ratio of "1:4000" and offer additional 43,096,250 shares to the public, thus the number of ordinary shares increased from 178,000 to 755,096,250 shares, which is increased by 754,918,250 shares.

The nominal value of one ordinary share was changed from MNT 1,000,000 to MNT 250.

30.2 Earnings per share

In calculating earnings per share, net profit is divided by the number of ordinary shares for the year.

In thousand MNT	31 December 2022	31 December 2021
Net profit for the year	97,294,843	45,747,588
Number of ordinary shares	755,096,250	178,000
Earnings per share	0.129	257.0

30.3 Share premium

In thousand MNT	31 December 2022	31 December 2021
Share premium	14,652,725	-
Total	14,652,725	-

30.4 Other reserves

In thousand MNT	Social Development Fund	Reserve fund	FVOCI reserve	Asset revaluation reserve	Total other reserves
1 January	766,804	693,669	5,241,714	22,666,025	29,368,212
Disbursement of Social Development Fund	(37,950)	-	-	-	(37,950)
Amortization	-	-	-	(79,353)	(79,353)
Net change in fair value of debt instruments at FVOCI	-	-	(16,498,437)	-	(16,498,437)
Net change in ECL allowances for debt instruments at FVOCI (Note 10)	-	-	217,033	-	217,033
Deferred tax through other comprehensive income (Note 12)	-	-	1,246,274	-	1,246,274
31 December 2022	728,854	693,669	(9,793,416)	22,586,672	14,215,779

In thousand MNT	Social Development Fund	Reserve fund	FVOCI reserve	Asset revaluation reserve	Total other reserves
1 January	804,182	693,669	10,229,587	22,666,025	34,393,463
Disbursement of Social Development Fund	(37,378)	-	-	-	(37,378)
Amortization	-	-	-	-	-
Net change in fair value of debt instruments at FVOCI	-	-	(6,610,210)	-	(6,610,210)
Net change in ECL allowances for debt instruments at FVOCI (Note 10)	-	-	(39,428)	-	(39,428)
Deferred tax through other comprehensive income (Note 12)	-	-	1,661,765	-	1,661,765
31 December 2021	766,804	693,669	5,241,714	22,666,025	29,368,212

31 Additional cashflow information

In thousand MNT	2022	2021
Cash balances at BoM (Note 13)	726,543,239	250,965,959
Due from other banks and financial institutions (Note 14)	291,538,852	28,534,316
Unquoted BoM treasury bills – less than three months	450,786,401	737,541,744
Total cash and cash equivalents	1,408,848,492	1,017,042,019
Less: Mandatory reserve at BoM not available to finance bank's day to day operations (Note 13)	(252,064,041)	(218,258,855)

Less: Placement at foreign bank and financial institutions as cash collateral in international card transactions (Note 14)	(958,350)	(784,971)
Net cash and cash equivalents	1,155,826,101	797,998,193

Reconciliation of the liabilities arising from financing activities is shown below:

In thousand MNT	2022	2021
Borrowed funds		
1 January	252,376,321	227,021,274
<i>Cash movement</i>		
Proceeds	611,597,875	274,843,524
Repayment	(636,050,626)	(250,173,749)
Interest paid	(6,456,396)	(6,383,780)
<i>Non-cash movement</i>		
Modification gain	-	(990,005)
Amortized interest	-	863,345
Interest expense for the year	6,714,912	7,201,088
Foreign exchange difference	6,752,051	(5,386)
31 December	234,934,137	252,376,321

Lease payables		
1 January	234,557	4,011,845
Non-cash additions	-	479,609
Interest expense	7,572	344,962
Interest portion of lease payables paid	(7,572)	(344,962)
Principal portion of lease payables paid	(37,427)	(4,256,897)
31 December	197,130	234,557

In thousand MNT	2022	2021
Modification loss on financial assets	-	14,920,894
Modification gain on financial liabilities	-	(990,005)
Net modification loss	-	13,930,889
Amortised interest on modification loss	-	(11,292,902)
Amortised interest on modification gain	-	863,345
Net interest amortisation from modification	-	(10,429,557)

32 Contingent liabilities and commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December, the nominal or contract amounts were:

In thousand MNT	2022	2021
Credit related commitments and contingent liabilities		
Uncovered bank guarantees	3,057,910	3,341,729
Letters of credit	90,277	593,238
Undrawn commitments to lend	4,300,508	10,148,186
	7,448,695	14,083,153
Capital related commitments		
Property and equipment	587,686	1,779,543
	8,036,381	15,862,696

Contingent liabilities

Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to tender and bid auction. They generally 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 credit. Commitments have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon and require the customer to meet specific requirements, the total contract amounts do not necessarily represent future cash requirements.

33 Contingencies

Tax and legal matters

The taxation system in Mongolia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

As of 31 December 2022, there were no legal actions and complaints taken against the Bank.

Therefore, the Bank has not made any respective provision related to such tax and legal matters.

