TRADE & DEVELOPMENT BANK

ANNUAL REPORT 2022

GENERAL OVERVIEW

BUSINESS OPERATIONS

GREETINGS FROM THE CEO

We, Trade and Development Bank of Mongolia ("TDBM"), is the Best Corporate Bank in Mongolia, serve with the vision to be the driving force behind the development and prosperity of Mongolia. With a rich legacy as the oldest commercial bank, we have forged unbreakable bonds with the trailblazers of progress – the nation's esteemed large corporates. For over 30 years, we have been at the forefront of the corporate banking market, fueling their ventures with strategic financing solutions and serving as a vital link to the global market.

For instance, we are collaborating with more than 3,000 prominent organizations, facilitating access to over 50 different corporate banking products. In 2022 alone, we disbursed and extended loans to corporate clients in various sectors, accounting for approximately 43% of the total loan portfolio of the banking sector.

Furthermore, 94 out of Top 100 National Business Entities were our clients with long-lasting and trustworthy relationships over the years, as were being listed and recognized by the Government of Mongolia and the Mongolian National Chamber of Commerce and Industry.

For example, in trade finance, one of our products offered to our corporate clients, we had seen significant growth in total amount of letter of credit and guarantee issuance increased over the years 2018 to 2022, which has seen a consistent annual increase of 14%, reaching MNT 1.1 trillion in 2022.

As of 2022, total outstanding balance of foreign funding secured from 38 internationally recognized banks and financial institutions amounted to USD 271 million. In addition to this, by becoming an Accredited Entity of the Green Climate Fund (GCF) in 2020, the world's largest fund for climate and green finance, we aim to attract co-financing of up to USD 250 million from the GCF as well as Multilateral Development Banks (MDBs) and International Development Financial Institutions (IDFIs) per national projects and programs designed to mitigate and/or adapt to the challenges posed by climate change.

TDBM consistently supports Small and Medium-sized Enterprises (SMEs), which are the mainstay of Mongolia's economy, and our cooperative approach aims to elevate these enterprises to the corporate segment by enhancing their access to finance, offering comprehensive financial education, and providing expert guidance on various corporate matters through our vast resources For instance, in 2022 alone, 494 SMEs that have maintained a long-standing partnership with TDBM have flourished and transformed into thriving large enterprises, ultimately becoming valued clients of our corporate banking services. This achievement has contributed significantly to the expansion of large corporations in Mongolia, empowering the nation's economic landscape. We remain dedicated to nurturing SMEs, playing a pivotal role in their journey to success, and continuing to strengthen Mongolia's business ecosystem for the benefit of all.

Moreover, as part of our strategic plan to achieve substantial growth in the retail market, we have consistently undertaken pioneering initiatives, introducing innovative products and services that have redefined the market landscape. One of our notable achievements was the launch of the exclusive "BRITTO" Visa card in collaboration with the globally renowned artist, Romero Britto, whom we have proudly secured the official licensing of his artwork for our payment card design, bringing a refreshing burst of creativity to the banking sector of Mongolia. In collaboration with more than 200 Mongolian corporations, introduction of "BRITTO" Visa card and various incentive program, altogether increased TDBM's share in the Visa card market from 14 percent to 25 percent in 2022 and resulted in successful "BRITTO cashback" trend campaign.

In addition, we have initiated the "Mongolians with Savings" campaign with the aim to support financial education of citizens and help them to create and preserve savings deposits, as a result of which over 500,000 people have participated in the campaign and have cultivated the habit of saving money.

As the Best Corporate Bank and the Best International Bank in Mongolia, we will continuously work towards implementing a comprehensive strategy to expand our reach to catering SME and retail markets, by aiming to unlock new avenues for progress and prosperity, ensuring that we remain at the forefront of the financial landscape in Mongolia.

Sincere regards,
ORKHON Onon
Chief Executive Officer

MANAGEMENT TEAM

ORKHON O.
Chief Executive Officer

RAHN WOOD
President

BANZRAGCH O.
First Deputy Chief Executive Officer

ENKHMEND A.
First Deputy Chief Executive Officer

STEPHANE LAMOUREUX
First Deputy Chief Executive Officer

SOLONGO CH.
Deputy Chief Executive Officer

GANTSETSEG G.
Deputy Chief Executive Officer

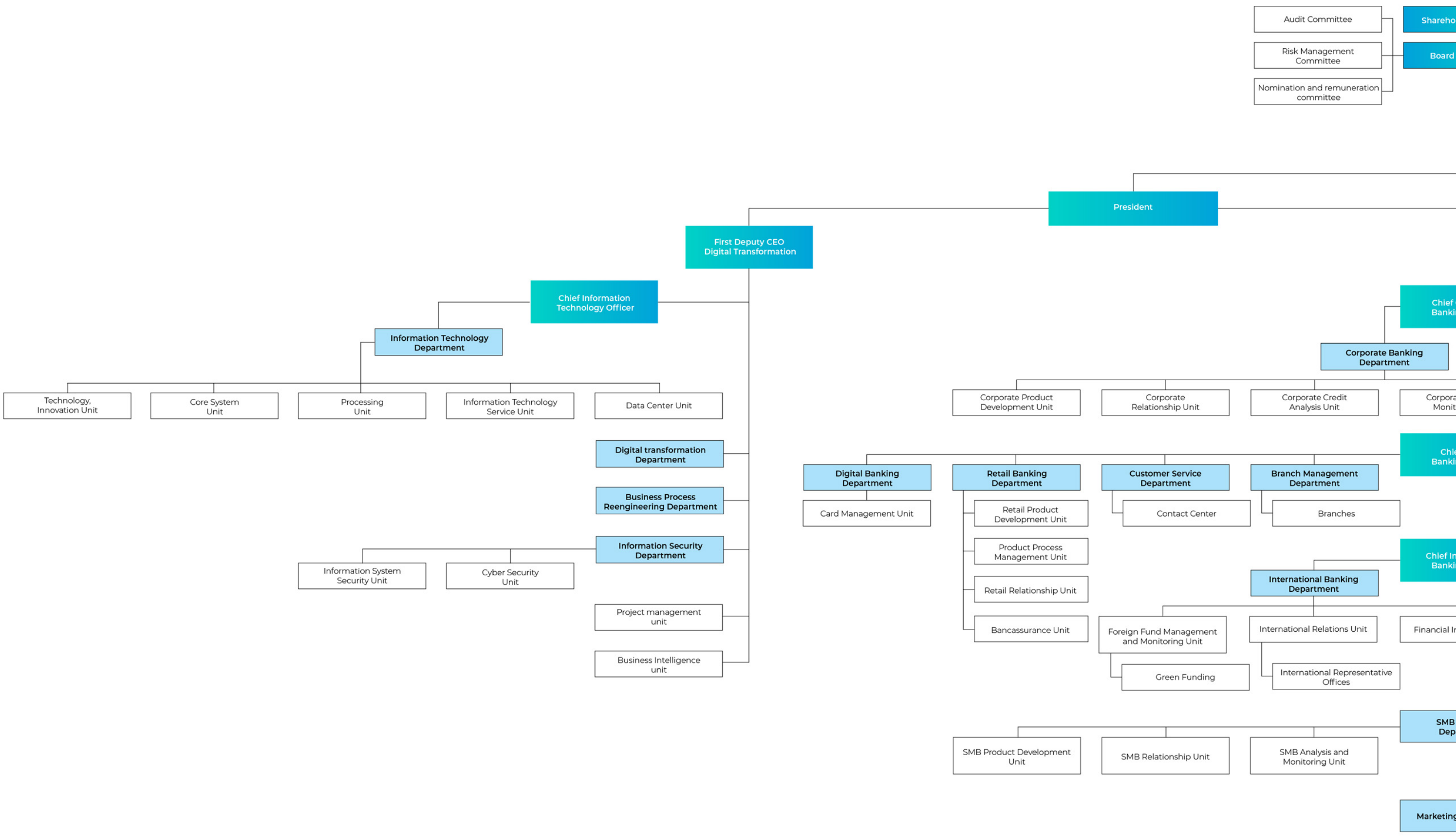
С.БААТАР
Deputy Chief Executive Officer

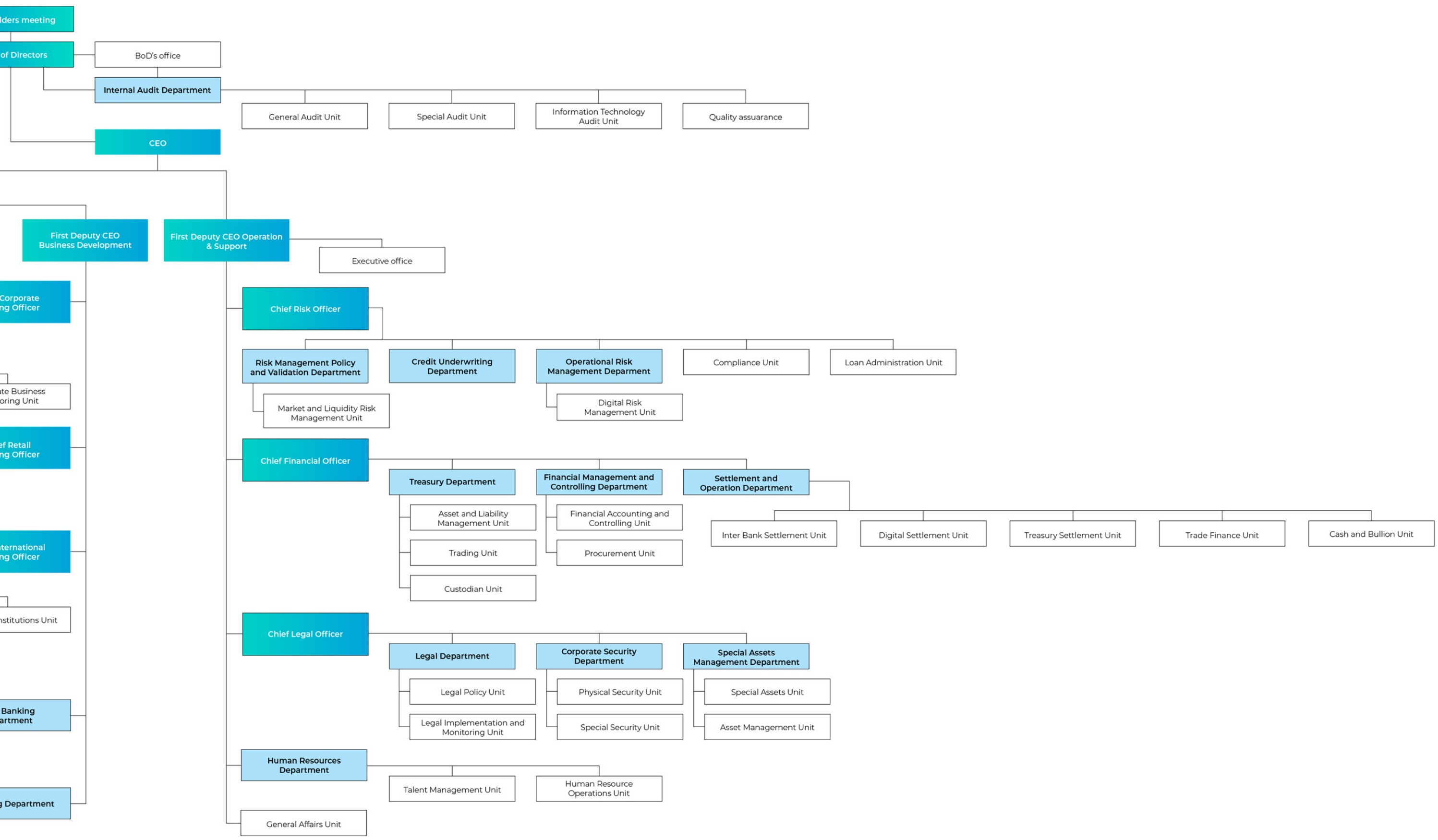
GANBAYAR TS.
Deputy Chief Executive Officer

GANGTUMUR L.
Deputy Chief Executive Officer

MUNKHNAST P.
Deputy Chief Executive Officer

ORGANIZATIONAL STRUCTURE





lders meeting
of Directors
BoD's office
Internal Audit Department
General Audit Unit
Special Audit Unit
Information Technology Audit Unit
Quality assuarance
CEO
First Deputy CEO Business Development
First Deputy CEO Operation & Support
Executive office
Corporate
ng Officer
te Business
oring Unit
ef Retail
ng Officer
nternational
ng Officer
nstitutions Unit
Banking
artment
g Department
Chief Risk Officer
Risk Management Policy and Validation Department
Credit Underwriting Department
Operational Risk Management Deparment
Compliance Unit
Loan Administration Unit
Market and Liquidity Risk Management Unit
Digital Risk Management Unit
Chief Financial Officer
Treasury Department
Financial Management and Controlling Department
Settlement and Operation Department
Asset and Liability Management Unit
Trading Unit
Custodian Unit
Financial Accounting and Controlling Unit
Procurement Unit
Inter Bank Settlement Unit
Digital Settlement Unit
Treasury Settlement Unit
Trade Finance Unit
Cash and Bullion Unit
Chief Legal Officer
Legal Department
Corporate Security Department
Special Assets Management Department
Legal Policy Unit
Legal Implementation and Monitoring Unit
Physical Security Unit
Special Security Unit
Special Assets Unit
Asset Management Unit
Human Resources Department
Talent Management Unit
Human Resource Operations Unit
General Affairs Unit

TOGETHER TOWARDS SUSTAINABILITY

TRADE & DEVELOPMENT BANK

TDBM's logo was designed based on a shape of a coin, a monetary unit, symbolizing infinitely flowing wealth towards the money chest from cardinal directions with infinite circulation of money to grow and accumulate wealth and treasure in abundance.

MOTTO

TOGETHER TOWARDS PROSPERITY

The slogan of the Bank calls upon, unifies and inspires employees, customers and investors to walk towards the development and prosperity together

TOGETHER TOWARDS SUSTAINABILITY

It is a definition of sustainable development that encourages banks, customers, partners and the country to join forces for a common goal of enabling "development that meets the needs of the present [society] without compromising the ability of future generations to meet their own needs", as defined in the 1987 Brundtland (also known as 'Our Common Future') report of the World Commission on Environment and Development.

MISSION

We are committed to provide comprehensive financial services that exceed customer expectations, empowered by innovative technology to enable them to realize their ambitions and aspirations.

VISION

To be the leading bank for prosperity in developing Mongolia.

CORE VALUES

Бидний харилцагч	Үнэлэмжтэй	Төгс төгөлдөр	Эгнэгт нээлттэй	Эвсэг баг	Гүйцэтгэл төгс	Чин хүндлэл
Б	Ү	Т	Э	Э	Г	Ч
C	R	E	A	T	O	R
Customer centric	Recognition	Excellence	Accessible	Teamwork	Outperforming	Respect

CORPORATE GOVERNANCE

Excellence in corporate governance serves as a cornerstone of corporate sustainability, and at TDBM, we wholeheartedly embrace and foster a robust governance framework aligned with best international standards. Our governance structure establishes vital relationships among the members of the Representative Governing Board ("RGB"), the management team, shareholders, and other stakeholders. It also outlines the ethical principles that guide every employee towards achieving our corporate strategies and objectives.

REPRESENTATIVE GOVERNING BOARD ("RGB")

Our RGB upholds the core principles of transparency and integrity across all levels. Through well-defined processes, we ensure transparent and open governance, fostering effective communication in all situations. Additionally, the board plays a pivotal role in providing visionary guidance and strategic direction to effectively lead and support our banking operations.

MANAGEMENT TEAM

Management team at TDBM comprises exceptionally skilled banking and finance professionals. With a robust corporate governance structure and a wealth of experience, our management team's success is underpinned by these key factors. These attributes not only facilitate our ability to ensure the long-term profitability of the bank but also enable us to enhance shareholder value.

EMPLOYEES

At the heart of TDBM's success lies our dynamic and highly skilled workforce. By enhancing our developmental framework, which includes fair incentives, support, and opportunities for growth, we empower our employees to provide unparalleled services to our valued clients.

US

TDBM is strongly devoted to upholding an ethical work environment, unwaveringly adhering to legal and ethical obligations. Integrity is the cornerstone of our approach as we serve our customers, clients, and communities, ensuring the provision of top-notch services and fulfilling our responsibilities to our valued shareholders and clients.

PURPOSE OF CORPORATE GOVERNANCE

Our purpose is to enhance corporate governance by aligning it with international best practices and principles, striving to achieve international recognition and a stellar reputation, to raise valuable investments and attract funding.

REPRESENTATIVE GOVERNING BOARD

CHAIRMAN

Randolph KOPPA

MEMBERS

ERDENEBILEG Doljin
KHURELBAATAR Dambiijav
YANJMAA Dagmid

INDEPENDENT MEMBERS

BOLORMAA Jalbaa
DELGERSAIKHAN Jamsrandorj

SECRETARY OF THE BOARD

NYAMSUREN Navaansharav

INTERNAL AUDIT AND INTERNAL CONTROL SYSTEM

Internal audit enhances an organization's performance by conducting independent evaluations of the effectiveness of governance, risk management, and monitoring. TDBM's internal auditing operations are overseen by the Audit Committee, and the Internal Audit Department, which operates under the supervision of the Representative Governing Board.

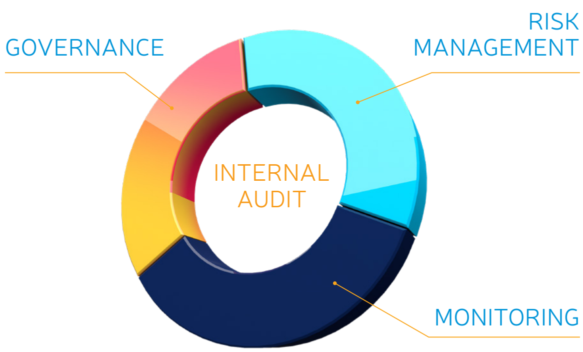
INTERNAL AUDIT DEPARTMENT

Internal Audit Department, operating independently from the Executive Management, is dedicated to providing sound advice and guidance to enhance the bank's operations, offering independent and objective assurance to add value. They adhere to international best practices, such as the International Professional Practice Framework issued by the International Institute of Internal Auditors (IIA).

In the reporting year:

- Audit verification services were conducted at a competent level and successfully accomplished the plan approved by Representative Governing Board and the Audit Committee with an 89 percent completion rate;
- Within the framework of implementing "Quality Assurance and Improvement Program", Internal Audit department has developed Methodology of Ongoing Monitoring, in order to access the internal audit activity and its performances;
- New guidelines and procedures for Human Resources Audit activities were successfully developed, obtaining approval from both the Representative governing Board and Audit Committee, and integrated into operational processes.

For the upcoming reporting year, the Internal Audit Department aims to uphold its primary responsibilities while also taking on new and more comprehensive audits. We plan to initiate continuous audit activities, conduct internal quality assurance assessments, and maintain a strong focus on ensuring the quality control of our audit work. Additionally, we will actively prepare for second-party quality assurance assessments and strive to increase the number of employees with international qualification degrees.



INTERNAL CONTROL SYSTEM

Internal control plays a vital role in Bank's day-to-day operations, serving as a risk mitigation system across all levels of business and operations. Participation in the evaluation of the effectiveness and efficiency of internal control is not only limited to Audit Committee and the Internal Audit Department but also involves the active engagement of the senior management, mid-level management, employees, and stakeholders. TDBM is committed to continuously enhancing its internal control system. Notably, all units of the bank adhere to the "Internal Control Matrix" approved by the CEO. This matrix encompasses provisions related to internal audit in guidelines and regulations, establishes controlling and monitoring functions in employee job descriptions, and assigns special roles or vacancies with monitoring responsibilities and a reporting system.

MONGOLIAN ECONOMIC OVERVIEW

THE YEAR 2022 SERVED AS A STARK REMINDER OF THE MONGOLIAN ECONOMY'S HIGH DEPENDENCY ON EXTERNAL FACTORS, MAKING IT VULNERABLE TO FLUCTUATIONS IN THE GLOBAL ENVIRONMENT

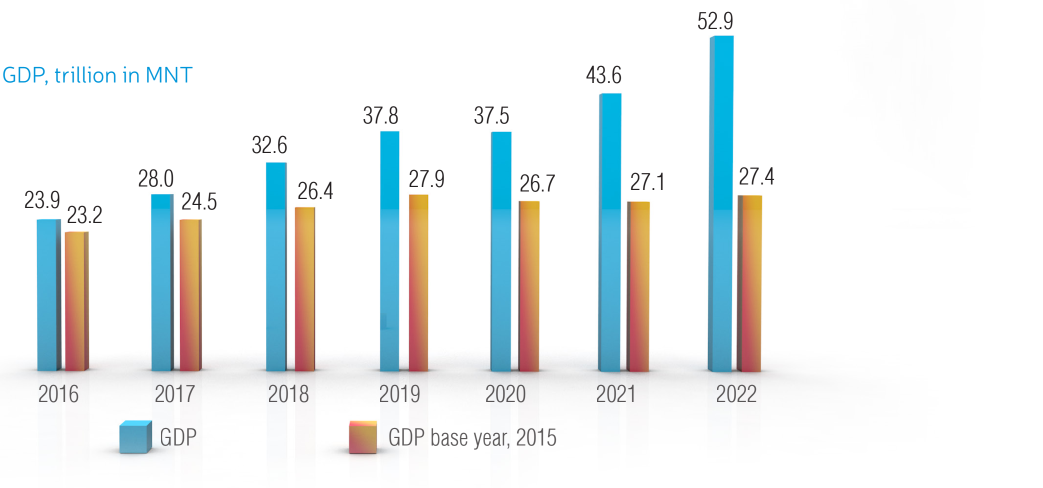
In the reporting year, the Gross Domestic Product (GDP) at current prices reached MNT 52.9 trillion, exhibiting a substantial increase of MNT 9.3 trillion (21.4%) compared to the previous period. When assessing GDP at constant prices in 2015, it experienced a noteworthy rise of MNT 1.3 trillion (4.8%) from the previous year, and the seasonally adjusted GDP (at constant prices in 2015) displayed a commendable 3.2% growth in the fourth quarter of 2022.

The overall growth of GDP was propelled by diverse sectors, with the mining and quarrying sector contributing 1.6%, the service sector adding 2.6%, the increase in net tax on products accounting for 1.4%, and the agriculture sector contributing 1.7% .

However, it is important to note that the mining and quarrying sector witnessed a slight decline of 1.6%, primarily attributable to a significant 26.9% reduction in the extraction of iron ore concentrate and a 45.0% decline in crude oil extraction compared to the previous year.

The economic landscape faced challenges during this period, including the negative impact of the COVID-19 pandemic, geopolitical tensions between Russia and Ukraine, currency depreciation, and high inflation. These factors were compounded by the rise in fuel and food prices, transportation and logistics barriers, a decrease in coal export income, and complexities in the balance of payments.

GDP, trillion in MNT



OYU TOLGOI'S DEBT WAIVE, AND THE COMMENCEMENT OF THE UNDERGROUND MINE HAS BEEN THE HIGHLIGHT OF THE YEAR

Mongolia's debt obligation of USD 2.3 billion for the Oyu Tolgoi project has been fully waived, signifying a major accomplishment. This milestone has paved the way for the commencement of the underground mining operations. On 25th January 2022, the Oyu Tolgoi underground mining project celebrated the official first blast start the initial stage of Oyu Tolgoi's underground mine development

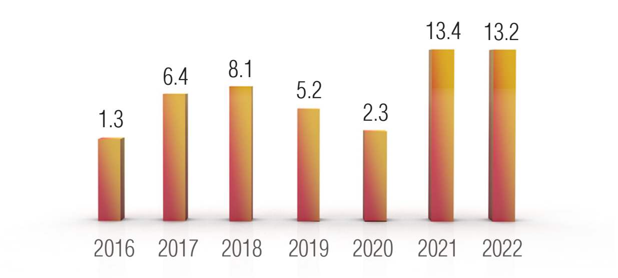
The economy of the subsequent year has a positive outlook as the operation of the Oyu Tolgoi underground mine is expected to be operating smoothly in the first half of the year, with an estimated sale of USD 5 billion, and the royalty for mineral deposits of strategic importance is expected to triple by reaching MNT 700 billion per year according to preliminary estimation.

"HIGHLIGHTS OF THE ECONOMY"

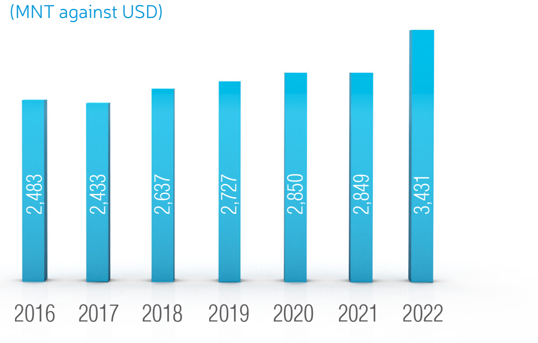
Gas Pipeline Project Acceleration: During the Presidential state visit of Khurelsukh Ukhnaa, President of Mongolia to China, the two countries issued a joint statement, confirming the active advancement of the natural gas pipeline project connecting Russia and China through Mongolia. This official confirmation marks a significant milestone for the project. The proposed gas pipeline will traverse Mongolia, passing through 6 aimags and 23 soums, covering a total distance of 962.9 km. It is designed with a capacity of 50 billion cubic meters of gas per year, and the gas pipeline will be placed at a depth of 1.5-1.8 meters from the surface with a diameter of 1,420 mm.

- Rising Inflation: In 2022, the inflation rate surged to an annual average of 14.5 percent, reaching 13.2 percent in December 2022, the highest level witnessed in the past 5 years.
- Declining Credit Growth: Since the beginning of the year, the banking system has experienced a rapid decrease in potential sources of credit, attributed to the balance of payments deficit. Additionally, market uncertainty, heightened risks, and the ongoing process of transforming into an open joint-stock company have contributed to the stabilization of outstanding loans in recent months.

Annual Inflation, %



Exchange rate
(MNT against USD)



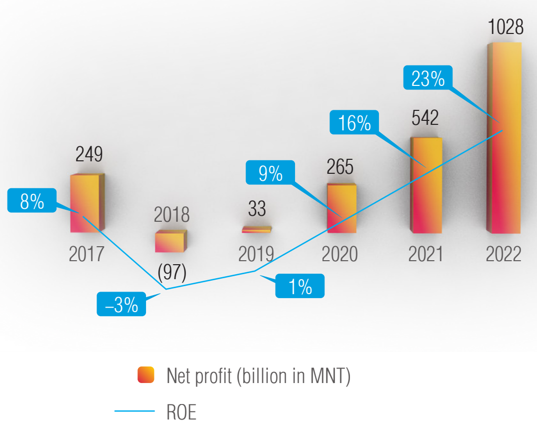
BANKING SECTOR

Given that the banking sector dominates our economy's market structure, its health and stability serve as crucial indicators of the overall financial system. In the reporting year, the banking sector's total assets witnessed an increase of 12.3 percent, reaching MNT 46.0 trillion. Notably, the majority of the banking sector's total assets were attributed to corporate and retail loan portfolios of banks

LOANS

As of 2022, the total loan portfolio of banks accounted for 47.2 percent of the banking sector's total assets, reaching MNT 21.7 trillion. This marked a 6.7 percent increase of MNT 1.4 trillion compared to the previous year. Total loan portfolio showed a slight slowdown of 2.5 percentage points; however, retail loan portfolio had a positive impact compared to 2021.

At the end of the reporting year, 7.8 percent of the total loan portfolio of the banking system was classified as non-performing, while 5.2 percent was categorized as special mention. Notably, certain economic sectors, such as mining (31.3 percent), manufacturing (21.5 percent), and construction (21.3 percent), exhibited higher non-performing loan ratios compared to the average of the banking sector. On the other hand, the real estate (3.8 percent) and trading (4.8 percent) sector loan portfolios displayed significantly lower non-performing loan ratios than the average.



CUSTOMER DEPOSITS

In the reporting year, customer deposits held by banks constituted 70% of the total liabilities of the banking sector, amounting to MNT 28.7 trillion. This marked a 6.7 percent increase compared to the previous year. However, the growth rate experienced a decline of 7.1 percentage points compared to the previous year.

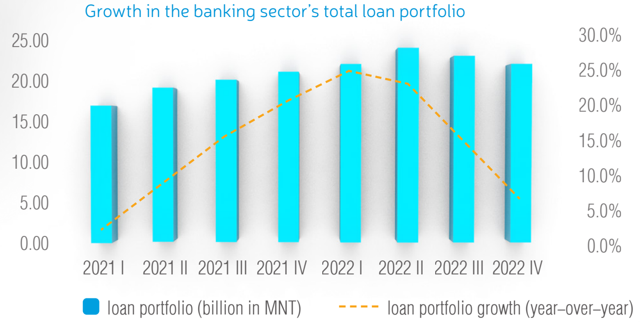
One of the main contributing factors to this slowdown was the reduction in the total balance of term deposits, which decreased by 8.0 percent to reach MNT 17.4 trillion. This decrease was primarily attributed to a drop in local currency term deposits from retail customers.

Conversely, the total balance of current accounts experienced significant growth, reaching MNT 11.3 trillion, which represents a 41.4 percent increase of MNT 3.3 trillion compared to last year. This growth was mainly driven by the increase in the balance of foreign currency current accounts from corporate customers

PROFITABILITY

In 2022, the banking sector reached a profit of MNT 1,028 billion, marking an impressive growth of 89.7 percent compared to the previous year. This remarkable improvement in profitability can be attributed to the recovery of the economy as the adverse effects of the pandemic subsided. As a result, the banking sector's risk-bearing capacity has also strengthened, thanks to increased profitability and capitalization of banks.

Growth in the banking sector's total loan portfolio



HIGHLIGHTS

TDBM successfully launched loan products secured by Export Letter of Credit and its corporate package products and services

Received the "Best Corporate Bank" award from Asiamoney

TDBM Served as the main sponsor of the "Forbes Mongolia Women's Summit 2022" forum

TDBM signed an agreement with DBS Bank of Singapore to open a Nostro account

TDBM has replenished its EUR Nostro account to enhance cooperation with Bankinter bank of Spain in the trade finance field. This account will be utilized for foreign settlement transactions to Spain

Collaborated with graduate students from the University of Edinburgh based in Scotland, on a Carbon and Environmental consulting project, aiming to develop guidelines for TDBM's transformation into a "Green Bank" and the issuance of its inaugural "Sustainability Report"

TDBM enhanced the terms and conditions of its EUR nostro account at Bayerische Landesbank of Germany, enabling the bank to provide more favorable payment conditions to its customers

TDBM established an MNT Loro account, as per the request of Crown Agents Bank, to facilitate foreign exchange and settlement transactions to the United Kingdom

Collaborated with the Mongolian Sustainable Finance Association, to implement the Readiness program on "Upscaling sustainable and green finance practices in Mongolia" approved by the Green Climate Fund.

Received the esteemed "Leadership in Gender Equality" award, a first-time honor presented by the Mongolian Sustainable Finance Association, the Bank of Mongolia, and the Financial Regulatory Commission.

HIGHLIGHTS

Received the "Best Bank for Environmental, Social, and Corporate Governance (ESG)" and "Best Bank for Corporate Social Responsibility (CSR)" awards from Asiamoney

Teamed up with UB Smart Card LLC to facilitate the payment of public transportation and bus fares using bank cards

Enhanced the TDBM Online service by upgrading its system architecture, resulting in increased load capacity and improved operating speed for the mobile application

Partnered with Visa International to introduce innovative services to the Mongolian market, including Visa Direct for international money transfers and Visa B2B for seamless enterprise transactions

Implemented advanced features in ATMs to enable interbank non-cash transactions and facilitate foreign currency converted non-cash transactions within the Bank

Hosted the inaugural Britto Cup - 2022, a football championship, with participation from 15 esteemed partner organizations

Launched the Britto Einstein card as the latest addition to the Britto card series, allowing customers to conveniently pre-order the card online for the first time in Mongolia

Formed a partnership with Golomt Bank, offering card-holding customers the convenience of conducting cash transactions at each other's ATMs with minimal fees

Introduced the Merchant Present Mode (MPM) for merchants accepting payments via QR codes displayed on the cash register screen and e-commerce merchants conducting transactions on WeChat.

Teamed up with UB Smart Card LLC to re-engineer and co-develop the processes for ordering payment cards and making payments, transitioning them into fully electronic and user-friendly procedures

Collaborated with MongolChat LLC to introduce an e-wallet feature in the user application of GS25 Mongolia, offering customers an expanded range of services for added convenience

FINANCIAL SUMMARY

Balance Sheet

MNT in billion

Assets	2020	2021	2022
Cash and balances with Bank of Mongolia	857.0	976.4	1,756.2
Due from other banks and financial institutions	570.0	504.4	767.1
Financial investment	1,712.0	2,602.6	1,669.9
Investment in associates	40.8	0.5	0.9
Derivative financial instruments	89.4	101.6	265.4
Loans and advances to customers	4,108.7	4,588.5	4,137.2
Other assets	112.7	200.1	466.0
Investment property	149.0	79.9	80.0
Assets held for sale	4.1	3.6	24.7
Property and equipment	458.6	480.8	470.6
Right-of-use assets	10.1	7.9	15.4
Intangible assets	4.4	2.3	1.4
TOTAL ASSETS	8,116.8	9,548.7	9,654.8

Liabilities	2020	2021	2022
Due to other banks and financial institutions	102.9	13.9	33.1
Repurchase agreements	224.3	289.8	316.8
Due to customers	5,311.5	6,266.3	6,207.3
Үүсмэл санхүүгийн хэрэглүүр	99.7	78.0	166.2
Санхүүгийн байгууллагаас авсан зээл	558.7	1,408.7	1,418.8
Debt securities issued	160.1	160.1	-
Other liabilities	628.4	289.1	260.5
Lease liabilities	11.4	9.0	15.9
Income tax liabilities	0.1	12.5	55.7
Deferred tax liabilities	2.2	1.0	2.5
TOTAL LIABILITIES	7,099.3	8,528.6	8,476.8

EQUITY	2020	2021	2022
Share capital	72.7	323.8	323.8
Share premium	251.1	-	-
Revaluation reserves	169.0	151.2	145.7
AFS reserve	24.1	4.4	3.0
Other reserves		54.6	110.2
Retained earnings	500.6	486.2	595.3
TOTAL EQUITY	1,017.5	1,020.1	1,178.0
TOTAL LIABILITIES AND EQUITY	8,116.8	9,548.7	9,654.8

FINANCIAL SUMMARY

STATEMENT OF INCOME

	2020	2021	2022
Interest income	707.9	597.1	674.1
Interest expense	(506.2)	(405.6)	(354.5)
Net interest income	201.7	191.5	319.6
Net fee and commission income	39.4	44.4	50.4
Other operating income/(expense), Net	(5.7)	(13.4)	13.9
Non-interest income	33.7	31.0	64.4
Total operating income	235.4	222.5	384.0
Operating expense	(131.6)	(130.9)	(172.8)
Credit loss reversal	(64.7)	57.7	28.3
Share of profit/(loss) of an associate	(14.5)	(28.7)	0.4
Profit before tax	24.6	120.5	239.9
Income tax expense	(3.6)	(15.7)	(45.7)
Profit for the year	21.0	104.8	194.2

FINANCIAL RATIOS

Profitability	2020	2021	2022
Cost to income ratio	55.9%	58.8%	45.0%
Net interest margin	3.5%	2.9%	4.4%
Return on equity	2.1%	10.3%	16.5%
Return on assets	0.3%	1.1%	2.0%
Growth ratios	2020	2021	2022
Asset growth	3.7%	0.0%	1.1%
Loan portfolio growth	17.3%	0.0%	-9.8%
Total deposits growth	39.0%	0.0%	-0.9%
Equity growth	44.6%	0.0%	15.5%
Asset quality	2020	2021	2022
Loan to deposit ratio	73.2%	73.2%	66.7%
Loan to asset ratio	48.1%	48.1%	42.9%
Liquidity ratio	39.3%	40.6%	43.4%
Capital adequacy	2020	2021	2022
Tier 1 capital adequacy ratio	14.8%	13.0%	15.2%
Capital adequacy ratio	16.4%	13.0%	15.2%

HUMAN RESOURCE MANAGEMENT

Aligned with the Bank's strategic vision, we have developed a long-term human resource strategy plan to attract, develop, and retain qualified and skilled employees. Our comprehensive human resource management approach is geared towards enhancing productivity and optimizing human resources by fostering employee satisfaction and engagement.

In the past reporting year, we welcomed approximately 500 new employees to our dedicated team, expanding our workforce to over 2,200 skilled professionals. The average age of our employees stands at 31, and we are committed to retaining the positions for more than 200 employees currently on maternity leave, ensuring their seamless return to the workplace.

500+ New employees

31 Average age of employees

FEMALE

Promoted Employees - **64%**

Employees with Lateral Career Moves - **70%**

Employees with International qualifications - **38%**

With repetitive numbers taken into account, it was found that 64% of the promoted employees, 70% of those making lateral career transitions, and 38% of internationally qualified employees were female.

GOOD WORKPLACE FOR THE CAREER PROGRESSION OF WOMEN

GOOD WORKPLACE AWARDS 2022

TDBM WAS HONORED WITH THE "BEST ORGANIZATION FOR PROMOTING WOMEN'S EMPLOYMENT" AWARD AT THE INAUGURAL GOOD WORKPLACE AWARDS HELD IN MONGOLIA

TRAINING AND DEVELOPMENT

We have integrated a comprehensive training and development model into our operations, identifying the optimal training needs and requirements. Our primary focus is on the continuous development of our employees, achieved through the implementation of ongoing training and development initiatives.

- 17,555 employees were included in 631 foreign and domestic training courses, and their knowledge and skills were developed. One employee attended an average of 9 training sessions. Also, 80% of all employees were involved in the creation of new training programs in line with the strategy.
- We have commenced the evaluation of training benefits using international methods and have found that it has a positive impact on the Bank's profitability and productivity.
- For the second consecutive year, the mentorship program involved 11 mentors and 11 mentees, achieving an outstanding success rate of 98%. This program aims to empower and nurture the development of new young employees by pairing them with highly skilled and seasoned banking professionals, who provide valuable insights and expertise in the banking industry.
- Internal online training platform has been expanded by over 200 courses, offering employees the convenience of accessing a wide range of learning opportunities within the organization.
- Collaborated with leading learning platforms, Udemy and Melearn, to instill a thriving culture of continuous learning. Through this initiative, employees participated in over 7,000 video trainings, earning well-deserved certificates for their accomplishments.
- Successfully implemented a range of impactful programs, including "Senior Leadership Impact Program," "TDBM Super Influence Program," and "Empower Program for Relationship Managers," all aimed at cultivating and enhancing the leadership skills of our employees.






Trained Employees: **17555**

Training: **631+**

MANAGEMENT OF PERFORMANCE-BASED ASSESSMENT:

In our pursuit of motivating and enhancing employee performance while nurturing competencies, the Bank diligently reviewed and revamped our Performance Assessment management. This assessment process is intricately tied to the bank's strategy and operational plan, strengthening their effective implementation. To achieve a comprehensive approach, we have introduced the **"TDBM KPI Documentation Book"** tailored to each position within the Bank. This documentation book serves as a strategic roadmap, outlining Key Performance Indicators (KPIs) specific to every vacancy.

As part of this initiative, the "TDBM Performance Assessment Procedure" was developed to fulfill following criteria:

- Align with the Bank's external and internal environment, strategic objectives, policies, and unique attributes, thereby enhancing the Bank's performance and overall benefits;
- Evaluation indicators and measurement targets to be straightforward and clear for both the evaluators and those being evaluated;
- Evaluation indicators to align with the evaluator's goals, tasks, and responsibilities during the reporting period;
- A comprehensive and accurate assessment of the work to be measured and its corresponding outcomes;
- An open and equitable evaluation process, ensuring transparency and fairness in the assessment results.

SUCCESSION PLANNING:

Fostering operational efficiency and achieving desired outcomes is a crucial component of our succession policy and planning. To achieve this, we prioritize attracting, developing, and retaining highly skilled and qualified personnel. This strategic approach not only enhances our business operations but also ensures the realization of expected results. Within this context, we have identified key positions that play a pivotal role in driving our bank's strategy forward. These positions serve as the driving force behind our business, significantly contributing to our overall success.

By effectively implementing the succession policy, the organization will have the advantage of employing well-trained, qualified, and highly skilled employees in key positions. This strategic approach mitigates the risk of compromising the organization's competitive advantage, profitability, and reputation. As part of this policy, employees have been integrated into specialized training programs, such as the "Management Training Program," "Leadership Development Training Program," and "Train the Trainer Program." These initiatives aim to foster professional growth and development, empowering employees to assume critical roles within the organization and contribute to its continued success.

EMPLOYEE WELL-BEING:

As one of the country's top employers, we are implementing an Employee-Centric Human Resources Policy, to prioritize the work-life balance of over 2,200 employees and enhance overall job satisfaction.

In the reporting year, the bank has actively maintained 7 volunteer clubs that operate regularly. We strive to enhance engagement by bringing together employees based on their interests and passions, fostering their growth and development collectively.

Employees of the Information Technology Department, its affiliated units, and branch employees have been granted the liberty to transition to a more relaxed and comfortable Business Casual dress code.

We have organized a series of impactful events and activities aimed at empowering our employees and nurturing a positive corporate culture:

- In our efforts to boost motivation, we conducted the "Appreciation Campaign" and hosted "TDBM Cover Night" events, uplifting spirits and fostering a sense of appreciation
- To fuel creativity and initiative, we launched the "Customer Centric Bank" competition, inspiring our team members to cultivate and take customer-centric approaches.
- In our endeavor to spread our corporate culture, we initiated the "TDBM Culture Campaign" and created the insightful "TDBM Culture Book," enabling everyone to embrace and embody our values and principles.
- For upholding strong corporate ethics, we consistently implement the "TDBM Ethics Campaign," reinforcing ethical practices and ensuring our commitment to integrity remains unwavering.

In addition, every quarter, we recognize and reward our employees for their exceptional performance, achievements, and contributions to the organization's profitability. These rewards include industry recognitions and awards, housing down payments, and exciting incentive trips overseas.

CORPORATE SOCIAL RESPONSIBILITY

SHAMBALA ENGINEERING CAMPUS LLC

As part of our collaboration with "Shambala Engineering Campus" LLC, our bank's employees actively contributed to the fight against desertification by purchasing and planting trees..

LET'S SAVE DUDU MUSEUM

TDBM joined the campaign to save Dudu Museum, Mongolia's sole science museum dedicated to children, providing kids with invaluable learning opportunities through the STEM education system

Happy Art HAPPY FAMILY

We organized the "Happy Art - Happy Family" art competition, engaging children and families in a celebration of creativity. The captivating artworks adorned Ulaanbaatar city bus station displays, brightening the daily commute for many, and also took center stage as exhibits during the Happy Show event. Moreover, we embraced the latest digital technologies, enabling a virtual art showcase, thus allowing a broader audience to enjoy and appreciate the remarkable talents of our young artists.

"MONGOLIANS WITH SAVINGS" REWARDS PRO-GRAM CAMPAIGN

As part of the campaign, 42 children were drawn as winners and received prizes including trip to Turkey (1 child), deposit account with MNT 500,000 (35 children), deposit account with MNT 1 million (2 children), deposit account with MNT 2 million (3 children). Also 20,000 children with savings account under the savings program Maamuu, received a one-month subscription to the TomYo application, allowing them to access and explore five foreign language online courses.

SUPPORTING LOCAL BUSINESSES

We carefully curated environmentally friendly children's toys, MoilEye and Maalai Mooloi brand children's products to be presented holiday gifts for the children of our bank employees.