Insurance

The insurance industry in Mongolia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on

Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

34 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

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

Transactions with key management personnel of the Bank

The aggregate remuneration of directors and members of the Board of Directors during the year, paid by the Bank, was as follows:

In thousand MNT	2022	2021
<i>Short-term benefits:</i>		
Salaries and other allowances	790,898	2,051,986
Contribution to social and health fund	158,779	398,702
Bonus and other benefits	487,281	1,018,716
Total	1,436,958	3,469,404

Transactions with directors and key management

In thousand MNT	2022	2021
Loans to key management	1,463,172	2,950,450
Deposits from key management	7,478,050	10,524,547

Key management have banking relationships with the Bank which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

The loans and advances to key management were secured, bore interest rates from 5.0% to 28.8 % (2021: 5% to 36%) per annum and are repayable within 1 to 20 years. The interest income received from such loans during the financial year amounted to MNT 58.9 million (2021: MNT 107.0 million).

The deposits from the key management bore interest rates from 0.0% to 12.3% (2021: 0.0% to 10.2%) per annum. The interest expenses paid to the deposits from key management during the financial year amounted to MNT 13.7 million (2021: MNT 25.6 million).

Transactions and balances with shareholders

As of the end of the reporting year, the Bank has made the following major transactions with the Bank's shareholders within the scope of its normal business activities. Below is the balance as of 31 December 31.

In thousand MNT	2022	2021
Deposits and current accounts	(26,526,745)	(12,244,245)
Borrowed funds	(53,910,044)	(80,210,910)
Quoted government treasury bills	189,484,223	141,759,715

The deposits and current accounts bore interest rates are nil (2021: nil) per annum. No interest expense was paid on these accounts during the financial year (2021: nil).

The borrowed funds bore interest rates from 3% to 7.3% (2021: 1.5% to 7.3%) per annum. The interest expenses recognised on such funds during the financial year amounted to MNT 4,343.0 million (2021: MNT 3,570 million).

Transaction and balances with the Bank of Mongolia

Balance as at 31 December is as follows:

In thousand MNT	2022	2021
Current accounts at BoM (Note 13)	676,357,622	205,185,650
BoM treasury bills (Note 18)	768,287,505	825,556,052
Borrowed funds (Note 28)	(81,207,286)	(84,194,700)

Interest income and expenses recognized during the year with Bank of Mongolia were as follows:

In thousand MNT	2022	2021
<i>Interest income:</i>		
Current accounts at BoM (Note 13)	10,358,273	4,717,491
BoM treasury bills (Note 18)	54,884,418	56,737,058
	65,242,691	61,454,549
<i>Interest expense:</i>		
Borrowed funds (Note 28)	626,770	943,259

Transaction and balances with other government entities

The balance as at 31 December is as follows:

In thousand MNT	2022	2021
Due to customers	(459,387,069)	(319,951,794)
Borrowed funds	-	-
Due to other banks and other financial institutions	(31,993,104)	(14,730,849)
Quoted government bonds	68,223,496	67,467,567
Senior ABS	-	318,930
Junior ABS	-	156,931
Other assets: Receivables	6,236,601	7,436,601

Interest income and expenses recognized during the year with other government entities is as follows:

In thousand MNT	2022	2021
<i>Interest income:</i>		
Quoted government bonds	6,684,430	4,586,182
Senior and Junior "ABS"	-	36,201

Interest income and expense recognized in the transactions with other government entities during the financial year amounted to nil and MNT 3,224 million (2021: nil and MNT 5,890 million), respectively.

35 Fair value measurement

The Bank's Risk Management Committee determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and investment securities measured at FVOCI, unquoted derivatives, investment property [and buildings] and for non-recurring measurement, such as assets held for sale

At each reporting date, the Risk Management Committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Risk Management Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Risk Management Committee, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- 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 and 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).

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally qualified property appraisers.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

35.1 Financial instruments that are measured at fair value

In thousand MNT	31 December 2022			Total
	Level 1	Level 2	Level 3	
Financial assets				
<i>Debt instruments measured at FVOCI:</i>				
Unquoted BoM treasury bills	-	768,287,505	-	768,287,505
Quoted government bonds at fair value	189,484,223	-	-	189,484,223
<i>Equity instruments measured at FVOCI:</i>				
Unquoted equities at cost	-	-	120,466	120,466
<i>Financial assets held for trading:</i>				
Quoted equities at fair value	9,876,322	1,020,411	-	10,896,733
<i>Financial assets at fair value through profit or loss:</i>				
Junior RMBS	-	-	62,065,399	62,065,399
Senior RMBS	-	-	61,218,970	61,218,970
Junior ABS	-	-	1,638,404	1,638,404
Senior ABS	-	-	3,080,174	3,080,174
Loans and advances to customers at FVTPL	-	111,739,529	-	111,739,529
Derivative financial instruments	-	15,034,433	-	15,034,433
Non-financial assets				
Revalued assets	-	-	78,526,567	78,526,567
Investment property	-	-	2,848,500	2,848,500
Total	199,360,545	896,081,878	209,498,500	1,304,940,923
Financial liability				
Derivative financial instruments	-	2,286,265	-	2,286,265
Total	-	2,286,265	-	2,286,265