CORPORATE SOCIAL RESPONSIBILITY

HACKATHON

As an accredited entity of the Green Climate Fund and a strong advocate for promoting green practices in businesses, we proudly supported and actively participated in the "Greenify" hackathon event organized by the "World with Beautiful People" project team of the United Nations Youth Delegate Program

"INFINITE DREAMS" PROJECT

We are proud to report the successful and continuous implementation of our "Infinite Dreams" project, which is dedicated to creating a conducive learning environment for children. In the past year, we made significant contributions by donating books and furnishing libraries at 133rd and 146th district schools of Ulaanbaatar city, as well as the 5th school in Erdenet city. Moreover, we successfully completed the furnishing of libraries at prominent educational institutions such as the Mongolian National University of Medical Sciences, the National University of Mongolia, and the Mongolian State Conservatory, and provided essential equipment to students. Through this project, we have had a direct impact on the education sector, benefiting over 180,000 students and 9,000 teachers across 53 schools. It is our sincere hope that these initiatives will foster a positive learning experience, empowering the next generation to realize their infinite dreams and potential.

BUSINESS ENVIRONMENT

We actively collaborated with AustCham Mongolia, AmCham Mongolia, and the Business Council of Mongolia, serving as a Diamond sponsor and co-host for their annual events, including the Annual Gala New Year events. Through these partnerships, TDBM played a pivotal role in enhancing the current business landscape and raising awareness about the economic and social significance not only within Mongolia but also among its third neighboring countries

BLOOMBERG MEDIA SCREEN

We provided support to both public and private sector organizations, aiming to promote the welfare of society and the environment. This assistance involved broadcasting eight different types of content from five organizations free of charge for a duration of more than 14 days each, through the LED Media screen located outside our headquarters.

CHAPTER 2

BUSINESS OPERATIONS

CORPORATE BANKING BUSINESS

TDBM holds the esteemed position of being recognized as Best corporate bank in Mongolia. Our unwavering commitment lies in providing a comprehensive range of products and services meticulously tailored to fulfill our customers' distinct needs and exacting standards. With an ardent focus on customer satisfaction and loyalty, we continually strive to deliver unparalleled value through the most effective channels, all aligned with our overarching, enduring strategic vision of transforming into a truly customer-centric financial institution. To realize this ambition, we've meticulously formulated mid-term strategic objectives and implemented an innovative operational framework to ensure seamless execution

ENTITIES FALLING WITHIN THE SCOPE OF TDBM'S "CORPORATE BUSINESS SEGMENT" ARE CHARACTERIZED BY:

- Provided funding from TDBM exceeding MNT 3 billion or its equivalent in foreign currency;
- Demonstrating annual sales income surpassing MNT 6 billion or its equivalent in foreign currency, as indicated in financial reports;
- Reflecting an annual net income within the organization's account exceeding MNT 4 billion or its foreign currency equivalent;
- Government institutions.

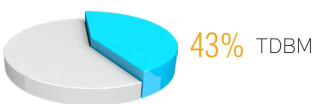
Throughout 2022, we extended a diverse array of over 50 products and services to more than 2,200 organizations, fostering collaborative relationships that yielded mutual advantages. Notably, 94 out of the Government of Mongolia and Mongolian National Chamber of Commerce and Industry's TOP 100 enterprises have established enduring, steadfast partnerships with TDBM.

MONGOLIA'S TOP - 100 ENTERPRISES
94 ARE LONG-TERM PARTNERS OF TDBM.

LOAN

In 2022, the corporate segment's loan portfolio accounted for 43% of the overall banking system.

TOTAL MARKET



CURRENT ACCOUNT AND DEPOSITS

In 2022, the deposit balances within the corporate segment averaged around 28% of the overall banking system.

TOTAL CURRENT ACCOUNT AND DEPOSIT

GREEN FINANCING PROGRAM

TDBM has embarked on a pioneering endeavor in Mongolia, introducing the "Environmental and Social Risk Management System." This progressive approach aims to foster enduring sustainable development by financing environmentally and socially conscious enterprises. Through the introduction of novel products and services, TDBM is at the forefront of driving transformation in the banking sector.

Aligned with the strategic goal of becoming an international bank, TDBM has established targeted objectives: the integration of Sustainable Development Goals and the establishment of a Green Bank identity. Bank has initiated the "Climate 30+ Green Recovery Program," a forward-looking endeavor designed to steadfastly achieve these ambitious objectives.

CLIMATE 30+

GREEN RECOVERY PROGRAM

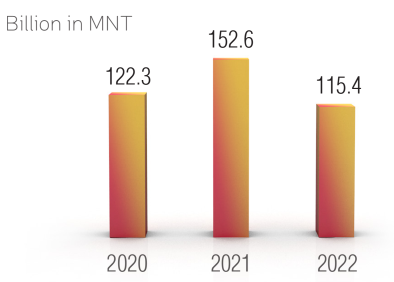
IN 2022, A TOTAL FINANCING AMOUNT OF MNT 30.2 BILLION WAS ALLOCATED ACROSS VARIOUS GREEN CATEGORIES AS FOLLOWS.

- Energy efficiency
- Sustainable water and waste use
- Low pollution energy
- Sustainable agriculture, land use, forestry and eco-tourism
- Renewable energy
- Pollution prevention and control

INTERNATIONAL ACTIVITIES

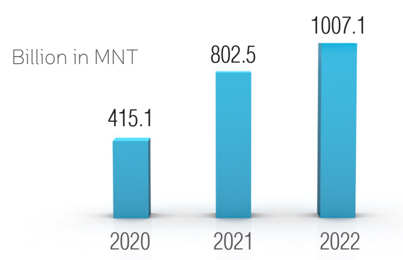
TRADE FINANCING – LETTER OF CREDIT

As trade volumes continue to expand, traders mitigate risks and enhance collaboration by utilizing import and export letters of credit along with collection services.



TRADE FINANCING – LETTER OF GUARANTEE

In 2022, the aggregate sum of letters of credit and guarantees issued to corporate segment clients reached MNT 1.1 trillion, constituting a significant 82% of TDBM's overall letters of credit and guarantees. This figure marks 18.3% surge compared to the preceding year, primarily attributed to a noteworthy 26.8% upswing in domestic guarantees.



FOREIGN TRANSFER

TDBM maintains an uninterrupted ONLINE connection to the global SWIFTNet network, fostering seamless collaboration with renowned international banking and financial institutions. This unceasing connection enables us to swiftly and dependably facilitate foreign payments for our valued clients.

In 2022, TDBM facilitated a total of 84,123 SWIFT foreign transfers, totaling MNT 8.3 trillion. Notably, 59% of these transfers, equivalent to MNT 4.9 trillion, were at the request of our corporate segment customers.

SWIFT

TOTAL TRANSFERS: MNT 8.3 TRILLION

CORPORATE SEGMENT: 59%

PROJECTS AND PROGRAMS

TDBM is proactively engaged in initiatives and strategies implemented by the Government of Mongolia, aimed at mitigating the economic and market repercussions of the pandemic, fostering entrepreneurship, stimulating economic recovery, and promoting job generation.

In line with our collaborative approach, during 2022, a sum of MNT 258.8 billion was allocated to cater to the needs of our corporate segment customers within the framework of a government-sponsored project.

Additionally, aligning with the directives of the 2022 government resolution 174, aimed at averting flour and meat shortages and mitigating price hikes, we allocated a sum of MNT 10.0 billion to support enterprises involved in flour-related operations.

МОНГОЛБАНК
МОНГОЛ УЛСЫН ТӨВ БАНК

МОНГОЛ УЛСЫН ЗАСГИЙН ГАЗАР
ХҮНС, ХӨДӨӨ АЖ АХУЙ, ХӨНГӨН ҮЙЛДВЭРИЙН ЯАМ

NEW PRODUCT AND SERVICE

CORPORATE BUNDLE PRODUCT

We offer a comprehensive range of banking products and services tailored to the needs of corporate customers, bundling commissions and transaction fees to provide convenience, advantages, and time-saving benefits.

LOAN SECURED BY EXPORT LETTER OF CREDIT

We have launched a novel loan product specifically designed for exporter companies, enabling them to utilize export letters of credit and other sources of income to secure funding for their upcoming procurement requirements.

CORPORATE CERTIFICATE OF DEPOSIT

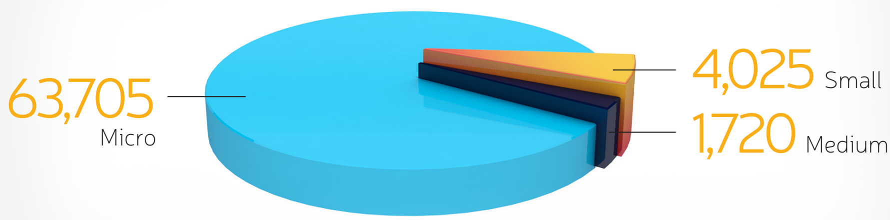
To enhance the bank's liquidity and provide corporate customers with attractive interest rate options, we have introduced the Corporate Certificate of Deposit product to the market.

SMALL AND MEDIUM-SIZED BUSINESS BANKING

As part of our customer-centric banking strategy, TDBM provides wide area of multifaceted cooperation for small and medium-sized enterprises (SMEs) to launch, expand and improve their businesses. We aim to introduce traditional and innovative financial products and services to the market, increase the liquidity to offer to SMEs, create a supply-chain financing, support socially and environmentally friendly businesses, and expand our market share.

Small and medium-sized business segment includes SME individuals and corporate customers. We deliver banking products and services to our 69,450 SME customers through branches, sub-branches, TDBM online, and specialized relationship managers and credit specialists, and cooperate to support our customers' businesses.

During the reporting year, the SME customers' loan balance reached MNT 422.6 billion, accounting for 10.4% of the bank's loan portfolio. The customer deposits reached MNT 822.4 billion, which accounts for 13.5% of total bank deposits.



Loan portfolio balance
MNT 422.6 billion

SME deposits
MNT 822.4 billion

In the fiscal year under review, the loan balance held by our SME customers reached MNT 422.6 billion, constituting 10.4% of the bank's overall loan portfolio. Furthermore, customer deposits amounted to MNT 822.4 billion, accounting for 13.5% of the total bank deposits.

During the reporting period, non-performing loans within the small and medium-sized business segment witnessed 27% reduction compared to the previous year, owing to the effective execution of progressive measures for non-performing loan repayment.

Notably, 24% of clients within the SME business segment are engaged in the trade sector, while the remaining are distributed across manufacturing, health, education, agriculture, and various other sectors.

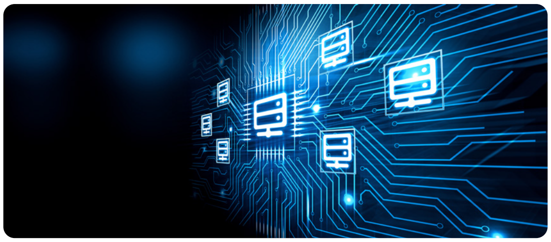
NEW PRODUCTS AND SERVICES

VISA B2B Connect

With the establishment of the Small and Medium-Sized Business segment at par with global benchmarks in 2020, the bank has introduced a total of 8 novel products and services to the market. In the current reporting year, TDBM proudly launched the Visa B2B Connect service, marking its debut in the Mongolian market. This pioneering service presents a swift and streamlined solution for international remittances between businesses in USD and EUR currencies, exempt from any additional principal protection fees.

DIGITAL TRANSFORMATION

Aligned with our overarching long-term strategic objective, we are actively engaged in crafting an ecosystem tailored for SME businesses, seamlessly integrating it into our service offerings through platform-based banking solutions. The digitization of the business lending process is already underway, enhancing the accessibility of our digital banking services.



MARKET RESEARCH

Conducting comprehensive market research allows us to tailor products and services in alignment with the preferences, needs, and requirements of our SME segment customers. Utilizing insights garnered from this research, we are dedicated to introducing innovative offerings that directly address market demands.

RETAIL BANKING

TDBM's primary focus is on developing a competitive portfolio of cutting-edge banking products and services meticulously designed to cater to the demands of the retail market, all readily available through our network of bank branches. Our commitment extends to leveraging technological advancements to provide seamless and user-friendly solutions, ensuring innovative offerings for the utmost convenience of our valued customers.

DEPOSITS

Our strategic approach encompasses augmenting the deposits held by Mongolians. To achieve this, we are actively enhancing customer awareness of the benefits associated with our deposit offerings. We are committed to elevating financial literacy among our clients. By tailoring our products to be more flexible, customer-centric, and distinct from other commercial banks, we've achieved a noteworthy growth of 5.6% over the year, even amidst the industry's sectoral decline.

LOANS

Our commitment extends to providing swift, reliable loan products and services that exemplify customer satisfaction. In this pursuit, we have embraced AI technology to expedite loan processing, streamlined documentation requirements, introduced ingenious products that cater to customer needs, enabled online loan applications, and introduced flexible loan products and services. As pioneers in green financing, we extend to our patrons interest rates below market norms for sustainable product, real estate, and automobile acquisitions.

HIGHLIGHTS

Insurance Brokerage

Within our insurance brokerage services, we uphold the principle of safeguarding our customers' interests and securing insurance coverage that aligns precisely with contractual terms. In this regard, a cumulative sum of MNT 5.88 billion was disbursed to customers in reimbursements during the preceding year. The primary objective of our brokerage service centers on ensuring parity in the rights of all involved parties. Notably, we facilitated a total premium income of MNT 5.46 billion for our partner insurance companies, thus fortifying our paramount position within the banking insurance brokerage sector.

Customers
compensation of
MNT 5.88 billion

Insurance companies
premium income of
MNT 5.46 billion

NEW RETAIL DEPOSIT PRODUCTS WERE INTRODUCED TO THE MARKET

We have recently expanded our range of retail deposit products available in the market. Our new offerings are designed to cater to the diverse preferences and requirements of our customers. These products provide customers with a broader array of choices, featuring favorable returns and flexible terms that align more closely with their individual needs.

Here are some of our latest deposit options:

- "36-Month Term Deposit": This deposit presents a favorable long-term solution, featuring a high-interest rate that scales with the account balance.
- "Advance Interest Deposit": With this product, customers can receive interest payments in advance at the onset of the term, rather than at its conclusion.
- "Mongolians with Savings" Deposit: This deposit features the benefits of compound interest, contributing to further growth over time.
- "Investment Deposit": This deposit permits customers to make withdrawals during the deposit period without diminishing the interest rate.

PayForex

THE QBC SERVICE HAS BEEN LAUNCHED FOR RECEIVING MONEY TRANSFERS FROM JAPAN.

In the year 2022, TDBM unveiled the QBC service to facilitate expedient and cost-effective money transfers from Japan to Mongolia. Individuals residing in Japan can now utilize the PayForex application to send Japanese yen to Mongolia. The recipient has the flexibility to convert the received amount into any currency supported by TDBM and subsequently deposit it into their account. This streamlined process ensures that money transfers from Japan to Mongolia are completed within 1-2 minutes and entail comparatively low fees.

LAUNCHED THE LITE BRANCH

As a testament to our commitment to social responsibility and our journey toward becoming a Green Bank, we have commenced the operation of our inaugural digital "Lite Branch." This groundbreaking branch empowers customers to access our suite of products and services seamlessly, eliminating the need for paper documents or physical contract signatures.

VISA DIRECT P2P SERVICE HAS BEEN INTRODUCED TO FACILITATE ONLINE TRANSFERS ABROAD USING A VISA CARD.

TDBM has recently inaugurated a service named "Visa Direct P2P," which empowers Visa cardholders to perform efficient online transfers to foreign destinations. This service empowers customers to utilize their Visa cards for seamless transactions with other Visa cardholders in different countries, ensuring rapid transfers coupled with nominal transaction fees. "Visa Direct P2P" is conveniently accessible via TDBM Online and is currently available for transfers to 13 countries.

THE BRITTO® EINSTEIN CARD, EQUIPPED WITH A U-MONEY CHIP, HAS BEEN INTRODUCED.

In 2022, TDBM expanded its Britto card range by introducing the Britto Einstein card. Both the Britto Classic card and Britto Einstein card have been upgraded and released with U-money chips. Consequently, cardholders can not only make purchases and transactions, but also enjoy the convenience of utilizing their cards for bus fares and travel expenses.

A SALARY LOAN FEATURE HAS BEEN INTEGRATED INTO THE ONLINE SERVICE.

Formerly, customers were required to apply for salary loans either at a bank branch or through the bank's external website. Now, customers can effortlessly apply for, review loan decisions, and sign contracts for salary loans entirely online, eliminating the necessity to visit a bank branch.

INTRODUCED "INTEREST BENCHMARK CALCULATION"

In our relentless pursuit of becoming a Digital Bank, TDBM has unveiled a range of new services, one of which is the "Interest Benchmark Calculation." This innovative service streamlines the analysis and resolution of customer requests online, obviating the requirement for supplementary documents such as loan agreements and payment schedules during the assessment of online loan applications.

SUCCESSFUL INTEGRATION OF RETAIL CONSUMER LOANS INTO THE RETAIL LOAN PROGRAM

To expedite loan processing for salaried individuals, TDBM launched the Retail Loan Program, enabling clients to acquire consumer loans online. By aggregating information from multiple sources simultaneously, this service not only eases the workload of loan officers but also enhances customer efficiency, functioning as a digital solution to reduce paper documentation.

11TH ANNUAL CELEBRATION OF WORLD SAVINGS DAY

Marking the 11th edition of the "World Savings Day," TDBM joined hands with the Bank of Mongolia, the Mongolian Banking Association, the Savings Banks Foundation for International Cooperation of Germany, and Commercial Banks to celebrate. The theme "Let's save for our future" underscored the occasion. The campaign included a variety of training sessions and events aimed at enhancing financial literacy among employees of client organizations and elementary school students. With an impressive participant count exceeding 9,000, the campaign demonstrated robust engagement..

NOTEWORTHY ACHIEVEMENT IN BRITTO® VISA CARD SALES, SETTING A RECORD

TDBM achieved a remarkable milestone in the sales of Britto Visa cards, setting a new record within the reporting period. Introducing the Britto Visa Card with authorized permission, adorned with the renowned artwork of Romero Britto, marked a significant achievement. Moreover, TDBM pioneered a Cashback system for the first time in Mongolia, enabling customers to receive a percentage of their card purchases as a bonus. This initiative resonated profoundly, with 342,510 customers enjoying duplicate amounts in premiums.

342,510

COMMENCED ONLINE SECONDARY ANALYSIS OF MORTGAGE LOANS

Following the issuance of mortgage loans with preferential terms supported by the Government, loan profiles undergo secondary analysis at MIK HFC LLC, followed by bundled sales. The formerly paper-based manual analysis process has been digitized, yielding an electronic solution that streamlines employee workflows, optimizes time utilization, and reduces the volume of paper documentation required from customers.

ХУРИМТЛАЛТАЙ МОНГОЛ

SUCCESSFUL CONTINUATION OF THE "MONGOLIANS WITH SAVINGS" CAMPAIGN

The "Mongolians with Savings" campaign, designed to promote savings culture and public awareness, achieved resounding success over a span of 10 months. Within the campaign, prizes such as a "One-room apartment," "Cottage House," and "Town House" were awarded to customers. Additionally, over 500 customers were eligible for savings rewards ranging from MNT 100,000 to MNT 2,000,000. This initiative not only encouraged customers to select term deposits more frequently but also motivated them to adjust their deposit amounts and open new savings accounts.

DIGITAL BANKING SERVICES

ATM

In our pursuit of enhancing service quality, accessibility, and efficiency for our esteemed customers, we are committed to fostering collaboration with other commercial banks. A noteworthy stride in this direction has been taken with our cooperation agreement with Golomt Bank. This collaboration entails a reduction in outgoing transaction fees, specifically cutting the cash withdrawal fee via self-service banking equipment – including ATMs, CDMs, and CRMs – from MNT 500 to MNT 100. This substantial fee reduction empowers customers to conduct transactions at a discounted rate across a combined network of 290 ATMs of TDBM and 410 ATMs of Golomt Bank, spanning both Ulaanbaatar city and local regions. Future plans include sustained collaboration aimed at elevating interbank service quality and customer contentment. Additionally, TDBM has introduced the capability for non-cash transfers between banks and conversion transactions directly from ATMs.

In addition, we have created a new transaction option that allows customers to make cashless interbank transactions from TDB›s ATMs as well as currency conversion transactions within TDB.

TDBM ONLINE

The user base of TDBM Online has experienced a notable 27% increase compared to the preceding year. Correspondingly, transactions conducted through TDBM's online application surged by 84%, while the overall transaction volume exhibited a 14% rise.

27%+ Number of customers

24%+ Number of transactions

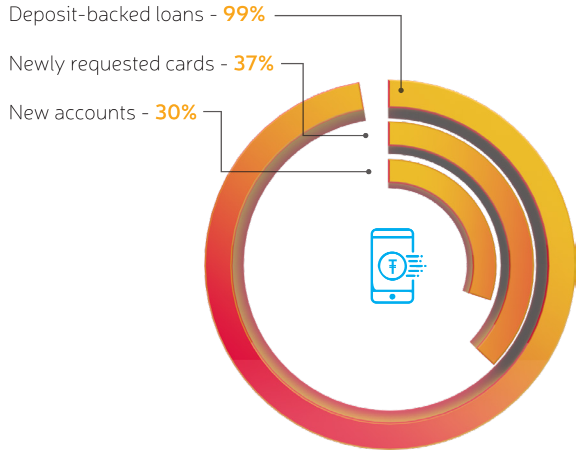
14%+ Transaction amount

During the reporting period, several measures were implemented to promote the utilization of e-banking and e-channels, ensuring seamless operation. These initiatives included:

- Strengthening the TDBM Online service system architecture, enhancing operational speed for the mobile application.
- Collaboration with MongolChat LLC to introduce an e-wallet function within the GS25 Mongolia chain store user application.
- Integration of Merchant Present Mode (MPM) for WeChat service, enabling e-commerce merchants to accept payments via QR codes displayed on cash register screens.
- Introduction of a salary loan menu in TDBM Online, allowing customers to access salary loans conveniently from anywhere, without the need to visit bank branches.
- Incorporation of the International Visa P2P service in TDBM Online, facilitating global money transfers among Visa cardholders with the added benefit of competitive transaction fees.