In thousand MNT	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Debt instruments measured at FVOCI:</i>				
Unquoted BoM treasury bills	-	825,556,052	-	825,556,052
Quoted government bonds at fair value	141,759,715	-	-	141,759,715
<i>Equity instruments measured at FVOCI:</i>				
Unquoted equities at cost	-	-	118,385	118,385
<i>Financial assets held for trading:</i>				
Quoted equities at fair value	7,310,813	-	-	7,310,813
<i>Financial assets at fair value through profit or loss:</i>				
Junior RMBS	-	-	44,059,005	44,059,005
Senior RMBS	-	-	36,628,636	36,628,636
Junior ABS	-	-	156,931	156,931
Loans and advances to customers at FVTPL	-	165,894,891	-	165,894,891
Derivative financial instruments	-	759,107	-	759,107
Non-financial assets				
Revalued assets	-	-	78,611,482	78,611,482
Investment property	-	-	2,364,878	2,364,878
Total	149,070,528	992,210,050	161,939,317	1,303,219,895
Financial liability				
Derivative financial instruments	-	1,549,920	-	1,549,920
Total	-	1,549,920	-	1,549,920

There have been no transfers between levels 1,2 and 3 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Mongolia.

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquoted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

Normally, the derivatives entered into by the Bank are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts. A few of the Bank's derivative positions in foreign currency forward contracts are classified within Level 3.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022 and 2021:

In thousand MNT	Fair value		Valuation technique	Inputs
	2022	2021		
Financial assets				
Unquoted BoM treasury bills	768,287,505	825,556,052	Market value approach	Market price
Quoted equities at fair value	1,020,411	-	Market value approach	Market price
Derivative financial instruments	15,034,433	759,107	Interest rate parity analysis	Policy rate, LIBOR rate, exchange rate
Loans and advances to customers at FVTPL	111,739,529	165,894,981	Market value approach	Market price
Financial liabilities				
Derivative financial instruments	2,286,265	1,549,920	Interest rate parity analysis	Policy rate, LIBOR rate, exchange rate

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2022.

The sensitivity to reasonably possible changes to inputs used in the fair value measurement for level 3 financial instrument is described below:

31 December 2022					
In thousand MNT	Fair value	Reasonable change	Sensitivity of input to fair value	Valuation technique	Observable inputs
Financial assets					
Junior RMBS	62,065,399	1%	+/- 620,654	Market value approach	Market price
Senior RMBS	61,218,970	1%	+/- 612,190	Market value approach	Market price
Junior ABS	1,638,404	1%	+/- 16,384	Market value approach	Market price
Senior ABS	3,080,174	1%	+/- 30,802	Market value approach	Market price
Unquoted equity	120,466	1%	+/- 1,205	Market value approach	Market price
Non-financial assets					
Revalued assets	78,526,587	10%	+/- 7,852,659	Market value approach and cost approach	Market price and depreciated replacement cost
Investment property	2,848,500	10%	+/- 284,850	Cost approach	Depreciated replacement cost

31 December 2021					
In thousand MNT	Fair value	Reasonable change	Sensitivity of input to fair value	Valuation technique	Observable inputs
Financial assets					
Junior RMBS	44,059,005	1%	+/- 440,590	Market value approach	Market price
Senior RMBS	36,628,636	1%	+/- 366,286	Market value approach	Market price
Junior ABS	156,931	1%	+/- 1,569	Market value approach	Market price
Senior RMBS	0	1%	+/- 30,802	Market value approach	Market price
Unquoted equities	118,385	1%	+/- 1,184	Market value approach	Market price
Non-financial assets					
Revalued assets	78,611,482	10%	+/- 7,861,148	Market value approach and cost approach	Market price and depreciated replacement cost
Investment properties	2,364,878	10%	+/- 236,488	Market value approach	Depreciated replacement cost

Movements in fair value measurement within Level 3 during the year are as follows:

In thousand MNT	2022	2021
Junior RMBS		
1 January	44,059,005	37,231,214
Additions	13,837,100	5,305,600
Accrued interest receivables, net	4,189,294	1,522,191
31 December	62,065,399	44,059,005

In thousand MNT	2022	2021
Senior RMBS		
1 January	36,628,636	4,753,243
Additions	124,532,400	50,373,400
Sold	(102,928,900)	(18,940,900)
Accrued interest receivables, net	2,986,834	442,893
31 December	61,218,970	36,628,636

In thousand MNT	2022	2021
Junior ABS		
1 January	156,931	-
Additions	1,459,500	154,400
Sold	-	-
Accrued interest, net	21,973	2,531
31 December	1,638,404	156,931

In thousand MNT	2022	2021
Unquoted equities		
1 January	118,385	119,658
Foreign exchange difference	2,081	(1,273)
31 December	120,466	118,385

In thousand MNT	2022	2021
Senior ABS		
1 January	-	-
Additions	7,262,600	-
Sold	(4,222,600)	-
Accrued interest receivables, net	40,074	-
31 December	3,080,174	-

In thousand MNT	2022	2021
Revalued assets		
1 January	78,611,482	77,737,072
Additions	-	2,447,514
Depreciation charged in profit or loss	(1,725,620)	(1,573,104)
Disposal	(239,353)	-
31 December	76,646,509	78,611,482

In thousand MNT	2022 OH	2021 OH
Investment property		
1 January	2,364,878	-
Additions	-	2,364,878
Revaluation surplus	483,622	-
31 December	2,848,500	2,364,878

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a difference between the two values.

In thousand MNT	31 December 2022	
	Carrying amount	Fair value
Financial assets		
Loans and advances to customers	1,756,886,973	1,854,263,116
Quoted government bonds	68,223,496	68,223,496
Total	1,825,110,469	1,922,486,612
Financial liabilities		
Borrowed funds	234,934,137	234,934,137
Total	234,934,137	234,934,137

In thousand MNT	31 December 2021	
	Carrying amount	Fair value
Financial assets		
Loans and advances to customers	2,071,252,367	2,056,954,538
Quoted government bonds	67,467,667	67,467,667
Senior ABS	318,930	318,930
Total	2,139,038,964	2,124,741,135
Financial liabilities		
Borrowed funds	252,376,321	252,376,321
Total	252,376,321	252,376,321

36 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to Note 37.3 for the Bank's contractual undiscounted repayment obligations.

In thousand MNT	31 December 2022		
	Less than 12 months	More than 12 months	Total
Assets			
Cash and cash equivalents at BoM	726,398,277	-	726,398,277
Due from banks and financial institutions	231,538,852	-	231,538,852
Derivative financial instruments	15,034,433	-	15,034,433
Loans and advances to customers	220,324,444	1,648,302,058	1,868,626,502
Financial assets held for trading	10,896,733	-	10,896,733
Financial assets at fair value through profit or loss	-	128,002,947	128,002,947
Debt instruments at fair value through other comprehensive income	802,911,961	154,859,768	957,771,729
Equity instruments at fair value through other comprehensive income	-	120,466	120,466
Debt instruments at amortized cost	-	68,223,496	68,223,496
Other assets	18,279,807	-	18,279,807
Assets held for sale	12,894,113	-	12,894,113
Investment property	-	2,848,500	2,848,500
Property and equipment	-	118,046,524	118,046,524
Intangible assets	-	5,940,582	5,940,582
Right-of-use assets	-	20,573	20,573
Total assets	2,038,276,620	2,126,364,914	4,164,641,534
Financial liabilities			
Due to other banks and financial institutions	275,314,281	40,218,810	315,533,091

Due to customers	1,849,227,620	900,132,893	2,749,360,513
Repurchase agreements	244,486,683	88,743,530	333,230,213
Derivative financial institutions	2,286,265	-	2,286,265
Borrowed funds	104,437,896	130,496,241	234,934,137
Other liabilities	19,330,649	7,029,831	26,360,480
Lease payables	197,130	-	197,130
Income tax liabilities	1,196,135	-	1,196,135
Deferred tax liabilities	-	5,334,391	5,334,391
Total	2,496,476,659	1,171,995,696	3,668,432,355
Net*	(458,200,039)	954,409,218	496,209,179

In thousand MNT	31 December 2021		Total
	Less than 12 months	More than 12 months	
Assets			
Cash and cash equivalents at BoM	250,920,691	-	250,920,691
Due from banks and financial institutions	28,534,316	-	28,534,316
Derivative financial instruments	759,107	-	759,107
Loans and advances to customers	249,277,745	1,987,869,603	2,237,147,348
Financial assets held for trading	-	7,310,813	7,310,813
Financial assets at fair value through profit or loss	-	80,844,572	80,844,572
Debt instruments at fair value through other comprehensive income	838,882,914	128,432,853	967,315,767
Equity instruments at fair value through other comprehensive income	-	118,385	118,385
Debt instruments at amortized cost	471,197	67,315,400	67,786,597
Other assets	11,280,077	9,986,722	21,266,799
Assets held for sale	6,762,299	-	6,762,299
Investment property	-	2,364,878	2,364,878
Property and equipment	-	115,918,630	115,918,630
Intangible assets	-	5,630,775	5,630,775
Right-of-use assets	53,279	-	53,279
Total assets	1,386,941,625	2,405,792,631	3,792,734,256
Financial liabilities			
Due to other banks and financial institutions	115,673,495	279,304	115,952,799
Due to customers	2,494,486,129	362,311,916	2,856,798,045
Repurchase agreements	153,809,693	-	153,809,693
Derivative financial institutions	1,549,920	-	1,549,920
Borrowed funds	128,950,809	123,425,512	252,376,321
Other liabilities	7,037,031	8,810,945	15,847,976
Lease payables	234,557	-	234,557
Income tax liabilities	4,865,246	-	4,865,246
Deferred tax liabilities	-	2,815,761	2,815,761
Total	2,906,606,860	497,643,438	3,404,250,318
Net*	(1,519,665,255)	1,908,149,193	388,483,938

* Certain classifications of financial assets and liabilities are based on contractual obligations. However, the Bank expects that the majority of its customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the Bank's expected cash flows indicated by the Bank's deposit retention history.

37 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances.