A staggering 99% of the core services conducted within the banking sector, including deposit-backed loans, 37% of newly requested cards, and 30% of all opened accounts, are executed through the TDBM Online service.

TDB ONLINE



CARD AND PAYMENT SERVICES

During 2022, our focus centered on elevating service standards and providing cutting-edge products and services that exceed client demands, tailored to their requirements.

In the reported year, the number of TDBM's payment cardholders surged by 17% compared to the preceding year. Additionally, nearly 30% of all Mongolian transactions conducted with Visa cards internationally were executed by users of TDBM's Visa cards. This achievement further solidifies TDBM as having the largest and most dependable card system.

17%+
increase in number of TDBM's payment cardholders

30%
Mongolian transactions conducted with Visa cards internationally - 30% TDBM customers - Mongolia

The strategic partnership between the world's leading credit card company, Visa Inc., and TDBM remains strong. This alliance has led to the introduction of groundbreaking offerings like Visa B2B Connect, an all-encompassing system for global payments and inter-organizational remittances, and VISA DIRECT, facilitating cross-border remittances using your Visa card. These services empower individuals and businesses to conduct rapid and cost-effective transactions.

To enhance customer satisfaction, we launched the "Happy Pay" initiative in 2021, creating collaborative incentive programs with over 250 of our merchants. Through this campaign, our consumers enjoy cashback benefits ranging from 3% to 10%.

In collaboration with the international organization UnionPay, we rolled out a 5-10% refund campaign for every international card transaction.

UnionPay

We initiated the "Let's Reach Qatar with Visa" program, where two selected customers were given the opportunity to travel to Qatar and witness the finals of the World Cup.

HAPPY Loyalty | ВИЗАТАЙ ХАМТ КАТАРТ ХҮРЬЕ

Through cooperation with Ulaanbaatar Smart Card LLC, the operator of Ulaanbaatar's public transport electronic payment system, our cardholders can conveniently utilize public transport services using their bank's Visa card.

U money

INTERNATIONAL BANKING AND FOREIGN RELATIONS

HIGHLIGHTS AND ACHIEVEMENTS

- Our bank swiftly and effectively processes foreign payments for our customers across a diverse array of 16 currencies through 88 nostro accounts in 41 globally recognized banks, and 17 loro accounts in 17 foreign banks and financial institutions.

88 nostro accounts | 17 loro accounts | 16 currencies

- Our bank offers expert trade financing to our corporate customers and collaborates with 41 foreign banks and financial institutions to establish a trade financing line amounting to USD 483.6 million. During the reporting period, funds drawn under this line reached a total of MNT 885.8 billion.

trade finance credit line USD 483.6 million | secured funding MNT 885.8 billion

- We successfully reactivated a USD 45 million trade finance line of credit from SMBC Bank, which was utilized for various trade financing purposes, including letter of credit confirmation, financing, and guarantees, as well as to support clients' foreign trade activities.

Trade finance credit line

SMBC - USD 45 million

- Our bank actively partnered with local commercial banks in China to facilitate import financing for customers operating in the telecommunications sector.
- We initiated cooperation with Bankinter Bank of the Kingdom of Spain, establishing a nostro account in Euros and creating a framework for streamlined foreign payments to the country.
- We opened a Singapore dollar account with DBS Bank in Singapore to facilitate secure and dependable foreign payments for our customers. Additionally, we continue to open US dollar.
- The process of opening a USD currency account with USA bank has commenced, aiming to provide consumers with cost-effective, rapid, and secure US dollar foreign settlement services while fostering enhanced cooperation with US banks.
- We optimized the terms of interest fees for the euro nostro account with Bayerische Landesbank, Germany, making it possible to offer euro settlement services to our customers under more favorable conditions.
- In response to a request from the Crown Agents Bank of the United Kingdom of Great Britain and Northern Ireland, we successfully established the bank's MNT Loro account. This initiative facilitates USD and MNT trading, as well as the establishment of a payment gateway from the UK to Mongolia.
- In collaboration with the United Nations Development Program, we introduced the capability for transactions using UFF format payment orders in our TDBM Online service.
- Through active collaboration with foreign embassies, consulates, and international organizations in Mongolia, we have been strengthening and expanding our international relationships. We have also embarked on partnerships with companies entering the Mongolian market from countries such as India, Italy, and Japan, offering comprehensive banking and financial services.

INTERNATIONAL ACCOLADES

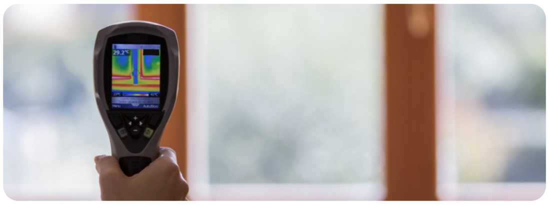
Asiamoney magazine, affiliated with the world-renowned Euromoney magazine, which provides news and information on the economy, banking and financial sectors in the Asia-Pacific region, annually selects the best banks and financial institutions in Asia. In 2022, the magazine evaluated TDBM's contribution to Mongolian society and economy, the activities implemented in the field of sustainable development and green financing, the accomplishments made, and the innovative products and services introduced to the market for customers, and named TDBM as the "Best Bank for ESG", "Best Corporate Bank", and "Best Bank for CSR" of Mongolia.

SUSTAINABLE FINANCE

- MNT 1.12 trillion was disbursed in line with the Sustainable Development Goals.
- Bank of Mongolia, International Finance Corporation, and Mongolian Sustainable Finance Association (MSFA) jointly assessed TDBM's implementation of sustainable finance operation and its performance, as in result, TDBM received "A" rating, and has been chosen as a "Leading Sustainable Finance Bank" for 2022.
- TDBM has been recognized by the MSFA, Bank of Mongolia, and Financial Regulatory Committee as the first "Leading Bank in Gender Equality".
- TDBM, in collaboration with MSFA, has commenced the implementation of Readiness program on "Upscaling sustainable and green finance practices in Mongolia", approved by the GCF Board.
- Through TDBM's issued Green Business Loans for the year 2022, we expect to reduce a total of 47,833.92 tons of CO2 equivalents of greenhouse gas emissions annually.

CO_2 Annually, 47,833.92 tons of CO2 equivalents of greenhouse gas emissions will be reduced.

- As an accredited entity of Green Climate Fund, TDBM is enhancing collaboration with international and national stakeholders, and consultants by developing and improving the proposal documents for projects regarding energy efficiency, low pollution energy, renewable energy, sustainable agriculture, sustainable water and waste use, as well as clean transport of Mongolian Green Taxonomy.
- Cooperated with University of Edinburgh, Scotland on a consulting project to develop a guidance for TDBM to address key challenges in establishing a "Green Bank" identity.
- In 2022, the bank has undertaken an energy audit by a licensed professional organization, in line with "Procedures on identification of obliged consumers, energy conservation program and workplans, methods for development of such programs and plans as well as reporting procedures for their implementation" approved by Resolution #181 of the Government of Mongolia in 2019.



- Successfully co-organized "Forbes Mongolia Women's Summit 2022" event with Forbes Mongolia.

- TDBM has jointly organized "Go Zero" event to raise awareness of business entities to go toward clean, sustainable operations and to reduce their internal carbon footprint.

GO ZERO 2022

TOKYO REPRESENTATIVE OFFICE

Through renewed collaboration with CROWDCREDIT, TDBM has secured funding of MNT 1.5 billion across 8 installments through crowdfunding, under favorable terms. This achievement was highlighted on "NIKKIN," a prominent Japanese financial and business news website.


ニッキン ONLINE

デジタル 社説・コラム オピニオン 人事異動 ONLINE

モンゴル貿易開発銀、貸付型CF活用で資金調達

2022.04.03 04:46

モンゴル貿易開発銀行（TDB）

モンゴル貿易開発銀行（TDB）は、投資家からオンラインで集めた資金を事業者に貸し付ける貸付型クラウドファンディング（CF）のスキームを活用し、日本の個人投資家からの資金調達に注力する。貸付型CFサービスを提供するクラウドクレジットと協業し、3月28日に同行を債務者としたモンゴルト

アクセスランキング

Weekly Monthly

In collaboration with Japan's Queen Bee Capital, a new remittance service enabling transactions from Japan to Mongolia has been launched in the market. This offering allows TDBM customers to transfer yen with minimal fees and the quickest processing time.

In partnership with FINTERTECH, TDBM achieved a successful crowdfunding effort from Japan's financial market, securing JPY 150 million. This funding aims to support Mongolia's endeavors towards the implementation of Sustainable Development Goals.

Fintertech

The Tokyo representative office participated in the annual "INVESTMENT EXPO" and "OVERSEAS EXPO 2022" events held in Japan, where it showcased the bank's products and services.

TDBM took part as the primary sponsor of the "JAPAN FESTIVAL IN MONGOLIA 2022" and the "Mongolia-Japan Business Forum 2022." These events, co-organized by the Embassy of Japan, JICA's representative office in Mongolia, and the Mongolia-Japan Human Resource Development Center, provided an opportunity for the bank to present the activities of its Tokyo representative office.

CUSTOMER SERVICE

Our commitment lies in offering swift, dependable, amicable, top-notch, and unwavering service to our customers across all banking channels. In the past year, we have revised our customer service policy and enhanced our service standards even further. Consequently, we have undertaken projects to integrate the Quality Management System ISO 9001:2015 and the Service Excellence ISO 23592:2022 standards. These endeavors are geared towards aligning our customer service with international benchmarks.

We prioritize each customer's requests and inquiries. In line with this, to leverage customer feedback for continuous enhancement of our products and services, we have introduced QR code banners across all our branches. These banners are designed to gather feedback from customers, fostering a more customer-centric approach.

During 2022, customers obtained a total of 96,851 remote account statements across 11 different types, all authenticated through QR Code authorization. This signifies an 80% surge compared to the figures of 2021, demonstrating significant growth in remote access without the necessity of visiting bank branches.

Remote banking services

11 type - 96,851 account statements

Through updating our Queue Management System at bank branches, we have gained the capability to gauge, track customer service standard performance metrics, analyze data, and assess the satisfaction of each customer.

Moreover, we are striving to elevate customer satisfaction by consistently conducting surveys through SMS or phone call methods. This approach allows us to gather feedback on the quality of customer service provided at our branches.

We have implemented a methodology to assess and enhance the quality of customer data, incorporating diverse indicators into our operations. This initiative has yielded positive results, with customer profile updates witnessing an 18% increase compared to the corresponding period of the previous year.

Customer profile update – Increased by 18%

During the reporting period, we swiftly addressed and resolved 5,380 requests and inquiries from our customers. In addition, our proactive efforts to guide customers on safeguarding themselves from potential risks have resulted in shielding them from potential financial losses amounting to MNT 6 billion.

24/7

5380 customer request have been promptly resolved.

Protected customers from potential financial losses equivalent to

6 тэрбум

Continuing forward, the bank is dedicated to digitizing paper-based customer documents and delivering services to its clients through environmentally conscious, paperless, and digital solutions, aligning with its customer service policy.

TREASURY MANAGEMENT

Foreign exchange

The onset of new COVID-19 variants during the initial months of the reporting year continued to pose transportation and logistics challenges. This, in turn, disrupted the supply of key consumer goods, triggering cost-push inflation. Concurrently, escalated geopolitical tensions on the global front added to the macro-level uncertainty. The heightened demand for the US dollar further exacerbated matters, leading to a shortage in foreign exchange reserves and rapid depreciation of the Mongolian tugrik.

Amid this uncertain macro environment, TDBM in collaboration with pertinent institutions, has adeptly fulfilled the foreign exchange requirements of its customers. Additionally, it has diligently maintained the steady flow of foreign payments essential for the country.

Gold and precious metals trading

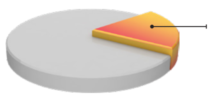
In the reporting year, the country's foreign exchange reserve has been reducing continuously due to the abovementioned situations. Despite that, Bank of Mongolia's policy to support gold mining enterprises through price incentives had a favorable result. Consequently, by the conclusion of 2022, the Bank of Mongolia procured 22.9 metric tons of physical gold, marking a 10 percent upsurge from the preceding year. Notably, the augmented gold production by major corporate clients of our bank also played a pivotal role. This growth was achieved through the bank's timely provision of financing to cater to the requirements of its corporate customers.

10 percent increase - 22.9 metric tons of physical gold – purchased by Bank of Mongolia

Looking ahead, the bank's emphasis will be directed towards introducing a solution that digitalizes the process of physical gold trading, thereby diminishing processing time and costs for our valued customers.

Money market

During the reporting period, the bank continuously met the reserve requirement and liquidity ratio requirement set by Bank of Mongolia. Adding on to that, it has maintained its leading position in the domestic money market, holding 20 percent of liquid securities in the domestic market. Furthermore, to increase the yield of its liquid assets, the bank has been active in the overnight deposit market and the trading of Mongolian government bonds issued on foreign markets.



Holds **20** percent of liquid securities in the domestic market.

Asset and liability management

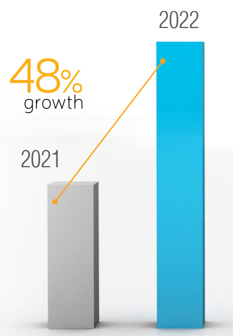
To counteract the economic upheaval caused by the COVID-19 Pandemic, market interest rates were deliberately lowered, leading to a substantial increase in lending. Nevertheless, starting from February 2022, the escalation of geopolitical tensions disrupted global oil and consumer goods supply chains, triggering an uptick in both international and domestic inflation rates. This turmoil also led to a sharp appreciation of foreign currency exchange rates against the MNT. In response to the Central Bank's decision to raise the policy rate as a measure to mitigate inflation and uphold the relative yield of the MNT, the bank implemented specific adjustments to its deposit and loan rates.

Liquidity risk was accurately forecasted, prompting the implementation of strategic countermeasures, with a keen focus on assessing the impact of market interest rate hikes on the available funding pool. Furthermore, an interest rate risk management strategy was meticulously formulated and refined over the preceding two years to ensure the preservation of net interest income at a judicious level. This comprehensive approach facilitated prudent management practices. Moreover, a novel long-term and medium-term interest rate risk mitigation system was devised and seamlessly integrated into the bank's operational framework.

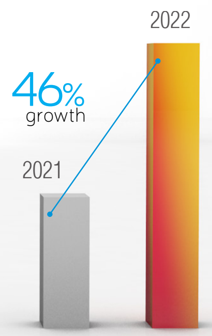
CUSTODIAN SERVICE

In September 2022, FTSE Russell Group officially designated Mongolia as a "Frontier Market." Mongolian stock market has seen a significant increase in its value, driven by the transition of systemically important banks in Mongolia becoming public companies through initial public offerings (IPOs) on the stock market, as well as the privatization of state-owned companies.

In 2022, the bank experienced substantial growth in Custodian products and services, driven by our unwavering commitment to meeting customer demands. The number of customers depositing their assets in Custodian increased by 48%, while the amount of deposited funds rose by 46%. Looking ahead, our focus remains on expanding and enhancing the range of products and services we offer. We strive to provide high-standard services, serving as a bridge for investment funds and professional investors seeking to engage in both domestic and international markets.



Number of customers with savings in custodian accounts



Deposit amount in custodian accounts

RISK MANAGEMENT FRAMEWORK

RISK GOVERNANCE OF THE BANK

The highest governance body of TDBM is Representative Governing Board (RGB), which oversees the implementation of the bank's risk management through Risk Management Committee (RMC). The involvement of the RGB and RMC in the risk management system is regulated as follows:

RGB approves risk strategy and policy documents, such as the risk management framework and the risk appetite statement (defining the maximum risk the Bank accepts). RGB oversees the implementation and compliance of these documents, ensuring that any identified risks requiring mitigation are promptly reported.

RMC assists the RGB by consistently monitoring any adverse effects on the bank's risk tolerance resulting from modifications to its array of products and services, interest rates, and fees. The RMC guarantees the prompt execution of decisions made by the RGB.

RISK MANAGEMENT POLICY

The objective of the bank's Risk Management Policy is to support the bank in attaining its strategic objectives and fostering sustainable growth. It aims to proactively identify and mitigate potential losses and risks in its operations, thereby enhancing the bank's profitability.

Credit risk management

The Bank manages credit risk by setting limits for indicators such as portfolio concentration, sectoral loan concentration, level of non-performing loans, borrowers' creditworthiness, and an adequacy of collateral.

Bank has introduced a scoring model for electronic settlement of consumer loans.

In the reporting year, the Bank successfully introduced a borrower scoring model based on machine learning technology into consumer credit operations, and it was able to resolve customer loan requests electronically, which has become an important aspect of our customer service improvement.

TDBM's risk management adheres to internationally accepted methodologies.

- Risk management policy and procedures have been renewed, and new standards have been developed for the post-issuance loan monitoring process.
- The Internal Assessment Methodology (IRBA) for assessing credit risk in accordance with Basel III standards was studied and the overall risk of the bank's loan portfolio has been assessed.
- During the reporting period, the bank assessed asset impairment in accordance with IFRS 9, which mandates that the calculation of asset impairment is to be based on the borrower's risk profile.

Market risk management

The risk of loss from assets owned by the bank caused by fluctuations in the foreign currency, stock and stock prices, and market interest rate are regulated under the Bank's market risk management. The Bank aims to efficiently manage this risk by measuring, controlling and minimizing potential losses. During the reporting period, the following 3 methods of risk management were implemented.

- Open foreign exchange position limit and equity ratio indicators set by the Bank of Mongolia are being calculated and reported on a daily basis, both in unit currency and total currency.
- The amount of capital sufficient to cover potential losses were calculated in accordance with the sensitivity-based approach, MRCC, as per Basel III standards. The market risk management guidelines and procedures have been enhanced.
- The potential loss for the next working day arising from the total open position has been calculated using the Value-at-risk (VaR) method

Interest rate risk management

Interest rates are constantly changing due to factors such as market conditions, business competitions, and change in the policy rate. The bank calculated the interest rate risk using the following methods.

- In accordance with the Basel III standard, the scenario assumptions have been revised and the methodology for calculating the sensitivity of the economic value of equity, or ΔEVE, has been updated.
- Potential risks to the bank due to changes in net interest income (NII) have been identified.

Liquidity Risk Management

TDBM sufficiently fulfilled the Bank of Mongolia's liquidity ratio criteria. Through setting limits and analyzing as per the international reference indicators for assessing liquidity risk, such as Liquidity coverage ratio (LCR), Net Stable Funding Ratio (NSFR), Time to Wall to assess and evaluate the bank's liquidity situation and risk bearing capacity.

Bank effectively met the liquidity ratio criteria set by the Bank of Mongolia, demonstrating its sound liquidity risk management. Various measures have been implemented in order to gauge the bank's liquidity position and its ability to handle risks, including establishing limits and analyzing liquidity risk using internationally recognized indicators such as the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Time to Wall.

Counterparty and country risk management methodologies have been improved

During the reporting year, in accordance with Moody's updated Bank Rating Methodology, the bank assessed the credit rating for each counterparty, established risk limits, and diligently monitored its compliance.

Operational risk management

Bank prioritizes managing risks by identifying, assessing and effectively implementing controls for potential risks in business activities, products and services, and newly introduced projects and programs; therefore, internationally accepted operational risk management methodologies are being applied and constantly enhanced.

Using the "Risk Control Self-Assessment" method, each employee identified their risks, took measures to mitigate them, and created a database. The limit of potential loss expected from operational risk was determined and risk appetite was regularly monitored. Also, an integrated database of operational risk along with a dashboard for monitoring purposes were created.

INFORMATION TECHNOLOGY

TDBM consistently upholds its commitment to employing cutting-edge IT methodologies and tools, adhering to global benchmarks. This dedication guarantees the seamless and dependable execution of banking activities, enhances employee efficiency, and provides customers with comprehensive financial solutions that not only meet their requirements but also surpass their anticipations through the incorporation of advanced technologies.

Payment Card Industry Data Security Standard

For the sixth consecutive year, TDBM has achieved certification in PCI-DSS (Payment Card Industry Data Security Standard), a globally recognized standard for safeguarding privacy and security within the international payment card system.

Continuous and reliable banking operations

The bank's backup data center undergoes regular readiness tests twice a year, verifying the functionality of essential operations to ensure the ongoing reliability of the bank's activities, encompassing business operations, databases, and the Swift system for international transfers.

3DS 2.1.0 standard for corporate privacy and security of VISA International

The VISA International organization's privacy and security standard, 3DS 2.1.0, has been integrated, enhancing the online card purchase payment process in alignment with international standards, ensuring both safety and reliability.

Genesys Contact center solution system

Aligned with the strategic objective of becoming a customer-centric institution, the bank has successfully implemented the "Genesys Contact center solution" system, renowned globally for its excellence. This system serves as a comprehensive customer service platform, ensuring flexible, swift, and secure interactions that adhere to international norms. Utilizing the Genesys system provides the bank with numerous benefits, including the automatic connection of customers to the appropriate advisor based on their segment, unified video call capabilities integrated within the system, customer guidance through screen sharing with co-browsing, seamless integration with banking systems, and an elevated benchmark for customer service quality.

Appointments can be booked online

With the objective of enhancing customer service quality, the bank has integrated the dialer system of its branches into the TDBM Online platform. This integration allows customers to provide feedback, schedule appointments online, and receive dedicated service for VIP and PREMIUM customers, all while avoiding any queues or delays.

LITE branch launched

Aligned with our commitment to environmental and social responsibility, we have initiated the operations of our Lite branch, also known as a paperless branch. This endeavor involved modernizing traditional customer service approaches, fully digitizing processes such as customer registration, service enhancements, and information updates. Furthermore, we introduced the option for customers to utilize digital signatures, providing them with a convenient and eco-friendly choice.

TDBM Online

Aligned with our strategy to provide bank products and services through digital channels and transform into a platform bank, TDBM has introduced three new types of online money transfer services. Additionally, we have implemented full automation for retail loan approvals and are actively working towards offering a diverse range of financial products and services to our customers.

The number of transactions made online has doubled

In this financial year, our focus on enhancing information systems, automation, and ensuring continuous reliability has resulted in doubling the number of online financial transactions compared to 2021.