Board Risk Management Committee ("BRMC")

The Board Risk Management Committee assists the Board of Directors in monitoring and controlling the risk exposures of the Bank. The BRMC sets the comprehensive risk management approach and approves the risk strategies and principles that establish the objectives guiding all the Bank's activities and implement the necessary policies and procedures.

Risk Management Committee ("RMC")

RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring operational risk, credit risk and performance, comprehensive risk reporting and management review process. Two levels of risk management committees operate at the bank: the central RMC and the branch level RMC.

Internal audit

Risk management 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 BOD and BRMC.

Executive Management Committee

The Executive Management Committee consists of all the executive management of the Bank. The Committee is responsible for developing internal guidance, policy and procedures on overall risk management, forming internal control system and ensuring uniform performance throughout the bank.

Asset and Liability Committee ("ALCO")

ALCO is responsible for providing centralized asset and liability management of the funding, and efficient management of maturity and interest rate for sustainable growth of the Bank.



The Bank's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management 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 them. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BOD.

Credit committees

It is the credit decision making body of the Bank and operates within clearly defined parameters authorised by an internal policy. The committees have the following main functions:

- Review of the quality, composition and risk profile of the entire credit portfolio on an ongoing basis;
- Approval of limits of credit exposures to each sectors and geographical regions; Approval of credit procedures;
- Approval of credit classification and provisioning;
- Approval of credit applications.,

The Risk Management and Credit policy Department is responsible for ensuring the management and implementation of the Bank's risk policy in all level through its divisions with specific responsibilities defined below:

Operational Risk Management Division

The operational risk management division is responsible for implementing and maintaining risk related policies and procedures to ensure an independent control processes.

The division is responsible for monitoring compliance with operational risk principles, identifying, measuring operational risk exposures and ensuring that contingent commitments are within risk management and reporting system.

Business Risk Division

The main responsibilities of credit risk management division are as follows;

- (i) To conduct credit risk analysis and research;
- (ii) To perform independent risk assessments for credit applications to determine the degree of credit risk involved;
- (iii) To monitor loan portfolio and make recommendations to diversify loan portfolio by sectors and geographical regions;
- (iv) To mitigate risk exposures of the Bank's loan portfolio using various tools.

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BOD, ALCO, Risk Management and Credit Committees, and the head of each business departments. The reports include the aggregate credit exposure, credit metric forecasts, Value-at-Risk (VaR), liquidity ratios and risk profile changes.

Both ALCO and Risk Management Committee receive a comprehensive risk report every quarter which is designed to provide all the necessary information to assess and conclude on the risk exposure of the Bank. Bi-



weekly briefing is presented to the ALCO on the utilisation of market limits, analysis of VaR and liquidity, and any other risk developments.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

37.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by carefully screening credit applications, setting interest rate adjusted for risk level, and setting limits on credit exposures for individual counterparties and industry, and monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process aims to allow the Bank to identify, and assess the potential losses as a result of the risks to which it is exposed and take early corrective actions.

The Bank regularly examines and improves credit policies and procedures to keep its lending activities in line with the best practice.

37.1.1 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to Note 4.4.6).

Increase in credit risk

At each reporting date, The Bank assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Bank use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.



However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Bank use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forbore performing loan or forbore non-performing loan, which is in the probation period (period after cure period), wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikelihood to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- **Relative change in 12-month PD.** A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- **Relative change in lifetime PD.** A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- **Change notches external credit score/ rate.** For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Bank to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forbore loans for which a probation period is used.

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 judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below shows the Bank's rating system and external rating.

Internal rating	Internal rating description	International rating (S&P)
A	Excellent	AAA-A
B	Good	Baa-Ba
C	Substandard	B
D	Doubtful	Caa-C
E	Bad	-
Not rated	Not rated	-
Individually impaired	Individually impaired	-

Collective or individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)

- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Bank considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forbore non-performing exposures.

Modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any Impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forbore loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in Note 4.4.4.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.7.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, MB, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights

to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth/decrease
- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan) *(leave only those indicators that have actually been used)*

37.1.2 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
For mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Bank did not hold any financial instruments for which no loss allowance is recognised because of collateral.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

37.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

37.2.1 Market risk – Trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The Board has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full non-linear VaR model for interest rate, spread, and volatility risk. These calculations are based on Monte-Carlo simulations derived from a variance/covariance

matrix. For the VaR in relation to foreign exchange rates, the Bank uses a variance/covariance model. The equity-specific risk is captured by using a single factor model.

Objectives and limitations of the VaR methodology

The Bank uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from the past five years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VaR models are the following:

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management :

In thousand MNT	Historical Simulation	Monte Carlo Simulation
2022 – 31 December	(554,115)	(560,089)
2022 – Daily average	(287,755)	(283,867)
2022 – The highest	(912,898)	(904,962)
2022 – The lowest	(97,913)	(106,490)
2021 – 31 December	(224,180)	(230,154)
2021 – Daily average	(371,540)	(371,453)
2021 – The highest	(601,772)	(605,992)
2021 – The lowest	(199,645)	(204,929)

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

In thousand MNT	31 December 2022				Total
	MNT	USD	EURO	Other	
Financial assets and financial liabilities by currency					
Assets					
Cash and balances with BoM	513,001,397	188,240,178	5,476,270	21,678,432	728,396,277
Due from banks and financial institutions	196,388,296	29,209,892	991,218	4,949,446	231,538,852
Loans and advances to customers	1,868,283,818	342,684	-	-	1,868,626,502
Financial assets held for trading	10,896,733	-	-	-	10,896,733
Financial assets at fair value through profit or loss	128,002,947	-	-	-	128,002,947
Debt instruments at fair value through other comprehensive income	768,287,505	189,484,224	-	-	957,771,729
Equity instruments at fair value through other comprehensive income	103,350	-	17,116	-	120,466
Debt instruments at amortized cost	68,223,496	-	-	-	68,223,496
Derivative financial instruments	12,785,546	2,248,887	-	-	15,034,433
Other financial assets	7,888,803	127,194	-	288	8,016,285
Total	3,573,861,891	407,653,059	6,484,604	26,628,166	4,014,627,720
Liabilities					
Due to other banks	114,266,585	200,849,324	320,754	98,428	315,533,091
Due to customer	2,550,280,155	170,860,522	5,832,987	22,385,849	2,749,360,513
Other borrowed funds	196,388,492	38,545,645	-	-	234,934,137
Repurchase agreements	253,049,417	80,180,796	-	-	333,230,213
Derivative financial instruments	2,286,265	-	-	-	2,286,265
Lease payables	197,130	-	-	-	197,130
Other financial liabilities	25,499,211	208,416	610	198,793	25,907,030
Total	3,141,967,255	490,644,703	6,154,351	22,682,070	3,661,448,379
Net position	431,894,636	(82,991,644)	330,253	3,946,096	353,179,341

In thousand MNT	31 December 2021				
	MNT	USD	EURO	Other	Total
Financial assets and financial liabilities by currency					
Assets					
Cash and balances with BoM	209,167,524	8,845,131	5,102,584	27,805,442	250,920,691
Due from banks and financial institutions	235	16,456,773	4,688,530	7,388,778	28,534,316
Loans and advances to customers	2,231,652,436	5,494,912	-	-	2,237,147,348
Financial assets held for trading	7,310,813	-	-	-	7,310,813
Financial assets at fair value through profit or loss	80,844,572	-	-	-	80,844,572
Debt instruments at fair value through other comprehensive income	825,556,052	141,759,715	-	-	967,315,767
Equity instruments at fair value through other comprehensive income	103,350	-	15,035	-	118,385
Debt instruments at amortised cost	67,786,597	-	-	-	67,786,597
Derivative financial instruments	-	759,107	-	-	759,107
Other financial assets	318,184	280,080	48,323	-	646,587
Total	3,422,739,763	173,595,718	9,854,482	35,194,220	3,641,384,183
Liabilities					
Due to other banks	96,249,022	9,479,999	529,199	9,694,579	115,952,799
Due to customer	2,703,152,661	123,246,955	8,672,876	21,725,553	2,856,798,045
Other borrowed funds	184,665,990	67,710,331	-	-	252,376,321
Repurchase agreements	87,820,042	65,989,651	-	-	153,809,693
Derivative financial instruments	1,549,920	-	-	-	1,549,920
Lease payables	234,557	-	-	-	234,557
Other financial liabilities	15,447,117	311,052	53,966	35,841	15,847,976
Total	3,089,119,309	266,737,988	9,256,041	31,455,973	3,398,569,311
Net position	333,620,454	(93,142,270)	598,441	3,738,247	244,814,872

37.2.2 Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect bank's profitability, future cash flows or the fair values of financial instruments. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long-term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. Management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit or loss. The sensitivity of the profit or loss 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 2022 and 31 December 2021.

In thousand MNT	Change in basis points	Sensitivity of net interest income	
		2022	2021
Currency			
Euro	+/- 120	613	632
USD	+/- 120	3,394,613	660,229
MNT	+/- 120	5,662,113	3,266,234
Other	+/- 120	136,153	31,953

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is the possibility of financial loss to the Bank arising from adverse movements in foreign exchange rates. The Bank's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis. Apart from using foreign exchange exposure mismatch, the Bank applies Value-at-Risk ("VaR") simulation model to manage and measure foreign exchange risk. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over specified time horizon.

37.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank always holds sufficient amount of liquid assets which is much higher than the level required by the BoM. In addition, the Bank complies with the reserve requirement of 6 percent of customer's MNT deposits and 18 percent of customer's USD deposit based on an average period of two weeks.

In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as of 31 December 2022 based on contractual undiscounted repayment obligations. Refer to Note 36 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. 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.