Looking ahead, in alignment with our long-term strategic goals, we intend to upgrade our fundamental bank registration system and digital banking solutions with offerings from the world's leading organizations. We are committed to consistently introducing innovative, internationally recognized, and flexible technological solutions across our banking operations. This commitment extends beyond our internal processes and customer service to critical solutions throughout Mongolia, encompassing the Basic Registration System, Financial Fraud Detection and Reduction System, Digital Banking Platform, and Big Data Platforms.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2022

Building a better
working world

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Audited financial statements

Table of contents

Contents	**Page**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

General information

Board of directors	Mr. Koppa R (Chairman) Mr. Erdenebileg D Ms. Yanjmaa D Mr. Khurelbaatar.D Ms. Bolormaa J Mr. Delgersaikhan J
Secretary of board of directors	Ms. Nyamsuren N
Registered office	Peace Avenue 19, Sukhbaatar District, 1st khoroo, Ulaanbaatar 14210, Mongolia
Auditors	Ernst & Young Mongolia Audit LLC Certified Public Accountants

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement by chairman and executives

We, Randolph Koppa, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia LLC (the "Bank"), Orkhon Onon, being the Chief Executive Officer, and Enkhtuya Dulamjav, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

Randolph Koppa Chairman of the Board of Directors	**Orkhon Onon** Chief Executive Officer	**Enkhtuya Dulamjav** Chief Financial Officer

Ulaanbaatar, Mongolia

Date: 15 March 2023

Building a better working world

Ernst & Young Mongolia Audit LLC
Suite 200, 8 Zovkhis Building
Seoul Street 21
Ulaanbaatar 14251
Mongolia

Tel : +976 11 314032 / +976 11 312005
Fax : +976 11 312042
ey.com

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia LLC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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 scepticism 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.

EY
Building a better
working world

INDEPENDENT AUDITOR'S REPORT (CONTD.)

To the shareholders of Trade and Development Bank of Mongolia LLC

Auditor's Responsibilities for the Audit of the Financial Statements (contd.)

- 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.

Other Matter

This report is made solely to the shareholders of the Bank, as a body, in accordance with the audit requested by shareholders in accordance with Article 94 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Partner

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 15 March 2023

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
Interest income calculated using the effective interest method	4	642,747,024	570,786,451
Other interest and similar income	4	31,331,028	26,321,014
Interest and similar expense	5	(354,478,116)	(405,636,562)
Net interest income		**319,599,936**	**191,470,903**
Fee and commission income	6	77,961,275	65,236,995
Fee and commission expense	6	(27,512,673)	(20,800,855)
Net fee and commission income		**50,448,602**	**44,436,140**
Trading and other operating income/(expense)	7	13,924,925	(13,405,598)
Total operating income		**383,973,463**	**222,501,445**
Credit loss reversal	8	28,297,839	57,705,549
Net operating income		**412,271,302**	**280,206,994**
Operating expenses	9	(172,790,891)	(130,938,563)
Share of profit/(loss) of an associate	15	418,388	(28,728,932)
Profit before tax		**239,898,799**	**120,539,499**
Income tax expense	10.1	(45,650,106)	(15,729,066)
Profit for the year		**194,248,693**	**104,810,433**
Earnings per share (MNT)			
Basic and diluted earnings per share	11	4,041	2,180
Other comprehensive income/(loss) (net of tax):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	(16,130,824)	(1,266,566)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Revaluation (loss)/gain on equity instruments at fair value through other comprehensive income	30	14,779,163	(18,633,681)
Revaluation of property and equipment	30	–	14,843,570
Other comprehensive loss		**(1,351,661)**	**(5,056,677)**
Total comprehensive income for the year, net of tax		**192,897,032**	**99,753,756**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of financial position

At 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
ASSETS			
Cash and balances with Bank of Mongolia	**12**	1,756,207,294	976,352,237
Due from other banks and financial institutions	**13**	767,067,640	504,417,550
Financial assets at fair value through profit or loss	**14**	266,017,128	199,870,221
Debt instruments at fair value through other comprehensive income	**14**	1,079,812,762	1,754,434,647
Equity instruments at fair value through other comprehensive income	**14**	73,528,478	57,662,947
Debt instruments at amortised cost	**14**	250,553,216	590,679,288
Investment in associate	**15**	924,685	506,297
Derivative financial instruments	**16**	265,374,431	101,647,498
Loans and advances to customers	**17**	4,137,182,398	4,588,465,405
Other assets	**18**	465,950,560	200,051,593
Investment property	**19**	79,997,754	79,902,629
Assets held for sale	**20**	24,665,717	3,605,964
Property and equipment	**21**	470,625,143	480,838,433
Right-of-use assets	**22**	15,449,135	7,902,693
Intangible assets	**23**	1,421,361	2,334,413
TOTAL ASSETS		**9,654,777,702**	**9,548,671,815**
LIABILITIES			
Due to banks and other financial institutions	**24**	33,120,234	13,938,713
Repurchase agreements	**25**	316,804,791	289,792,528
Due to customers	**26**	6,207,309,405	6,266,310,519
Derivative financial instruments	**16**	166,203,537	78,035,961
Borrowed funds	**27**	1,418,831,195	1,408,740,129
Debt securities issued	**28**	–	160,140,274
Other liabilities	**29**	260,483,585	289,069,965
Lease liabilities	**22**	15,869,783	8,999,663
Income tax liabilities	**10.2**	55,742,118	12,499,999
Deferred tax liabilities	**10.3**	2,401,790	1,035,344
TOTAL LIABILITIES		**8,476,766,438**	**8,528,563,095**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	**30**	323,810,329	323,809,925
Share premium	**30**	664	–
Other reserves	**30**	258,908,980	210,143,332
Retained earnings		595,291,291	486,155,463
TOTAL EQUITY		**1,178,011,264**	**1,020,108,720**
TOTAL LIABILITIES AND EQUITY		**9,654,777,702**	**9,548,671,815**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of changes in equity

For the year ended 31 December 2022

	Share capital MNT'000 (Note 30)	Share premium MNT'000 (Note 30)	Other reserves MNT'000 (Note 30)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2021	72,723,171	251,086,754	220,381,635	386,162,134	930,353,694
Profit for the year	–	–	–	104,810,433	104,810,433
Other comprehensive income	–	–	(5,056,677)	–	(5,056,677)
Total comprehensive income	**–**	**–**	**(5,056,677)**	**104,810,433**	**99,753,756**
Realised revaluation reserve	–	–	(32,613,320)	32,613,320	–
Dividend (Note 30)	–	–	–	(9,998,730)	(9,998,730)
Movement on regulatory reserve*	–	–	27,431,694	(27,431,694)	–
Increase in ordinary shares	251,086,754	(251,086,754)	–	–	–
At 31 December 2021 and 1 January 2022	**323,809,925**	**–**	**210,143,332**	**486,155,463**	**1,020,108,720**
Profit for the year	–	–	–	194,248,693	194,248,693
Other comprehensive income	–	–	(1,351,661)	–	(1,351,661)
Total comprehensive income	**–**	**–**	**(1,351,661)**	**194,248,693**	**192,897,032**
Realised revaluation reserve	–	–	(5,537,618)	5,537,618	–
Dividend (Note 30)	–	–	–	(34,995,556)	(34,995,556)
Movement on regulatory reserve*	–	–	55,654,927	(55,654,927)	–
Increase in ordinary shares	404	664	–	–	1,068
At 31 December 2022	**323,810,329**	**664**	**258,908,980**	**595,291,291**	**1,178,011,264**

*Reserves include the regulatory reserve that is set up in compliance with Bank of Mongolia ("BoM") requirements and is distributable to Shareholders of the Bank subject to BoM's approval.

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		239,898,799	120,539,499
Adjustments for:			
Changes in fair value of financial derivatives	**7**	(97,805,076)	(21,067,389)
(Gain)/Loss on disposal of property and equipment	**7**	133,393	(10,997,768)
(Gain)/Loss on disposal of assets-held-for sale, net	**7**	102,101	(3,391,791)
Valuation gain on investment property	**7**	(95,125)	(433,617)
(Gain)/Loss on disposal of foreclosed properties, net	**7**	4,541,099	(204,152)
Gain on disposal of investment properties	**7**	–	(6,063,066)
Gain on partial disposal of investment in associate	**7**	–	(5,434,794)
Net modification loss from project mortgage loans	**7**	7,781,905	6,754,302
(Gain)/Loss on disposal of debt instrument measured at FVOCI	**7**	(125,429)	509,109
Impairment of foreclosed properties	**7**	–	27,650,688
Modification loss on other loans receivables	**7**	13,861,532	17,805,897
Loss on initial recognition of equity investment measured at FVOCI	**7**	–	14,508,803
Write-off of foreclosed properties	**7**	–	2,123,116
Loss from revaluation of properties	**7**	–	1,745,195
Amortisation of deferred grant	**7**	(232,737)	–
Share of (profit)/loss in associate	**15**	(418,388)	28,728,932
Credit loss reversal	**8**	(28,297,839)	(57,705,549)
Depreciation of property and equipment	**9**	13,182,054	13,653,950
Amortisation of intangible assets	**9**	1,644,302	2,373,456
Depreciation of rights-of-use assets	**9**	5,345,669	5,128,494
Property and equipment written off	**9**	7,225,692	154,371
Intangible assets written off	**9**	1,685	–
Interest expense of borrowed funds	**5**	93,256,863	116,374,067
Interest expense of debt securities issued	**5**	6,326,356	12,800,000
Accretion of interest on lease liabilities	**5**	990,130	1,219,631
Unrealised foreign exchange differences of borrowed funds		97,002,614	(151,362)
Operating profit before working capital changes		**364,319,600**	**266,620,022**
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(142,511,368)	(124,050,688)
Due from other banks and financial institutions		(29,676,880)	(15,513,234)
Loans and advances to customers		483,985,686	(501,093,613)
Assets-held-for sale		(24,334,203)	3,873,960
Other assets		(307,584,159)	(61,028,385)
Due to banks		19,181,521	(89,007,431)
Repurchase agreements		27,012,263	65,504,912
Due to customers		(59,001,114)	954,892,336
Other liabilities		(27,500,688)	(348,300,156)
Cash generated from operations		**303,890,658**	**151,897,723**
Interest portion of the lease liabilities paid		(990,130)	(1,219,631)
Interest paid on borrowed funds		(84,192,165)	(105,600,240)
Interest paid on debt securities issued		(6,466,630)	(12,800,000)
Net cash flows generated from operating activities		**212,241,733**	**32,277,852**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows (contd.)

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(787,212,627)	(1,422,590,074)
Proceeds from disposal of financial investments		1,236,504,531	930,207,988
Proceeds from/(Payment for) gold prepayment agreement		34,144,815	(14,244,000)
Proceeds from disposal of property and equipment		8,792,270	15,976,615
Purchase of property and equipment	21	(20,231,695)	(25,018,146)
Proceeds on disposal of investment properties		–	10,305,493
Purchase of intangible assets	23	(732,935)	(333,455)
Net cash flows (used in)/generated from investing activities		**471,264,359**	**(505,695,579)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds		750,952,149	1,096,949,851
Repayment of borrowed funds		(845,690,067)	(255,441,498)
Payment of deferred upfront fees		(1,238,328)	(2,127,043)
Dividend paid	30	(33,841,116)	(9,998,730)
Repayment of debt securities		(160,000,000)	–
Proceeds from grant received	29	561,938	–
Proceeds from issuance of shares	30	1,068	–
Payment of principal portion of lease liabilities		(5,975,936)	(5,230,452)
Net cash flows (used in)/generated from financing activities		**(295,230,292)**	**824,152,128**
Net increase in cash and cash equivalents		**388,275,800**	**350,734,401**
Cash and cash equivalents brought forward	12	1,727,107,692	1,376,373,291
Cash and cash equivalents carried forward	**12**	**2,115,383,492**	**1,727,107,692**
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(363,844,513)	(412,379,234)
Interest received		805,020,573	646,982,797
NON-CASH ACTIVITIES			
Additions to right-of-use assets and lease liabilities	22	13,267,832	2,636,768
Modification of leases	22	156,856	575,218
Foreclosure of collaterals		26,583,542	20,404,728
Additions to property and equipment		–	34,069,935
Consideration for disposal of property and equipment		–	33,789,205
Consideration for disposal of investment property		–	16,655,777

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2022 MNT'000	2021 MNT'000
At 1 January	8,999,663	11,384,522
Non-cash additions	13,267,832	2,636,768
Lease modification	156,856	575,218
Termination of lease	(578,632)	(366,393)
Interest expense during the year	990,130	1,219,631
Interest portion of the lease liabilities paid	(990,130)	(1,219,631)
Principal portion of lease liabilities paid	(5,975,936)	(5,230,452)
At 31 December	**15,869,783**	**8,999,663**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows (contd.)

For the year ended 31 December 2022

Reconciliation of changes in liabilities arising from financing activities (contd.):

	Borrowed funds MNT'000	Debt securities issued MNT'000
At 1 January 2021	**558,736,354**	**160,140,274**
New disbursement	1,096,949,851	–
Repayment	(255,441,498)	–
Interest repayment	(105,600,240)	(12,800,000)
Deferred upfront fee	(2,127,043)	–
Net repayment	733,781,070	(12,800,000)
Foreign exchange movement	(151,362)	–
Non-cash items arising from financing activities	(151,362)	–
Interest expense accrued and deferral amortisation	116,374,067	12,800,000
At 31 December 2021 and 1 January 2022	**1,408,740,129**	**160,140,274**
New disbursement	750,952,149	–
Repayment	(845,690,067)	(160,000,000)
Interest repayment	(84,192,165)	(6,466,630)
Deferred upfront fee	(1,238,328)	–
Net repayment	(180,168,411)	(166,466,630)
Foreign exchange movement	97,002,614	–
Non-cash items arising from financing activities	97,002,614	–
Interest expense accrued and deferral amortisation	93,256,863	6,326,356
At 31 December 2022	**1,418,831,195**	**–**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

1. Corporate information

Trade and Development Bank of Mongolia LLC (the "Bank") was incorporated under Mongolian law on 19 October 1990 and is engaged in the business of providing banking and financial services pursuant to License No. 8 issued by the Bank of Mongolia ("BoM") under the first Banking sector supervision act in 1993.

The Bank is a limited liability company incorporated and domiciled in Mongolia. Its registered office is at Trade and Development Bank of Mongolia building, Peace Avenue 19, Sukhbaatar district, 1st khoroo, Ulaanbaatar 14210, Mongolia.

As at 31 December 2022, the Bank is 64.00% owned by Globull Investment and Development PTE Ltd ("Globull"), which is incorporated in Singapore. Globull is 92.20% owned by US Global Investment LLC (incorporated in the United States of America) and 7.80% owned by Mr. Erdenebileg Doljin. (See Note 30 for the shareholders of the Bank and percentage of ownership). US Global Investment LLC is wholly owned by Mr. Erdenebileg Doljin.

The financial statements for the year ended 31 December 2022 were authorised for issue in accordance with the resolution of the board of directors on 15 March 2023.

2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The financial statements of the Bank have been prepared on a historical cost basis, except for debt and equity instruments at fair value through other comprehensive income ("FVOCI"), financial assets at fair value through profit and loss ("FVTPL"), derivative financial instruments, buildings and land that are measured at fair value subsequent to its acquisition, investment property, precious metal that is measured at fair value and properties held for sale which are measured at the lower of its carrying amount and fair value less costs to sell. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts without being contingent on a future event and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss and other comprehensive income ("OCI") unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.3 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

• IFRS 17	*Insurance Contracts*[1]
• Amendments to IFRS 17	*Insurance Contracts*[1]
• Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
• Amendments to IAS 8	*Definition of Accounting Estimates*[1]
• Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
• Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
• Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
• Amendments to IAS 1	*Non-current Liabilities with Covenants*[2]
• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an investor and its Associate or Joint Venture*[3]

[1]*Effective for annual periods beginning on or after 1 January 2023*
[2]*Effective for annual periods beginning on or after 1 January 2024*
[3]*No mandatory effective date yet determined but available for adoption*

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.3 Standards issued but not yet effective (contd.)

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or

IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standards are not expected to have an impact on the Bank.

Amendments to IFRS 17 Insurance Contracts

Amendments to IFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to IFRS 17. In addition, the amendments defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. The amendments are not expected to have any impact on the Bank.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability does not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The amendments have no impact on the Bank`s financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.3 Standards issued but not yet effective (contd.)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

Non-current liabilities with Covenants – Amendments to IAS 1

In October 2022, the IASB issued the 2022 Amendments to IAS 1 to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. The Bank is currently assessing the impact of the amendments and whether existing loan agreements may require revision.

Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. No mandatory effective date yet determined for the amendments, but available for adoption.

2.4 New and amended standards and interpretations

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.4 New and amended standards and interpretations (contd.)

Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements, these standards are summarised below:

- Amendments to IFRS 3 — *Reference to the Conceptual Framework*
- Amendments to IAS 16 — *Property, Plant and Equipment: Proceeds before Intended use*
- Amendments to IFRS 1 — *First-time Adoption of International Financial Reporting Standards-Subsidiary as a first-time adopter*
- Amendments to IAS 37 — *Onerous Contracts – Costs of Fulfilling a Contract*
- Amendments to IFRS 9 — *Fees in the '10 Per cent' Test for Derecognition of Financial liabilities*
- IAS 41 Agriculture — *Taxation in fair value measurements*

2.5 Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in Mongolian Togrog ("MNT"), which is also the Banks functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising from settlement or translation of monetary items are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Recognition of interest income

The effective interest rate method

Interest income is recorded using the effective interest rate ("EIR") method for all financial instruments measured at amortised cost ("AC") and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI are also recorded by using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount or, amortised cost as appropriate of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss for both interest income and interest expense to provide symmetrical and comparable information. In its interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out above.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Recognition of interest income (contd.)

Interest and similar income/expense (contd.)

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVTPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in “Trading and other operating income/expense”.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired and is therefore regarded as “Stage 3”, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank’s revenue contracts do not typically include multiple performance obligations, as explained further below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified below). The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fee and commission income from services where performance obligations are satisfied over time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Fee income from providing transaction services

Fees arising from negotiations or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees to components of fees that are liked to a certain performance obligation are recognised after fulfilling the corresponding criteria of the performance.

Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be draw down, the loan commitment fees are recognised as revenue on expiry.

Fees and commission expense

Fee expense represents administration and fixed fee commission paid to the commercial banks. Fee expense is recognized when actual service has been provided.

Components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

Net gain or loss on financial assets and liabilities designated at FVTPL

Net gain or loss on financial instruments at FVTPL represents financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Net gain or loss on derecognition of financial assets measured at amortised cost or FVOCI

Net gain or loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs or FVOCI calculated as the difference between the book value (including impairment) and the proceeds received.

Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments, other than those measured at FVTPL, are initially measured at their fair value including respective transaction costs. While financial instruments at FVTPL are recognised at its fair value and any transaction costs are recognised in profit or loss. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

'Day 1' profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in trading and other operating income/expenses. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVTPL

The Bank classifies and measures its derivative and trading portfolio at FVTPL. The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.5 Summary of significant accounting policies (contd.)

Determination of fair value (contd.)

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 34.

Financial assets and liabilities per financial statement line

Due from banks, Loans and advances to customers, Financial investments at amortised cost

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment. The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model and, in particular, the way those risks are managed;
- Past experience with how the cash flows from these assets were obtained;
- The metrics used to measure and report on portfolio performance and reported to the key management;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test. As a second step of its classification process the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, cross currency swaps and forward foreign exchange contracts on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are included in other income unless hedge accounting is applied.

Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The expected credit loss (“ECL”) calculation for debt instruments at FVOCI is explained in Note 33. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss even upon derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

Borrowed funds and debt securities issued

Borrowed funds and debt securities issued are contractual obligations to local and foreign financial institutions.

After initial measurement, borrowed funds and debt securities issued are subsequently measured at amortised cost using the EIR. The amortised cost of borrowed funds and debt securities issued is calculated using EIR by taking into account any transaction costs related to the transaction.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. When establishing the accounting treatment of these non-derivative instruments the Bank first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to its equity and liability components, the equity component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion options) is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates if the liability component has embedded derivatives which would require separation.

Financial assets and liabilities at FVTPL

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantee, letter of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within ‘other liabilities’) at fair value, being the premium received. Subsequent to initial recognition, 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 an ECL allowance as set out in Note 32.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 32.

Due to customers

This includes current, savings, time deposits and bank guarantee fund from customers. After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

Due to banks

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM. The Bank recognises due to customer balances when funds reach the Bank. After initial measurement, due to banks are subsequently measured at amortised cost using the EIR.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Reclassification of financial assets

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Modification of financial assets and liabilities

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- Whether the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognised immediately in profit or loss.

For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

Derecognition other than for substantial modification

Financial assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the asset; or
- It retains the right to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Derecognition of financial assets and liabilities (contd.)

Derecognition other than for substantial modification (contd.)

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the original asset), but assumes a contractual obligation to pay those cash flows to one or more entities (the eventual recipients), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Forborne modified loans

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 forborne 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. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

If modifications are substantial, the loan is derecognised, as explained above. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Forborne modified loans (contd.)

When the loan has been renegotiated or modified but not derecognised, the Bank considers that there has been a significant increase in credit risk since initial recognition and thus classifies the loan as Stage 2. Once an asset has been classified as forborne, it reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be 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 contracts that are more than 30 days past due

Details of forborne assets are disclosed in Note 33.

Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or “LTECL”), unless there has been no significant increase in credit risk (“SICR”) since origination, in which case, the allowance is based on the 12 months expected credit loss (“12mECL”). The Bank’s policies for determining if there has been a SICR are set out in Note 33.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL 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.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. 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 LTECL. 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 LTECL.

POCI: 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. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Calculation of ECL

The Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The Probability of Default ("PD") 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 ("EAD") 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 ("LGD") 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 or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

When estimating the ECL, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in the earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.

Loan commitments and letters of credit: When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within 'other liabilities'.

Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and the ECL provision. For this purpose, the Bank estimates ECL 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 calculation is made using a probability-weighting of the three scenarios. The ECL related to financial guarantee contracts are recognised within 'other liabilities'.

2.5 Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

Debt instruments measured at FVOCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards and overdrafts is based on annualised the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information ("FLI") as economic inputs, such as:

- Inflation Rate
- Gross Domestic Product ("GDP") growth
- MNT/USD Exchange rate ("FX rate")
- Policy rate
- Credit Growth (YoY)
- Money M2 Growth (YoY)
- Unemployment rate
- Credit outstanding of commercial banks

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit enhancements: Collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on annual basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

2.5 Summary of significant accounting policies (contd.)

Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Foreclosed properties

The Bank's policy is to determine whether a foreclosed 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 foreclosed 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 asset) or fair value less cost to sell for non-financial assets at the repossession date. Assets that are expected to be sold beyond twelve months are included in "Other assets" and are measured at the lower of the cost and fair value less costs to sell.

Precious metals

Precious metals represent gold and silver which are carried at the fair value.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Investment in associate

The Bank's investment in associate is accounted for using the equity method. An associate is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policies.

Under the equity method, the investment in an associate is carried on the statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit and loss and other comprehensive income reflects the Bank's share on the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The Bank's share of profit of an associate is shown on the face of the statement profit or loss and other comprehensive income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate, if any.

The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in profit and loss.

Upon loss of significant influence over the associate, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to indicate that they are pledged as collateral.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Interest and similar income' and is accrued over the life of the agreement using the EIR.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Leases (contd.)

Short-term leases

The Bank applies the short-term lease recognition exemption to its short-term leases of certain office spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date or spaces for ATMs). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Bank included the renewal period as part of the lease term for leased office spaces due to the significance of these assets to its branch operations.

Property and equipment

Property and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property and equipment when the costs are incurred if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequent to initial recognition, items of property and equipment, except for buildings and land are subsequently stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Buildings and land are measured at fair value. Valuations are undertaken on a three to five year cycle. Between valuation dates, buildings are depreciated to the extent that reflect erosion of value. Any revaluation reserve is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case, the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing reserve on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is stated at cost which includes cost of construction equipment and other costs less any impairment in value. Construction in progress is not depreciated nor depleted until such time as the relevant assets are completed and put into operational use.

Depreciation of property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life as follows:

Type of Asset	Estimated Useful Life in Years
Buildings and land	25 – 60
Office equipment and vehicles	3 – 15
Computers and others	2 – 13

Items of property and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss when the asset is derecognised.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Intangible assets

The Bank's intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

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 over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful live of three to ten years.

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Bank considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Non-current assets held for sale

The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Impairment of non–financial assets

The Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Impairment of non–financial assets (contd.)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

Employee benefits

Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank.

Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, social and health fund. Such contributions are recognised as an expense in profit or loss as incurred.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are regularly reviewed by the Bank's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except for:

- Where the deferred tax liability 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.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Taxes (contd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

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

Retained earnings

Retained earnings represent accumulated profits or losses, reduced by dividend declarations. These may also include prior period adjustments and effects of changes in accounting policies.

Asset revaluation reserve

The revaluation reserve is used to record the reserve arising from the revaluation of the Bank’s land and buildings.

Regulatory reserve

Regulatory reserve mainly represents a difference between impairment provision determined for loan loss and impairment of foreclosed assets in accordance with the regulations of BoM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BoM's approval.

Fair value reserves

The fair value reserves comprise of the cumulative net change in the fair value of the debt instruments classified at FVOCI, less the allowance for ECL, and the cumulative net change in fair value of equity instruments at FVOCI.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax, if any) by weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

2.5 Summary of significant accounting policies (contd.)

Transactions with related parties

A related party is a person or entity that is related to the Bank:

A person or a close member of that person's family is related to a Bank if that person:
- has control or joint control of the Bank;
- has significant influence over the Bank; or
- is a member of the key management personnel of the Bank or of a parent of the Bank.

An entity is related to a Bank if any of the following conditions applies:
- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank.
- The entity is controlled or jointly controlled by a person who has control or joint control of the Bank.
- A person who has control or joint control of the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the detail is presented in Note 35.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic inputs, such as GDP, unemployment rates and inflation rates, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It is the Bank's policy to annually review its models in the context of actual loss experience and adjust when necessary.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

3. Significant accounting judgments, estimates and assumptions (contd.)

Fair value of derivative financial instruments

When the fair value of derivative financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions could affect the reported fair value of derivative financial instruments. See Note 34 for further disclosures.

Revaluation of properties

The Bank carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. In addition, the Bank measures its land and buildings at revalued amounts, with changes in fair value being recognised in OCI. The Bank engages an independent valuation specialist to assess fair value of both investment properties and the land and buildings. Properties were valued principally by reference to market-based evidence, using comparable prices and income approaches adjusted for specific market factors such as nature, location and condition of the buildings. The Bank engaged an independent valuation specialist to assess fair values as at 31 December 2022 for the investment properties and as at 31 December 2021 for land and buildings.

This valuation assessment requires exercise of judgment from management and independent valuer based on their experience of those properties as well as other assumptions described in Note 34.

Determination of significant influence over an entity in which Bank holds less than 20% voting right

The Bank considers that it has significant influence over MIK even though it owns less than 20% of the voting rights. This is because the Bank is one of the largest shareholders of MIK with a 10% equity interest (effective interest of 13.58%) while majority of the other shareholders hold less than 10% equity interest. Additionally, certain related parties of the Bank hold around 31.82% (effective interest of 43.21%) equity interest in MIK, thus the voting power of the Bank together with its related parties are larger than that of any other shareholder of MIK. Furthermore, the Bank enters into material transactions with MIK throughout the year on regular basis. Although these transactions are entered into during ordinary course of business, the volume and amount are considered material.

4. Interest and similar income

	2022 MNT'000	2021 MNT'000
Interest income calculated using the effective interest method		
Loans and advances to customers	475,595,163	379,891,417
Debt instrument at FVOCI	79,036,606	76,877,070
Debt instrument at amortised cost	65,525,281	105,874,414
Cash and balances with BoM	13,062,605	5,018,183
Due from banks and financial institutions	8,711,102	2,346,939
Reverse repurchase agreements	816,267	778,428
	642,747,024	**570,786,451**
Other interest and similar income		
Financial assets at FVTPL	19,544,616	14,754,616
Loans and advances to customers measured at FVTPL	11,786,412	11,566,398
	31,331,028	**26,321,014**

In 2022, interest income from debt instruments at amortised cost and FVOCI includes interest income from government bonds amounting to MNT 63,598,005 thousand and MNT 3,342,958 thousand, respectively (2021: MNT 105,874,414 and MNT 1,097,905 thousand respectively) which are tax exempt incomes.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

5. Interest and similar expenses

	2022 MNT'000	2021 MNT'000
Due to customers	227,586,554	257,645,983
Borrowed funds	93,256,863	116,374,067
Repurchase agreements	19,796,976	15,057,398
Debt securities issued	6,326,356	12,800,000
Due to banks and financial institutions	6,521,237	2,539,483
Lease liabilities (Note 22)	990,130	1,219,631
	354,478,116	**405,636,562**

6. Net fees and commission income

	2022 MNT'000	2021 MNT'000
Fees and commission income from providing financial services at a point in time:		
Card service	34,325,781	26,654,212
Wire transfer	16,846,301	13,229,064
Loan related service	4,831,542	7,455,936
Mobile and internet-banking service	6,356,065	4,596,024
Others	2,857,941	2,345,760
	65,217,630	**54,280,996**
Fee income earned from services that are provided over time		
Financial guarantee	9,871,697	9,222,144
Card service	2,871,948	1,733,855
	12,743,645	**10,955,999**
Fees and commission expenses		
Card service charges	22,960,261	16,719,066
Others	4,552,412	4,081,789
	27,512,673	**20,800,855**
Net fees and commission income	**50,448,602**	**44,436,140**

7. Trading and other operating income/(expenses)

	2022 MNT'000	2021 MNT'000
Unrealised gain on fair valuation of derivatives	97,805,076	21,067,389
Precious metal trading gain, net	6,053,482	1,253,189
Amortisation of deferred grant (Note 29)	232,737	–
Gain/(loss) of fair value of financial investments at FVOCI	125,429	(509,109)
Valuation gain on investment property (Note 19)	95,125	433,617
Foreign exchange gain/(loss), net	(65,052,424)	19,776,375
Modification loss on other loans receivables (Note 18)	(13,861,532)	(17,805,897)
Net swap interest expense	(8,464,794)	(15,381,806)
Net modification loss from project mortgage loans (Note 17)	(7,781,905)	(6,754,302)
Gain/(loss) on disposal of foreclosed properties, net	(4,541,099)	204,152
Gain/(loss) on disposal of asset-held-for sale, net	(102,101)	3,391,791
Gain/(loss) on disposal of property and equipment, net	(133,393)	10,997,768
Gain on disposal of investment property	–	6,063,066
Gain on partial disposal of investment in associate, net (Note 15)	–	5,434,794
Impairment of foreclosed properties	–	(27,650,688)
Loss on initial recognition of equity investment	–	(14,508,803)
Write-off of foreclosed properties	–	(2,123,116)
Revaluation loss on property and equipment (Note 21)	–	(1,745,195)
Others	9,550,324	4,451,177
	13,924,925	**(13,405,598)**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

8. Credit loss expense reversal

	2022 MNT'000	2021 MNT'000
Loans and advances to customers (Note 17)	(40,484,584)	(65,509,851)
Other assets (Note 18)	14,566,431	17,082,876
Credit commitment (Note 32)	(2,380,577)	(9,248,189)
Debt instrument measured at amortised cost (Note 14)	(278,876)	(385,577)
Debt instrument measured at FVOCI (Note 14)	226,875	331,301
Due from other banks and financial institutions (Note 13)	349	(1,805)
Balances with BoM (Note 12)	52,543	25,696
	(28,297,839)	**(57,705,549)**

9. Operating expenses

	2022 MNT'000	2021 MNT'000
Personnel expense	77,025,204	56,426,251
Advertising and public relations	14,778,631	8,914,953
Depreciation on property and equipment (Note 21)	13,182,054	13,653,950
Insurance	7,473,497	7,806,738
Write-off of property and equipment (Note 21)	7,225,692	154,371
Professional services fee	7,153,613	5,885,907
IT maintenance	5,686,303	5,498,594
Depreciation of right-of-use assets (Note 22)	5,345,669	5,128,494
Technical assistance and foreign bank remittance fee	4,179,474	4,774,133
Stationery and supplies	4,040,166	2,008,763
Communication	3,184,130	2,637,928
Repairs and maintenance	2,292,005	2,845,457
Amortisation of intangible asset (Note 23)	1,644,302	2,373,456
Utility expenses	1,324,706	1,041,039
Reception and entertainment	1,196,952	258,830
Cash handling	967,593	567,943
Business travel expenses	907,891	124,539
Transportation	583,593	568,269
Rental expense	537,900	347,218
Training expenses	395,602	182,003
Security	247,803	236,587
Write-off of intangible assets (Note 23)	1,685	–
Others	13,416,426	9,503,140
	172,790,891	**130,938,563**

10. Income taxes

10.1 Income tax expense

The income tax expense for the year ended 31 December 2022 is:

	2022 MNT'000	2021 MNT'000
Income tax:		
Current income tax	52,883,282	14,601,281
Adjustment in respect of current income tax of prior years	(8,775,015)	–
Deferred tax:		
Relating to temporary differences (Note 10.3)	1,541,839	1,127,785
	45,650,106	**15,729,066**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

10. Income taxes (contd.)

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% (2021: 10%) for the first MNT 6 billion (2021: MNT 6 billion) of taxable income and 25% (2021: 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.

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:

	2022 MNT'000	2021 MNT'000
Profit before income tax	239,898,799	120,539,499
Tax at statutory rate of 25% (2021: 25%)	59,974,700	30,134,875
Effect of expenses not deductible for income tax purpose	15,244,967	19,567,730
Special tax rate	1,047,492	2,166,083
Tax rate difference	(1,703,595)	(1,578,177)
Effect of non-taxable income	(957,973)	(7,728,804)
Effect of income exempted from taxation	(16,735,241)	(26,743,079)
Effect of tax credit	(37,852)	(89,562)
Adjustment in respect of current income tax of prior years	(8,775,015)	–
Utilisation of previously unrecognised tax losses	(2,407,377)	–
Tax expense	**45,650,106**	**15,729,066**

As at 31 December 2022, the Bank has no available tax losses of (2021: MNT 9,629,506 thousand) that are available to offset against future taxable profits for the next four financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year.

The effective income tax rate for 2022 is 19.03% (2021: 13.05%).

10.2 Income tax liabilities

	2022 MNT'000	2021 MNT'000
Income tax liabilities as at 1 January	12,499,999	111,957
Income tax expense for the year	52,883,282	14,601,281
Adjustment in respect of current income tax of prior years	(8,775,015)	–
Withheld by third parties	(866,148)	(2,213,239)
Income tax liabilities as at 31 December	**55,742,118**	**12,499,999**

10.3 Deferred tax liabilities

As at 31 December 2022	**As at 1 January 2022 MNT'000**	**Recognised in other comprehensive income MNT'000**	**Recognised in profit or loss MNT'000**	**As at 31 December 2022 MNT'000**
Deferred tax (assets)/liabilities				
Revaluation of financial investments measured at FVOCI	429,612	(175,393)	–	254,219
Revaluation of derivative financial instruments	1,558,458		1,500,000	3,058,458
Share of profit of an associate	(999,598)	–	41,839	(957,759)
Lease liabilities and ROU asset	46,872	–	–	46,872
	1,035,344	**(175,393)**	**1,541,839**	**2,401,790**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

10. Income taxes (contd.)

10.3 Deferred tax liabilities (contd.)

As at 31 December 2021	**As at 1 January 2021 MNT'000**	**Recognised in other comprehensive income MNT'000**	**Recognised in profit or loss MNT'000**	**As at 31 December 2021 MNT'000**
Deferred tax (asset)/liabilities				
Revaluation of financial investments measured at FVOCI	2,677,562	(2,247,950)	–	429,612
Revaluation of derivative financial instruments	(548,280)	–	2,106,738	1,558,458
Share of profit of an associate	(20,645)	–	(978,953)	(999,598)
Lease liabilities and ROU asset	46,872	–	–	46,872
	2,155,509	**(2,247,950)**	**1,127,785**	**1,035,344**

11. Earnings per share

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	2022 MNT'000	**2021 MNT'000**
Profit attributable to ordinary equity holders - basic and diluted	194,248,693	104,810,433
Adjusted weighted average number of ordinary shares for EPS	48,070,860	48,070,820
Earnings per share		
	MNT	**MNT**
Equity holders of the Bank for the period:		
Basic earnings per share	4,041	2,180
Diluted earnings per share	4,041	2,180

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year (See Note 30) and adjusted by the share split made after the reporting date (See Note 38).

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

12. Cash and balances with Bank of Mongolia

	2022 MNT'000	2021 MNT'000
Cash on hand	69,650,934	86,908,373
Current accounts with BoM	824,923,439	889,640,138
Deposit accounts with BoM	861,881,738	–
Gross carrying amount	**1,756,456,111**	**976,548,511**
Less: Allowance for impairment losses on balances with BoM	(248,817)	(196,274)
Net cash and balances with BoM	**1,756,207,294**	**976,352,237**

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 8.0% (2021: 6.0%) of customer deposits for local currency and not less than 18.0% (2021: 18.0%) of customer deposits for foreign currency based on average balance of two weeks.

As at 31 December 2022, the average reserves required by BoM for that period of two weeks were MNT 214,059,644 thousand (2021: MNT 204,051,735 thousand) for local currency and MNT 646,037,152 thousand (2021: MNT 513,533,692 thousand) for foreign currency maintained on current accounts with BoM.

Impairment allowance for cash and balances with BoM

The table below shows the credit quality and the maximum exposure excluding cash on hand to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. As at 31 December 2022 and 2021, the balances have credit rating of B- and classified as stage 1. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 33:

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
31 December 2022	2.373%	1,686,805,177	(248,817)
31 December 2021	2.409%	889,640,138	(196,274)

An analysis of changes in the ECL allowance as at 31 December 2022 and 2021 are as follows:

	2022 MNT'000	2021 MNT'000
At 1 January	196,274	170,578
Net charge for the year (Note 8)	52,543	25,696
At 31 December	**248,817**	**196,274**

Additional cashflow information

	2022 MNT'000	2021 MNT'000
Cash and balances with BoM (Note 12)	1,756,456,111	976,548,511
Due from banks and financial institutions (Note 13)	767,073,137	504,422,698
Unquoted BoM treasury bills - less than three months (Note 14)	949,566,385	1,661,230,725
Gross carrying cash and cash equivalents amount	**3,473,095,633**	**3,142,201,934**
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(860,096,796)	(717,585,428)
Less: Placement with foreign bank as cash collateral	(188,969,117)	(159,292,237)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(308,646,228)	(538,216,577)
Net cash and cash equivalents	**2,115,383,492**	**1,727,107,692**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

13. Due from other banks and financial institutions

	2022 MNT'000	2021 MNT'000
Current accounts with foreign banks and financial institutions	411,613,586	244,856,076
Placement with foreign bank as cash collateral	188,969,117	159,292,237
Current accounts with local banks and financial institutions	3,921,113	889,908
Placement with foreign banks and financial institutions	162,569,321	99,384,477
Gross carrying amount	**767,073,137**	**504,422,698**
Less: Allowance for impairment losses	(5,497)	(5,148)
Net due from banks and other financial institutions balance	**767,067,640**	**504,417,550**

Impairment allowance for due from other banks and financial institutions

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 33.

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
At 31 December 2022			
Internal rating grade			
A- to AA+ rated	0.008% - 0.033%	737,773,958	1,940
BBB- to BBB+	0.140%	2,244,155	6
B- to BB+	0.604% - 2.6%	8,902,522	243
Not rated	11.18%	18,152,502	3,308
		767,073,137	**5,497**
At 31 December 2021			
Internal rating grade			
A- to AA+ rated	0.022% - 0.076%	447,407,252	2,440
BBB- to BBB+	0.257%	27,913,686	111
B- to BB+	0.875% - 2.974%	16,513,689	542
Not rated	10.11%	12,588,071	2,055
		504,422,698	**5,148**

An analysis of changes in the ECL allowance as at 31 December 2022 and 2021 are as follows:

	2022 Stage 1 MNT'000	2021 Stage 1 MNT'000
Gross carrying amount as at 1 January	**504,422,698**	**570,008,607**
New assets originated or purchased	393,377,371	106,773,411
Repaid amounts	(160,522,920)	(174,317,103)
Foreign exchange adjustments	29,795,988	1,957,783
At 31 December	**767,073,137**	**504,422,698**
ECL allowance as at 1 January	**5,148**	**6,953**
New assets originated or purchased	3,558	2,664
Assets derecognised or repaid (excluding write-offs)	(168)	(4,324)
Changes to assumptions	(3,041)	(145)
Net charge/(reversal) for the year (Note 8)	349	(1,805)
At 31 December	**5,497**	**5,148**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

14. Financial investments

	2022 MNT'000	2021 MNT'000
Debt instruments measured at FVOCI:		
Government USD bond (a)	102,883,542	58,774,436
Bank of Mongolia bills (b)	949,566,385	1,661,230,725
MIK USD bond (c)	27,362,835	34,429,486
	1,079,812,762	**1,754,434,647**
Equity instruments measured at FVOCI		
Unquoted equities (d)	3,168,532	3,395,537
Quoted equities (e)	70,359,946	54,267,410
	73,528,478	**57,662,947**
Debt instruments at amortised cost		
Government bonds (f)	242,599,801	544,984,309
Development Bank of Mongolia bonds (g)	–	45,694,979
Loan backed securities - Senior tranche (i)	7,953,415	–
	250,553,216	**590,679,288**
Financial assets at FVTPL		
Residential mortgage-backed securities (h)	260,184,968	199,870,221
Loan backed securities - Junior tranche (i)	5,832,160	–
	266,017,128	**199,870,221**
	1,669,911,584	**2,602,647,103**

(a) Quoted government bonds represent investment in government bonds listed on foreign market.
(b) Unquoted BoM treasury bills are purchased either at par, premium or discount.
(c) Quoted corporate bond represent investment in Mongolian Mortgage Corporation ("MIK") bond listed on foreign market.
(d) Unquoted equity securities represent investments made in unquoted private companies. The Bank holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through OCI as the Bank considers these investments to be strategic in nature.
(e) Quoted equity securities represent investments made in quoted companies such as Visa Inc. and Mongolian Mining Corporation. In 2021, the Bank repossessed 4.215% shares of Mongolian Mining Corporation for loan repayment.
(f) Government bonds are unquoted interest-bearing bonds issued by the Government of Mongolia ("GoM").
(g) Development Bank of Mongolia ("DBM") bonds are unquoted interest-bearing long-term bonds issued by DBM under the ASEM project and fully paid within 2022.
(h) Residential mortgage-backed securities ("RMBSs") represent Junior and Senior tranche of an interest-bearing long-term securities issued by MIK (see Note 17).
(i) Loan-backed securities ("LBSs") represent Junior and Senior tranches of and interest-bearing, long-term securities issued by wholly owned special purpose companies of Securities Financing Corporation LLC ("SFC"). The Bank transferred fixed rate repurchase agreement financed business loans to SFC without recourse and received the LBSs in exchange (see Note 17).

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

14. Financial investments (contd.)

Impairment allowance for financial investment

The table below shows the fair value of the Bank's debt instruments measured at FVOCI and measured at amortised cost by credit risk including ECL allowance, based on the Bank's internal credit rating system and year-end stage classification. As at 31 December 2022 and 2021, both debt instruments have credit rating of B- to B+ and classified as stage 1. Details of the Bank's internal grading system and policies on whether ECL allowances set out in Note 33.

	2022 Fair value/ Gross carrying amount MNT'000	2022 ECL MNT'000	2021 Fair value/ Gross carrying amount MNT'000	2021 ECL MNT'000
Debt instruments at FVOCI				
As at 1 January	1,754,434,647	490,561	714,034,384	159,260
New assets originated or purchased	10,855,406,821	485,116	17,439,418,686	5,543,849
Payments and assets derecognised	(11,531,546,548)	(258,241)	(16,397,237,146)	(5,212,548)
Changes in fair value	(18,175,222)	–	(1,775,408)	–
Foreign exchange adjustments	19,693,064	–	(5,869)	–
Net charge/(reversal) for the year (Note 8)	–	226,875	–	331,301
As at 31 December	**1,079,812,762**	**717,436**	**1,754,434,647**	**490,561**
Debt instruments at AC				
As at 1 January	591,136,516	457,228	835,875,835	842,805
New assets originated or purchased	25,860,700	49,096	–	–
Payments and assets derecognised	(366,265,648)	(327,972)	(244,739,319)	(385,577)
Net charge/(reversal) for the year (Note 8)	–	(278,876)	–	(385,577)
As at 31 December	**250,731,568**	**178,352**	**591,136,516**	**457,228**

15. Investment in associate

As of 31 December 2022, the Bank holds 10.00% (2021: 10.00%) (or effective holding around 13.58% (2021: 13.58%) taking into account of the effect of treasury shares) in MIK.

During 2021, in order to comply with the requirement of the Banking law, the Bank disposed part of its investment in MIK to one of the related parties of the Bank, for total consideration of MNT 17,013,040 thousand. Nevertheless, the Bank continued to have significant influence over MIK, even though it owns less than 20% of the voting rights (See Note 3).

MIK's principal activities include purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. MIK is a public entity that is listed on the Mongolian stock exchange ("MSE"). The Bank holds a total of 2,070,932 MIK shares as of 31 December 2022 (2021: 2,070,932 shares), the closing price of MIK shares at MSE at 31 December 2022 was MNT 20,260 per share (2021: MNT 14,990 per share).

As of the date of this report, MIK has not issued its audited financial statements for the year ended 31 December 2022. The Bank's interest in MIK is accounted for using the equity method based on MIK's most recent available financial information as at 31 December 2022, adjusted for any significant events as appropriate. MIK's audited financial statements may be different from the information used by the Bank and any difference will be adjusted for by the Bank in 2023.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

15. Investment in associate (contd.)

The following table illustrates the summarised financial information of the Bank's investment in MIK:

	MNT'000
At 1 January 2021	40,813,475
Share of loss of an associate until partial disposal	(17,646,059)
Fair value of net identifiable assets of an associate as at the date of the disposal	23,167,416
Proceeds from partial disposal of equity interest	(17,013,040)
Gain on partial disposal of equity interest (Note 7)	5,434,794
Share of loss of an associate after partial disposal	(11,082,873)
At 31 December 2021 and 1 January 2022	**506,297**
Share of profit of an associate for the year	418,388
At 31 December 2022	**924,685**

	2022 MNT'000	2021 MNT'000
Investee: MIK		
Total assets	4,551,197,297	4,225,506,608
Total liabilities	(4,544,388,129)	(4,221,778,353)
Equity	6,809,168	3,728,255
Bank's share of equity 13.58% (2021: 13.58%)	**924,685**	**506,297**
Net interest income for the year	80,832,933	88,685,106
Total comprehensive income/(loss) for the year	3,080,311	(146,584,510)

16. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Notional	Fair value	
	amount MNT'000	Assets MNT'000	Liabilities MNT'000
At 31 December 2022			
Derivatives held for trading			
Cross-currency interest rate swaps with MIK and BoM (a)	515,730,880	164,487,198	163,873,260
Cross-currency interest rate swaps with BoM (b)	514,981,550	98,664,180	17,439
Forwards	91,916,250	2,223,053	2,312,838
	1,122,628,680	**265,374,431**	**166,203,537**
At 31 December 2021			
Derivatives held for trading			
Cross-currency interest rate swaps with MIK and BoM (a)	777,151,290	69,916,420	75,951,189
Cross-currency interest rate swaps with BoM (b)	422,800,045	1,969,251	2,084,772
Commodity swap (c)	14,244,000	28,522,286	–
Forwards	98,077,347	1,239,541	–
	1,312,272,682	**101,647,498**	**78,035,961**

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's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The Bank's risk management strategy and how it is applied to manage its risks is disclosed in Note 33.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

16. Derivative financial instruments (contd.)

(a) On 28 March 2019, the Bank entered into cross-currency interest rate swap agreements with MIK (derivative financial liability) and entered into respective offsetting position with BoM (derivative financial asset) on the same day, whereby the Bank has acted as an intermediary institution. At initiation, the Bank received USD funds from MIK and paid MNT funds at the spot rate, simultaneous to which the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at LIBOR/SOFR plus certain margin and pays interest on MNT funds at the central bank policy rate. Whereas during the term of the agreement with MIK, the Bank pays interest on USD funds at rate equal to the rate received from BoM and receives interest on MNT funds at central bank policy rate plus 0.1%. At the end of the term of both agreements, the Bank shall pay or receive the difference incurred by the exchange rates at the end of the term.

(b) The Bank enters into cross-currency interest rate swap agreements with BoM. At initiation, the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at SOFR (2021: LIBOR) plus certain margin and pays interest on MNT funds at the central bank policy rate. At the end of the term of agreements, the parties shall exchange the principal payments at the exchange rate of the initial transaction.

(c) On 11 November 2021, the Bank signed a gold purchase and sales financing agreement with a mining company. Under the agreement, the Bank made advance payment and is due to receive cash payment equivalent to pre agreed fixed ounces of gold in 2022. The contract period was 12 months from the date of advance payment and it has expired on 30 November 2022.

17. Loans and advances to customers

	2022 MNT'000	2021 MNT'000
Corporate	3,238,302,119	3,672,863,022
Retail loan	609,782,895	548,255,161
Small and Medium-sized enterprise (SME)	419,507,830	535,436,302
Loans to executives, directors and staffs	19,397,814	23,922,698
Gross loans and advances to customers	**4,286,990,658**	**4,780,477,183**
Allowance for impairment losses	(480,684,826)	(530,333,951)
Net loans and advances to customers	**3,806,305,832**	**4,250,143,232**
Loans and advances to customers at FVTPL	330,876,566	338,322,173
Total loans and advances to customers	**4,137,182,398**	**4,588,465,405**

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pools

During the year (on 4 August, 30 November and 16 December 2022) the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio and recognised the Senior RMBS and Junior RMBS received as financial assets (see Note 14). Bank's continuing involvement in the transferred assets is also to act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 2.5% of serviced amount. The total servicing fee recognised in 2022 amounts to MNT 2,003 million (2021: MNT 2,791 million) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 1,023,403 million as of 31 December 2022 (2021: MNT 900,824 million).

Sale of business loan pools

On 20 February 2021, the GoM has approved a MNT 10 trillion "Economic recovery plan and citizen's health protection program". The program consisted of 5 components supporting SMEs, housing, strategically important projects, agricultural productions and access to education, expected to continue until 2023. Out of these 5 sub-programs, the sub-program in supporting SMEs and agricultural production began in May 2021.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Transferred financial assets that are derecognised in their entirety (contd.)

Sale of business loan pools *(contd.)*

As part of sub-program in supporting SMEs, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools. The Bank originated a total of MNT 28,561 million of SME loans with an interest rate of 10.5% p.a and maturity of 2-3 years, in return for which the Bank received LBS. The Bank did not retain all the risks and rewards related to the loans sold to SFC within these transactions. The Bank has transferred the control of the assets to SFC. Therefore, the Bank derecognised the loan portfolio and recognised the Senior LBS and Junior LBS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Note 14).

Bank's continuing involvement in the transferred assets is to also act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 0.5% of serviced amount. The total servicing fee recognised in 2022 amounts to MNT 96,047 thousand (2021: nil) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 11,258,455 thousand as of 31 December 2022 (2021: nil).

Loans and advances to customers at FVPL

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK amounting to MNT 319,335 million (2021: 338,322 million) and portfolio of loans and advances to customers to be sold to SFC amounting to MNT 11,541 million. These loans and advances were classified as measured at FVTPL.

Transferred financial assets that are not derecognised in their entirety

Furthermore, the Bank participated in monetisation transactions with MIK for selling of loan pools collateralised by immovable assets with recourse. The Bank sold MNT 119,683 million of loans to MIK in 2021 (none in 2022), for which the Bank received funding bearing interest rate of 13.8% p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition. The assets not qualified for derecognition amounted to MNT 143,281 million as at 31 December 2022 (2021: MNT 215,070 million) (See Note 29).

Government implemented Covid-19 relief program

Throughout 2021 and 2022, the GoM had implemented Covid-19 relief program together with BoM, under which it was resolved to provide an interest payment holiday to project mortgage loan holders. Under the program, the mortgage loan borrowers were given interest free period of up to six to eight months, whereas the payments deferred in the period is to be paid later by extending the original maturity of the loan. The relief program had ended on 31 December 2022 and net modification loss of MNT 7,782 million (2021: MNT 6,754 million) (see Note 7) was recognised in relation to this amendment.

Impairment allowance for loans and advances to customers

The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 33.

At 31 December 2022	**Corporate MNT'000**	**SME MNT'000**	**Retail MNT'000**	**Total MNT'000**
Gross carrying amount as at 1 January 2022	**3,672,863,022**	**535,436,302**	**572,177,859**	**4,780,477,183**
New assets originated or purchased	878,273,917	91,766,582	394,879,755	1,364,920,254
Assets derecognised or repaid	(1,382,812,916)	(198,453,620)	(337,847,573)	(1,919,114,109)
Net movement on accrued interest	(63,199,291)	(2,602,198)	(804,538)	(66,606,027)
Movement from segment change	4,787,430	(4,787,430)	–	–
Write-offs	(10,417,350)	(1,407,856)	(305,713)	(12,130,919)
Foreign exchange adjustments	138,807,307	215,598	421,371	139,444,276
At 31 December 2022	**3,238,302,119**	**420,167,378**	**628,521,161**	**4,286,990,658**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Impairment allowance for loans and advances to customers (contd.)

At 31 December 2022	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
ECL allowance as at 1 January 2022	**460,582,583**	**51,525,615**	**18,225,753**	**530,333,951**
New assets originated or purchased	15,671,639	2,256,615	1,992,656	19,920,910
Assets derecognised or repaid	(114,561,275)	(20,154,936)	(6,891,084)	(141,607,295)
Net movement on accrued interest	(12,911,072)	(142,381)	(3,271)	(13,056,724)
Impact on ECL from stage transfers and input changes	85,290,145	4,477,993	4,490,387	94,258,525
Impact on ECL from segment changes	2,568,811	(2,568,811)	–	–
Net charge for the year (Note 8)	(23,941,752)	(16,131,520)	(411,312)	(40,484,584)
Write-offs	(10,417,350)	(1,407,856)	(305,713)	(12,130,919)
Foreign exchange adjustments	2,952,828	4,586	8,964	2,966,378
At 31 December 2022	**429,176,309**	**33,990,825**	**17,517,692**	**480,684,826**

At 31 December 2021	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	**3,531,609,201**	**410,377,769**	**530,905,759**	**4,472,892,729**
New assets originated or purchased	1,251,410,506	306,211,403	337,049,995	1,894,671,904
Assets derecognised or repaid	(1,074,123,381)	(168,159,872)	(304,018,829)	(1,546,302,082)
Net movement on accrued interest	(51,840,234)	4,263,263	8,940,559	(38,636,412)
Movement from segment change	17,214,861	(17,214,861)	–	–
Foreign exchange adjustments	(1,407,931)	(41,400)	(699,625)	(2,148,956)
At 31 December 2021	**3,672,863,022**	**535,436,302**	**572,177,859**	**4,780,477,183**
ECL allowance as at 1 January 2021	**488,614,295**	**64,257,285**	**42,977,643**	**595,849,223**
New assets originated or purchased	22,097,256	5,667,582	1,667,634	29,432,472
Assets derecognised or repaid	(64,771,351)	(17,607,646)	(17,254,975)	(99,633,972)
Net movement on accrued interest	(6,391,581)	(56,112)	(451,348)	(6,899,041)
Impact on ECL from stage transfers and input changes	18,153,833	2,150,058	(8,713,201)	11,590,690
Impact on ECL from segment changes	2,885,552	(2,885,552)	–	–
Net charge for the year (Note 8)	(28,026,291)	(12,731,670)	(24,751,890)	(65,509,851)
Write-offs	(5,421)	–	–	(5,421)
At 31 December 2021	**460,582,583**	**51,525,615**	**18,225,753**	**530,333,951**

	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
At 31 December 2022				
Performing	2,032,577,414	371,098,063	603,925,636	3,007,601,113
Special mention	420,687,760	3,437,427	2,965,130	427,090,317
Substandard	267,708,014	18,176,509	6,639,945	292,524,468
Doubtful	118,910,776	4,807,424	3,111,008	126,829,208
Loss	398,418,155	22,647,955	11,879,442	432,945,552
Total	**3,238,302,119**	**420,167,378**	**628,521,161**	**4,286,990,658**
At 31 December 2021				
Performing	1,950,286,113	453,712,950	532,227,178	2,936,226,241
Special mention	914,493,950	894,910	492,238	915,881,098
Substandard	537,494,386	43,392,192	26,386,059	607,272,637
Doubtful	22,409,676	7,487,855	3,165,775	33,063,306
Loss	248,178,897	29,948,395	9,906,609	288,033,901
Total	**3,672,863,022**	**535,436,302**	**572,177,859**	**4,780,477,183**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

The tables also include an analysis of changes in the gross carrying amount and the corresponding ECL allowances including the credit quality of the financial assets under IFRS 9, as follows:

Business loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	**1,574,487,903**	**1,290,292,160**	**808,082,959**	**3,672,863,022**
New assets originated or purchased	878,273,917	–	–	878,273,917
Assets derecognised or repaid	(581,366,888)	(684,527,844)	(116,918,184)	(1,382,812,916)
Net movement on accrued interest	3,901,533	(80,913,548)	13,812,724	(63,199,291)
Movement from segment change	(727,841)	2,123,893	3,391,378	4,787,430
Transfer to/(from) Stage 1	75,927,046	(47,500,848)	(28,426,198)	–
Transfer to/(from) Stage 2	(555,898,005)	617,145,416	(61,247,411)	–
Transfer to/(from) Stage 3	(72,626,767)	(75,823,366)	148,450,133	–
Write-offs	–	(10,417,350)	–	(10,417,350)
Foreign exchange adjustments	66,234,388	54,681,375	17,891,544	138,807,307
At 31 December 2022	**1,388,205,286**	**1,065,059,888**	**785,036,945**	**3,238,302,119**
ECL allowance as at 1 January 2022	**30,901,015**	**166,019,042**	**263,662,526**	**460,582,583**
New assets originated or purchased	15,671,639			15,671,639
Assets derecognised or repaid	(15,028,306)	(78,294,000)	(21,238,969)	(114,561,275)
Net movement on accrued interest	(222,445)	(9,777,029)	(2,911,598)	(12,911,072)
Transfer to/(from) Stage 1	11,352,133	(6,373,551)	(4,978,582)	–
Transfer to/(from) Stage 2	(9,624,292)	9,837,771	(213,479)	–
Transfer to/(from) Stage 3	(1,585,671)	(18,095,540)	19,681,211	–
Impact on ECL from stage transfers and input changes	(1,235,577)	50,473,223	36,052,499	85,290,145
Impact on ECL from segment changes	(120,900)	175,762	2,513,949	2,568,811
Write-off	–	(10,417,350)	–	(10,417,350)
Foreign exchange adjustments	1,408,995	1,163,229	380,604	2,952,828
At 31 December 2022	**31,516,591**	**104,711,557**	**292,948,161**	**429,176,309**
Gross carrying amount as at 1 January 2021	**1,090,151,437**	**1,726,741,323**	**714,716,441**	**3,531,609,201**
New assets originated or purchased	1,251,410,506	–	–	1,251,410,506
Assets derecognised or repaid	(468,657,181)	(376,145,101)	(229,321,099)	(1,074,123,381)
Net movement on accrued interest	(49,759,636)	(4,922,580)	2,841,982	(51,840,234)
Movement from segment change	9,183,417	–	8,031,444	17,214,861
Transfer to/(from) Stage 1	213,588,863	(129,529,654)	(84,059,209)	–
Transfer to/(from) Stage 2	(292,703,309)	311,827,127	(19,123,818)	–
Transfer to/(from) Stage 3	(177,394,697)	(237,633,326)	415,028,023	–
Foreign exchange adjustments	(1,331,497)	(45,629)	(30,805)	(1,407,931)
At 31 December 2021	**1,574,487,903**	**1,290,292,160**	**808,082,959**	**3,672,863,022**
ECL allowance as at 1 January 2021	**7,475,613**	**221,333,691**	**259,804,991**	**488,614,295**
New assets originated or purchased	22,097,256	–	–	22,097,256
Assets derecognised or repaid	(5,259,995)	(25,845,499)	(33,665,857)	(64,771,351)
Net movement on accrued interest	(438,032)	(2,498,385)	(3,455,164)	(6,391,581)
Transfer to/(from) Stage 1	6,073,399	(2,792,186)	(3,281,213)	–
Transfer to/(from) Stage 2	(389,103)	5,841,411	(5,452,308)	–
Transfer to/(from) Stage 3	(216,241)	(17,536,648)	17,752,889	–
Impact on ECL from stage transfers and input changes	1,499,586	(12,483,342)	29,137,589	18,153,833
Impact on ECL from segment changes	63,953	–	2,821,599	2,885,552
Write-off	(5,421)	–	–	(5,421)
At 31 December 2021	**30,901,015**	**166,019,042**	**263,662,526**	**460,582,583**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Business loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	1,388,205,286	644,372,128	–	2,032,577,414
Special mention	–	420,687,760	–	420,687,760
Substandard	–	–	267,708,014	267,708,014
Doubtful	–	–	118,910,776	118,910,776
Loss	–	–	398,418,155	398,418,155
Total	**1,388,205,286**	**1,065,059,888**	**785,036,945**	**3,238,302,119**
At 31 December 2021				
Performing	1,574,487,903	375,798,210	–	1,950,286,113
Special mention	–	914,493,950	–	914,493,950
Substandard	–	–	537,494,386	537,494,386
Doubtful	–	–	22,409,676	22,409,676
Loss	–	–	248,178,897	248,178,897
Total	**1,574,487,903**	**1,290,292,160**	**808,082,959**	**3,672,863,022**

SME loans

	Stage 1 MNT’000	Stage 2 MNT’000	Stage 3 MNT’000	Total MNT’000
Gross carrying amount as at 1 January 2022	**427,617,381**	**26,990,479**	**80,828,442**	**535,436,302**
New assets originated or purchased	91,766,582	–	–	91,766,582
Assets derecognised or repaid	(160,580,996)	(10,574,657)	(27,297,967)	(198,453,620)
Net movement on accrued interest	(1,126,042)	1,159,388	(2,635,544)	(2,602,198)
Movement from segment change	727,841	(2,123,893)	(3,391,378)	(4,787,430)
Transfer to/(from) Stage 1	15,520,843	(8,156,258)	(7,364,585)	–
Transfer to/(from) Stage 2	(15,252,372)	17,184,379	(1,932,007)	–
Transfer to/(from) Stage 3	(4,424,514)	(4,408,269)	8,832,783	–
Write-offs	–	–	(1,407,856)	(1,407,856)
Foreign exchange adjustments	214,983	615	–	215,598
At 31 December 2022	**354,463,706**	**20,071,784**	**45,631,888**	**420,167,378**
ECL allowance as at 1 January 2022	**8,395,206**	**2,705,110**	**40,425,299**	**51,525,615**
New assets originated or purchased	2,256,615			2,256,615
Assets derecognised or repaid	(5,056,420)	(649,334)	(14,449,182)	(20,154,936)
Net movement on accrued interest	(308,867)	(53,362)	219,848	(142,381)
Transfer to/(from) Stage 1	4,683,675	(1,025,237)	(3,658,438)	–
Transfer to/(from) Stage 2	(372,052)	1,297,115	(925,063)	–
Transfer to/(from) Stage 3	(74,492)	(672,348)	746,840	–
Impact on ECL from stage transfers and input changes	(3,408,869)	(264,265)	8,151,127	4,477,993
Impact on ECL from segment changes	120,900	(175,762)	(2,513,949)	(2,568,811)
Write-offs	–	–	(1,407,856)	(1,407,856)
Foreign exchange adjustments	4,573	13	–	4,586
At 31 December 2022	**6,240,269**	**1,161,930**	**26,588,626**	**33,990,825**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

SME loan (contd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	**205,574,549**	**96,263,487**	**108,539,733**	**410,377,769**
New assets originated or purchased	306,211,403	–	–	306,211,403
Assets derecognised or repaid	(99,641,475)	(37,887,057)	(30,631,340)	(168,159,872)
Net movement on accrued interest	1,171,302	1,537,982	1,553,979	4,263,263
Movement from segment change	(9,183,417)	–	(8,031,444)	(17,214,861)
Transfer to/(from) Stage 1	41,402,935	(33,456,070)	(7,946,865)	–
Transfer to/(from) Stage 2	(11,678,388)	16,830,986	(5,152,598)	–
Transfer to/(from) Stage 3	(6,198,807)	(16,298,454)	22,497,261	–
Foreign exchange adjustments	(40,721)	(395)	(284)	(41,400)
At 31 December 2021	**427,617,381**	**26,990,479**	**80,828,442**	**535,436,302**
ECL allowance as at 1 January 2021	**3,627,090**	**14,686,840**	**45,943,355**	**64,257,285**
New assets originated or purchased	5,667,582	–	–	5,667,582
Assets derecognised or repaid	(3,074,753)	(3,563,188)	(10,969,705)	(17,607,646)
Net movement on accrued interest	(289,866)	33,194	200,560	(56,112)
Transfer to/(from) Stage 1	9,914,310	(6,544,743)	(3,369,567)	–
Transfer to/(from) Stage 2	(302,911)	2,044,203	(1,741,292)	–
Transfer to/(from) Stage 3	(117,146)	(2,909,786)	3,026,932	–
Impact on ECL from stage transfers and input changes	(6,965,147)	(1,041,410)	10,156,615	2,150,058
Impact on ECL from segment changes	(63,953)	–	(2,821,599)	(2,885,552)
At 31 December 2021	**8,395,206**	**2,705,110**	**40,425,299**	**51,525,615**