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Analysis of financial assets and liabilities by remaining contractual maturities

	31 December 2022					Total	
	In thousand MNT	Demand	Less than 3 months	3-6 months	From 6 to 1 year		1-5 years
Cash and balances with BoM	726,396,277	-	-	-	-	-	726,396,277
Due from banks and financial institutions	230,580,502	-	-	-	-	958,350	231,538,852
Loans and advances to customers	124,243,656	281,105,720	400,210,939	503,223,130	798,982,474	291,085,528	2,398,821,447
Financial assets held for trading	-	-	-	-	-	9,876,322	9,876,322
Financial assets at fair value through profit or loss	-	197,069,026	-	-	-	6,806,919	608,835,263
Debt instruments at fair value through other comprehensive income	-	705,086,000	119,252,987	-	-	163,118,111	987,457,079
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	120,466
Debt instruments at amortised cost	-	-	59,877,556	-	12,008,977	-	71,887,533
Derivative financial instruments	-	-	-	15,034,433	-	-	15,034,433
Other financial assets	8,016,285	-	-	-	-	-	8,016,285
Total financial assets	1,089,236,720	1,183,260,746	579,341,483	518,257,563	981,845,832	706,041,633	5,057,983,957
Due to other banks	41,988,834	221,468,871	21,858,625	33,602,993	413,746	-	319,343,068
Due to customers	1,081,918,769	483,199,282	387,112,862	480,751,008	255,929,087	776,615,941	3,465,526,947
Other borrowed funds	-	8,165,464	36,988,364	83,528,591	32,215,072	109,428,066	272,325,557
Lease payables	-	197,130	-	-	-	-	197,130
Repurchase agreements	-	244,687,466	8,715,140,32	82,417,048	7,385	-	335,826,989
Other financial liabilities	5,553,337	20,609,075	-	-	-	-	26,162,413
Derivative financial instruments	-	-	-	2,286,265	-	-	2,286,265
Uncovered bank guarantees	3,057,910	-	-	-	-	-	3,057,910
Letters of credit	90,277	-	-	-	-	-	90,277
Undrawn commitments to lend	4,300,507	-	-	-	-	-	4,300,507
Capital related contingency liabilities	587,686	-	-	-	-	-	587,686
Total financial liabilities	1,137,507,321	978,327,288	456,674,980	882,585,904	288,585,239	886,044,007	4,429,704,750
Net position	48,270,601	(204,933,458)	(122,666,472)	164,328,341	(693,280,593)	180,002,374	(628,279,207)



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Analysis of financial assets and liabilities by remaining contractual; maturities

In thousand MNT	31 December 2021					Total
	Demand	Less than 3 months	3-6 months	From 6 to 1 year	1-5 years	
Cash and balances with BoM	250,865,959	-	-	-	-	250,865,959
Loans and advances to customers	107,394,547	292,891,420	365,811,853	588,455,204	1,174,310,551	2,745,833,439
Due from banks and financial institutions	27,749,344	-	-	-	784,972	28,534,316
Financial assets held for trading	-	-	-	-	-	7,310,813
Financial assets at fair value through profit or loss	-	-	-	-	196,194	236,185,516
Debt instruments at fair value through other comprehensive income	-	828,000,000	-	13,944,660	152,407,267	994,351,927
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	118,385
Debt instruments at amortised cost	-	-	-	471,197	78,603,103	79,074,300
Derivative financial instruments	-	759,107	-	-	-	759,107
Other financial assets	646,587	-	-	-	-	646,587
Total financial assets	386,756,437	1,121,650,527	365,811,853	582,871,061	1,406,302,087	4,343,976,543
Due to other banks	45,700,467	23,646,085	30,485,931	18,078,416	312,657	118,223,556
Due to customers	1,073,251,161	552,498,172	332,465,204	588,107,451	198,414,629	3,117,259,051
Other borrowed funds	-	515,617	27,071,730	133,300,863	28,348,161	86,800,696
Lease payables	-	-	-	254,748	-	254,748
Repurchase agreements	153,809,693	-	-	-	-	153,809,693
Other financial liabilities	8,331,600	7,037,031	-	-	-	15,368,631
Derivative financial instruments	-	1,549,920	-	-	-	1,549,920
Uncovered bank guarantees	3,341,729	-	-	-	-	3,341,729
Letters of credit	593,238	-	-	-	-	593,238
Undrawn commitments to lend	10,148,186	-	-	-	-	10,148,186
Capital related contingency liabilities	1,779,543	-	-	-	-	1,779,543
Total financial liabilities	1,296,955,617	585,246,825	390,023,865	739,741,478	227,075,447	3,698,365,352
Net position	910,199,180	(536,403,702)	24,212,012	156,870,417	(1,179,226,640)	(645,611,191)

37.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the <Risk Management department, Board, Executive Management, other>. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Mongolia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

38 Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM. The Bank complied in full with the capital requirements set by the regulatory body.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Mongolia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Mongolia and accounting standards of Mongolia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2022 and 2021 the amount of total capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Mongolia are provided below.

In thousand MNT	2022	2021
Core capital adequacy ratio	23.9%	15.3%
Risk-weighted capital ratio	23.9%	15.3%
In thousand MNT		
Tier I capital		
Ordinary shares	188,774,063	178,000,000
Additional paid capital in ordinary shares	14,652,725	-
Other reserves	693,669	693,669
Retained earnings	278,566,612	181,115,728
Adjustment for IFRS and BoM difference*	(18,730,946)	(18,665,389)
Total Tier 1 capital	463,956,123	341,144,006
Tier II capital		
Revaluation surplus	-	-
Subordinated loan	-	-
Total Tier II capital	-	-
Total capital / capital base	463,956,123	341,144,006

*Regulatory adjustments represent mainly the difference between the provisioning requirement under the BOM regulation and the ECL requirement under IFRS. The difference is being adjusted for in the calculation of the capital ratios in accordance to the regulatory requirement.

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December was as follows:

In thousand MNT	2022		2021	
	Assets	Weighted	Assets	Weighted
%				
0	1,716,285,537	-	1,214,180,617	-
20	225,114,450	45,022,890	19,226,416	3,845,083
50	482,167,902	241,083,951	471,495,586	235,747,793
70	-	-	-	-
80	-	-	-	-
90	-	-	-	-
100	1,520,433,731	1,520,433,731	1,882,074,432	1,882,074,432
120	-	-	-	-
150	36,184,877	54,277,316	28,602,097	42,903,146
200	1,613,900	3,227,800	-	-
Adjustments:				
Allowance for spread of portfolio	-	-	-	(2,803,684)
Operational risk ratio	-	35,198,680	-	33,708,759
Foreign exchange risk ratio	-	38,179,132	-	37,437,829
Total	3,981,800,396	1,937,423,499	3,615,578,148	2,232,913,358

39 Segment reporting

Operating segments

The Bank is organised on the basis of three main operating segments. These operating segments are monitored, and strategic decisions are made on the basis of segment operating results.

Retail banking representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Transactions between the business segments are (on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital.) There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

In thousand MNT	31 December 2022			
	Individuals	Business	Capital Regulatory Body	Total
Interest income calculated using the effective interest method	280,242,053	17,699,846	106,824,235	404,766,134
Interest and similar income	163,785	-	-	163,785
Interest and similar expenses	(105,497,584)	(4,648,623)	(72,713,416)	(182,859,623)
Net interest income	174,908,254	13,051,223	34,110,819	222,070,296
Fee and commission income	32,289,174	1,823,342	20,002	34,132,518
Fee and commission expense	(7,212,890)	(1,159,693)	(455,831)	(8,828,414)
Net fee and commission income	25,076,284	663,649	(435,828)	25,304,105
Net trading income	6,082,099	350,586	7,028,918	13,461,603
Other operating (expense)/income	(2,360,648)	652,878	(851,536)	(2,559,306)
Credit loss income/expense on financial assets	13,631,746	(9,999,759)	525,806	4,157,793
Operating expenses	(126,468,642)	(10,773,071)	(1,039,158)	(138,280,871)
Profit (loss) before tax	90,869,093	(6,054,494)	39,339,021	124,153,620
Income tax expense	(19,637,520)	1,280,212	(8,501,469)	(26,858,777)
Profit for the year	71,231,573	(4,774,282)	30,837,552	97,294,843
Total assets	2,520,388,136	263,670,045	1,380,583,353	4,164,641,534
Total liabilities	2,172,611,173	196,070,883	1,299,750,299	3,668,432,355

In thousand MNT	31 December 2021			Total
	Individuals	Business	Capital Regulatory Body	
Interest income calculated using the effective interest method	265,401,962	18,734,491	79,363,735	363,500,187
Interest and similar income	16,804,118	365,384	4,804,139	21,973,641
Interest and similar expenses	(119,723,081)	(6,172,213)	(84,745,227)	(190,640,521)
Net interest income	162,482,999	12,927,662	19,422,646	194,833,308
Fee and commission income	27,543,249	1,498,991	13,367	29,053,607
Fee and commission expense	(5,375,678)	(876,742)	(466,211)	(6,718,631)
Net fee and commission income	22,167,571	620,249	(452,844)	22,334,976
Net trading income	1,932,915	83,265	1,990,461	4,006,641
Other operating (expense)/income	(12,805,534)	(3,789,569)	(946,650)	(17,541,753)
Credit loss income/expense on financial assets	(29,205,161)	(1,612,543)	(1,195,187)	(32,012,890)
Operating expenses	(101,273,398)	(8,272,085)	(1,059,940)	(110,605,423)
Profit (loss) before tax	43,299,392	(43,019)	17,758,486	61,014,859
Income tax expense	(10,834,468)	10,764	(4,443,567)	(15,267,271)
Profit for the year	32,464,924	(32,255)	13,314,919	45,747,588
Total assets	2,497,313,653	171,047,460	1,124,373,142	3,792,734,256
Total liabilities	2,242,051,521	111,873,718	1,050,325,078	3,404,250,318

40 Events after the reporting period

The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact on the world economy. United States and European countries have imposed severe sanctions against Russia. Western powers are discussing widening existing sanctions. Russia is the main trading partner of Mongolia, hence sanctions imposed as of now as well as escalation of those sanctions could have a drastical effect on the economy and financial markets of Mongolia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold.

The management considers that no adjusting or significant non-adjusting events have occurred since the reporting date.

41 Translation

These financial statements are prepared and submitted both in Mongolian and English languages. In the event of discrepancies between the Mongolian and English versions, the Mongolian version shall prevail.

42 Authorisation of financial statements



Chief Executive Officer
U. Gantur

Director of Financial Department
M. Gantuya