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	354,463,706	16,634,357	–	371,098,063
Special mention	–	3,437,427	–	3,437,427
Substandard	–	–	18,176,509	18,176,509
Doubtful	–	–	4,807,424	4,807,424
Loss	–	–	22,647,955	22,647,955
Total	**354,463,706**	**20,071,784**	**45,631,888**	**420,167,378**
At 31 December 2021				
Performing	427,617,381	26,095,569	–	453,712,950
Special mention	–	894,910	–	894,910
Substandard	–	–	43,392,192	43,392,192
Doubtful	–	–	7,487,855	7,487,855
Loss	–	–	29,948,395	29,948,395
Total	**427,617,381**	**26,990,479**	**80,828,442**	**535,436,302**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Retail loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	**505,837,818**	**26,881,598**	**39,458,443**	**572,177,859**
New assets originated or purchased	394,879,755			394,879,755
Assets derecognised or repaid	(312,635,484)	(10,832,718)	(14,379,371)	(337,847,573)
Net movement on accrued interest	(554,620)	101,807	(351,725)	(804,538)
Transfer to/(from) Stage 1	17,146,921	(10,245,380)	(6,901,541)	–
Transfer to/(from) Stage 2	(10,210,860)	12,628,260	(2,417,400)	–
Transfer to/(from) Stage 3	(3,326,133)	(3,149,064)	6,475,197	–
Write-offs	–	–	(305,713)	(305,713)
Foreign exchange adjustments	351,601	17,265	52,505	421,371
At 31 December 2022	**591,488,998**	**15,401,768**	**21,630,395**	**628,521,161**
ECL allowance as at 1 January 2022	**2,317,412**	**1,527,671**	**14,380,670**	**18,225,753**
New assets originated or purchased	1,992,656			1,992,656
Assets derecognised or repaid	(1,823,368)	(478,403)	(4,589,313)	(6,891,084)
Net movement on accrued interest	(223,187)	(22,168)	242,084	(3,271)
Transfer to/(from) Stage 1	2,324,860	(525,050)	(1,799,810)	–
Transfer to/(from) Stage 2	(104,344)	724,417	(620,073)	–
Transfer to/(from) Stage 3	(26,666)	(343,740)	370,406	–
Impact on ECL from stage transfers and input changes	(1,816,815)	(121,558)	6,428,760	4,490,387
Write-offs	–	–	(305,713)	(305,713)
Foreign exchange adjustments	7,480	367	1,117	8,964
At 31 December 2022	**2,648,028**	**761,536**	**14,108,128**	**17,517,692**
Gross carrying amount as at 1 January 2021	**374,377,456**	**116,782,795**	**39,745,508**	**530,905,759**
New assets originated or purchased	337,049,995	–	–	337,049,995
Assets derecognised or repaid	(244,142,434)	(48,310,008)	(11,566,387)	(304,018,829)
Net movement on accrued interest	2,886,495	5,282,663	771,401	8,940,559
Transfer to/(from) Stage 1	55,638,674	(50,741,061)	(4,897,613)	–
Transfer to/(from) Stage 2	(10,459,698)	15,691,000	(5,231,302)	–
Transfer to/(from) Stage 3	(8,813,463)	(11,823,665)	20,637,128	–
Foreign exchange adjustments	(699,207)	(126)	(292)	(699,625)
At 31 December 2021	**505,837,818**	**26,881,598**	**39,458,443**	**572,177,859**
ECL allowance as at 1 January 2021	**3,265,442**	**21,513,367**	**18,198,834**	**42,977,643**
New assets originated or purchased	1,667,634	–	–	1,667,634
Assets derecognised or repaid	(5,958,781)	(6,657,591)	(4,638,603)	(17,254,975)
Net movement on accrued interest	(480,122)	(30,521)	59,295	(451,348)
Transfer to/(from) Stage 1	12,721,291	(10,561,297)	(2,159,994)	–
Transfer to/(from) Stage 2	(315,271)	2,099,155	(1,783,884)	–
Transfer to/(from) Stage 3	(319,083)	(2,178,112)	2,497,195	–
Impact on ECL from stage transfers and input changes	(8,263,698)	(2,657,330)	2,207,827	(8,713,201)
At 31 December 2021	**2,317,412**	**1,527,671**	**14,380,670**	**18,225,753**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Retail loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	591,488,998	12,436,638	–	603,925,636
Special mention	–	2,965,130	–	2,965,130
Substandard	–	–	6,639,945	6,639,945
Doubtful	–	–	3,111,008	3,111,008
Loss	–	–	11,879,442	11,879,442
Total	**591,488,998**	**15,401,768**	**21,630,395**	**628,521,161**
At 31 December 2021				
Performing	505,837,818	26,389,360	–	532,227,178
Special mention	–	492,238	–	492,238
Substandard	–	–	26,386,059	26,386,059
Doubtful	–	–	3,165,775	3,165,775
Loss	–	–	9,906,609	9,906,609
Total	**505,837,818**	**26,881,598**	**39,458,443**	**572,177,859**

Impairment of loans receivables from Mongolian Copper Corporation LLC and Kanetic Pte Ltd

As at the reporting date, the Bank has total outstanding loan receivable from Mongolian Copper Corporation LLC ("MCC") of MNT 183.7 billion (2021: MNT 205.5 billion) and loan receivable from Kanetic Pte Ltd was fully settled during the year (2021: MNT 228.1 billion). The recoverability of the loan is highly dependent on the favourable outcome of the ongoing discussions between MCC and the GoM regarding the takeover of the 49% equity interest in Erdenet Mining Corporation LLC. As of 31 December 2022, the Bank has provided an allowance for expected credit losses for the loan receivable from MCC of MNT 25.8 billion (2021: MNT 40.5 billion).

18. Other assets

	2022 MNT'000	2021 MNT'000
Prepaid expenses and advances	24,500,292	14,064,547
Settlement receivables	17,526,442	7,701,212
Deferred employee benefit	1,863,786	2,332,243
Consumables and other office supplies	4,169,503	3,954,658
Precious metals	84,657	10,133,400
Prepayment made for construction	63,652,848	41,793,722
Other receivables	115,878,710	115,815,812
Less: Allowance for other receivables	(38,884,014)	(45,846,848)
	188,792,224	**149,948,746**
Foreclosed properties, net of impairment	277,158,336	50,102,847
	277,158,336	**50,102,847**
Total other assets	**465,950,560**	**200,051,593**

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 12,900 million (2021: MNT 10,667 million).

Settlement receivables mainly relate to the amount of receivables on cash and settlements services. Related balances were settled on next working day.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

18. Other assets (contd.)

Deferred employee benefit represents outstanding fair value adjustments of the loans granted to its employees at preferential rates. In accordance with IFRS, fair value adjustments at initial recognition are recognised as deferred employee benefits and are amortised according to the terms of the loan.

Prepayment made for construction represents advance payments made to Riverstone Properties LLC ("Riverstone") to construct the Bank's new office building. Total of 56% (2021: 52%) of the total contract fee has been prepaid according to the construction agreement, from which 76% (2021: 83%) of the prepayment has been recorded as construction-in-progress (see Note 21) according to the actual construction progress. The construction is estimated to be complete by 2025.

Foreclosed properties 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.

Other receivables include other loan receivables that represent interest free or lower interest rate receivables from various entities for which the Bank recognised a day 1 loss at initial recognition and modification loss upon the extension of term of these receivables and classified them as Stage 2. The total loss recognised with respect the receivables amount to MNT 13,861,532 thousand as of 31 December 2022 (2021: MNT 17,805,897 thousand) (See Note 7).

A reconciliation of the allowance for impairment losses is as follows:

	2022 MNT'000	**2021 MNT'000**
Impairment allowance on other loan receivables		
At 1 January	45,846,848	31,291,054
Charge for the year	19,479,072	17,268,611
Reversal	(4,912,641)	(185,735)
Net charge for the year (Note 8)	14,566,431	17,082,876
Write-off during the year	(21,529,265)	(2,527,082)
At 31 December	**38,884,014**	**45,846,848**

The tables below show the credit quality and the maximum exposure to credit risk of other receivables based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are set out in Note 33.

	Stage 1 MNT'000	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
At 31 December 2022				
Performing	13,810,066	14	–	13,810,080
Special mention	–	80,801,229	–	80,801,229
Substandard	–	–	539,917	539,917
Doubtful	–	–	31,033	31,033
Loss	–	–	20,696,451	20,696,451
Total	**13,810,066**	**80,801,243**	**21,267,401**	**115,878,710**
At 31 December 2021				
Performing	16,164,144	25,324,490	–	41,488,634
Special mention	–	28,775,240	–	28,775,240
Substandard	–	–	795,115	795,115
Doubtful	–	–	1,103	1,103
Loss	–	–	44,755,720	44,755,720
Total	**16,164,144**	**54,099,730**	**45,551,938**	**115,815,812**

19. Investment property

	2022 MNT'000	**2021 MNT'000**
At 1 January	79,902,629	148,990,218
Disposal	–	(20,898,204)
Transfer	–	(48,623,002)
Change in fair value (Note 7)	95,125	433,617
At 31 December	**79,997,754**	**79,902,629**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

20. Assets held for sale

	2022 MNT'000	2021 MNT'000
Buildings and real estate	24,581,450	3,216,435
Vehicle	84,267	389,529
	24,665,717	**3,605,964**

The Management assessed that those buildings, real estates and vehicles are available for immediate sale and can be sold to the buyer in its current condition. The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification. A potential buyer has been identified and negotiations as at reporting date are at an advanced stage.

21. Property and equipment

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction-in-progress MNT'000	Total MNT'000
At 31 December 2022					
At cost/valuation					
At 1 January 2022	246,797,379	16,168,462	62,124,835	198,634,383	523,725,059
Additions	–	6,788	16,172,877	4,052,030	20,231,695
Disposals	(8,986,075)	(533,322)	(4,290)	–	(9,523,687)
Write-offs (Note 9)	(7,035,000)	(173,576)	(3,645,835)	–	(10,854,411)
Transfer	–	–	(1,111,576)	–	(1,111,576)
Reclassification	–	1,982,146	(1,982,146)	–	–
At 31 December 2022	230,776,304	17,450,498	71,553,865	202,686,413	522,467,080
Accumulated depreciation					
At 1 January 2022	–	8,950,205	33,936,421	–	42,886,626
Charge for the year (Note 9)	5,623,684	1,441,144	6,117,226	–	13,182,054
Disposals	(156,581)	(437,239)	(4,204)	–	(598,024)
Write-offs (Note 9)	–	(153,221)	(3,475,498)	–	(3,628,719)
At 31 December 2022	5,467,103	9,800,889	36,573,945	–	51,841,937
Net carrying amount as at 31 December 2022	**225,309,201**	**7,649,609**	**34,979,920**	**202,686,413**	**470,625,143**
At 31 December 2021					
At cost/valuation					
At 1 January 2021	254,033,081	16,053,322	44,224,612	195,184,101	509,495,116
Additions*	34,749,130	431,460	20,163,989	3,743,502	59,088,081
Disposals*	(40,428,964)	(684,436)	(311,751)	(2,409,040)	(43,834,191)
Write-offs (Note 9)	–	(224,593)	(1,359,306)	(15,000)	(1,598,899)
Reclassification	593,884	592,709	(592,709)	(593,884)	–
Transfer from prepayment	–	–	–	2,724,704	2,724,704
Impairment (Note 7)	(1,745,195)	–	–	–	(1,745,195)
Revaluation surplus (Note 30)	(404,557)	–	–	–	(404,557)
At 31 December 2021	246,797,379	16,168,462	62,124,835	198,634,383	523,725,059
Accumulated depreciation					
At 1 January 2021	13,337,362	8,235,479	29,278,264	–	50,851,105
Charge for the year (Note 9)	6,121,359	1,469,867	6,062,724	–	13,653,950
Disposals	(4,210,594)	(558,610)	(156,570)	–	(4,925,774)
Write-off (Note 9)	–	(196,531)	(1,247,997)	–	(1,444,528)
Revaluation (Note 30)	(15,248,127)	–	–	–	(15,248,127)
At 31 December 2021	–	8,950,205	33,936,421	–	42,886,626
Net carrying amount as at 31 December 2021	**246,797,379**	**7,218,257**	**28,188,414**	**198,634,383**	**480,838,433**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

21. Property and equipment (contd.)

*In 2021, the Bank disposed of a premises with net book value of MNT 30,109,991 thousand to MIK in exchange for premises valued at MNT 34,069,934 thousand. The transaction had resulted in gain on disposal of MNT 3,959,943 thousand included within gain on disposal of property and equipment in Note 7.

Construction-in-progress account mainly consists of costs for construction of the Bank's new office building. The Bank made a contract to build its new corporate head office with Riverstone (see Note 18). The building is expected to be completed in 2025.

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 141,827 million (2021: MNT 147,792 million). In 2021, the Bank engaged an accredited independent valuer, to determine the fair value of its land and buildings. The fair value is determined based on market comparable approach. Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used are presented in Note 34.

22. Right-of-use assets and Lease liabilities

The Bank has lease contracts for branch office spaces used in its operations. These leases on average have lease term of four 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 office spaces, garages and ATM spaces with lease terms of 12 months or less. The Bank applies the 'short-term lease' recognition exemption 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:

	Right-of-use assets MNT'000	Lease liabilities MNT'000
As at 1 January 2021	10,132,850	(11,384,522)
Additions	2,636,768	(2,636,768)
Lease modification	575,218	(575,218)
Termination of lease	(313,649)	366,393
Depreciation charge for the year (Note 9)	(5,128,494)	–
Accretion of interest (Note 5)	–	(1,219,631)
Lease payments	–	6,450,083
As at 31 December 2021 and 1 January 2022	**7,902,693**	**(8,999,663)**
Additions	13,267,832	(13,267,832)
Lease modification	156,856	(156,856)
Termination of lease	(532,577)	578,632
Depreciation charge for the year (Note 9)	(5,345,669)	–
Accretion of interest (Note 5)	–	(990,130)
Lease payments	–	6,966,066
As at 31 December 2022	**15,449,135**	**(15,869,783)**

The Bank recognised rent expense from short-term leases of MNT 537,899 thousand for the year ended 31 December 2022 (2021: MNT 338,465 thousand). Also included within Utility expenses of Operating expenses are variable lease payments that do not depend on an index or rate of MNT 417,286 thousand for the year ended 31 December 2022 (2021: MNT 330,267 thousand). The maturity analysis of lease liabilities are disclosed in Note 36.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

23. Intangible assets

	2022 MNT'000	2021 MNT'000
At cost		
At 1 January	16,810,552	16,495,667
Additions	732,935	333,455
Write-offs (Note 9)	(1,390,210)	(18,570)
At 31 December	16,153,277	16,810,552
Accumulated amortisation		
At 1 January	14,476,139	12,121,253
Charge for the year (Note 9)	1,644,302	2,373,456
Write-offs (Note 9)	(1,388,525)	(18,570)
At 31 December	14,731,916	14,476,139
Net carrying amount	**1,421,361**	**2,334,413**

24. Due to banks and other financial institutions

	2022 MNT'000	2021 MNT'000
Current accounts from banks and financial institutions	32,154,080	12,924,589
Time deposits from banks and financial institutions	966,154	1,014,124
	33,120,234	**13,938,713**

At 31 December 2022, time deposits included deposit from local banks denominated in MNT with interest rate of 11.00% per annum and original maturity from 3 months (2021: time deposits denominated in MNT with interest rate of 7.80% per annum on MNT and original maturity from 16 to 25 months).

25. Repurchase agreements

	2022 MNT'000	2021 MNT'000
Asset backed securities program	316,804,791	289,792,528

The Bank entered into long-term reverse repurchase agreement with BoM, whereas as of 31 December 2022 the Bank sold unquoted BoM bills amounting MNT 308 billion in total (2021: MNT 248 billion). The agreements were conducted under an asset backed security program being implemented, upon which the Bank shall disburse the financing to eligible borrowers and could sell these loans to SFC in return for LBS (See Note 17). The agreements bear annual interests ranging between 6% to 10.5% and latest one shall mature in February 2025.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

26. Due to customers

	2022 MNT'000	2021 MNT'000
Government deposits		
- Current accounts	200,593,243	261,563,528
- Time deposits	149,942,889	129,848,194
- Guarantee and LC fund	12,577,697	10,460,656
Private sector deposits		
- Current accounts	1,689,010,924	1,570,264,127
- Time deposits	424,943,942	743,461,733
- Guarantee and LC fund	37,019,564	46,873,848
- Other	1,014,659	1,330,218
- Demand deposits	–	13,116
Individual deposits		
- Time deposits	2,702,594,819	2,588,822,991
- Current accounts	546,925,896	444,023,215
- Demand deposits	441,745,295	467,962,077
- Guarantee and LC fund	–	876,737
- Other	940,477	810,079
	6,207,309,405	**6,266,310,519**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

27. Borrowed funds

	2022 MNT'000	2021 MNT'000
Borrowed funds from foreign banks and financial institutions		
VTB Bank Russia*	241,357,148	196,497,229
Commerzbank AG	176,150,962	149,087,042
Cargill financial services international, INC	86,300,410	71,245,689
Cargill International Trading Pte Ltd	76,846,806	–
China Development Bank	58,912,615	29,460,000
International Investment Bank	53,027,218	42,946,483
Exim Bank of Russia	46,497,004	37,973,265
International Bank for Economic Co-operation	34,452,229	41,231,474
Huishang Bank	31,190,651	–
Bunge Asia Pte Ltd	28,798,867	77,558,817
Asian Development Bank	22,194,269	23,623,213
Japan International Cooperation Agency	14,754,155	16,381,458
Liger Holding International Co.Ltd	14,247,696	11,395,200
Credit Bank of Moscow	11,347,971	13,051,403
Atlantic Forfaitierungs AG	10,091,983	17,203,873
Sumitomo Mitsui Banking Corporation	6,691,150	–
Erste Group Bank AG	5,459,048	1,014,785
Fintertech Co., Ltd	3,991,596	2,872,198
Intesa Sanpaolo SPA	3,144,687	5,431,571
Crowdcredit Estonia OU	1,564,481	–
Kreditanstalt fuer Wiederaufbau	1,545,300	3,204,355
International Development Association	1,175,667	1,040,862
China Trade Solutions	980,810	1,042,136
Deutsche Zentral-Genossenschaftsbank	469,301	–
Oddo BHF AG	386,853	6,586,173
The Export-Import Bank of Republic of China	272,746	561,877
World Bank	153,960	184,668
Transkapitalbank	–	21,373,394
Crown Agents Bank Limited	–	19,715,815
Borrowed funds from government organizations		
Mortgage Financing Programme by BoM and the Ministry of Finance	270,355,583	245,032,794
Bank of Mongolia - Petroleum project	212,351,132	100,032,877
Employment support programme	3,300,000	–
Ministry of Finance	817,247	788,392
Education loan fund	1,650	2,453
"Gold-2" programme financing by BoM	–	271,199,386
Development Bank of Mongolia	–	1,001,247
	1,418,831,195	**1,408,740,129**

Borrowings are all unsecured except for the funds obtained from Commerzbank AG with outstanding balance of USD 50 million (2021: USD 50 million). The funds obtained from Commerzbank AG is secured by a cash deposit amounting to MNT 172.2 billion included within the placement with foreign bank as cash collateral (Note 13). The funds obtained from BoM under "Gold-2" programme was secured by unquoted BoM treasury bills with face value of MNT 247.1 billion in 2021 which was fully settled in 2022.

*In February 2023, the borrowings obtained from VTB Bank Russia with an outstanding balance of MNT 241 billion as of 31 December 2022 had matured and was fully repaid by the Bank.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

27. Borrowed funds (contd.)

Some 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 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 the case of non-compliance with covenants, the borrowing may become payable on demand, subject to the outcome of remedial actions of the Bank and waiver negotiations between the lender and the Bank. For this reason, the Bank monitors its compliance with BoM prudential ratios and other debt covenants on a monthly basis (See Note 37).

As at 31 December 2022, the Bank has breached the financial covenant specifying Non-performing loan ratio and Open credit exposure ratio requirements on borrowings from China Development Bank and International Investment Bank respectively. The Bank is currently in a process of obtaining the respective waiver from the foreign banks.

28. Debt securities issued

	2022 MNT'000	2021 MNT'000
Debt securities issued in domestic market	–	160,140,274

Under Troubled Asset Relief Program, the Bank issued MNT 160 billion debt securities to BoM on 28 June 2016. The debt securities bore annual interest rate of 8.0% and had matured and fully repaid on 29 June 2022.

29. Other liabilities

	2022 MNT'000	2021 MNT'000
Liabilities for loans sold to MIK with recourse (Note 17)	158,847,086	200,678,622
Delay on clearing settlement	70,634,681	47,268,907
Payables to entities and individuals	8,354,609	22,908,279
Taxes payable other than income tax	8,251,077	1,221,633
Provision on off-balance sheet commitments (Note 32)	4,941,386	7,321,963
Deferred revenue and income	5,208,858	5,790,831
Contract liability (unearned fees and commission)	2,735,890	2,451,940
Deferred grant	385,873	–
Computer lease payable	85,271	450,982
Others	1,038,854	976,808
	260,483,585	**289,069,965**

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

The Bank entered into a grant support agreement in support of the Green Climate Fund ("GCF") Readiness and Preparatory Support Program: "Upscale the Sustainable and Green Finance Practices in Mongolia" with United Nations Office for Project Services ("UNOPS") on 27 May 2022. As part of the Readiness Support programme, UNOPS has granted the Bank total amount of USD 291,772 to accelerate the private sector's contribution to achieving Mongolia's critical climate and development policy targets. The implementation period of this grant is for 2 years. The Bank received the first tranche of the grant in an amount of USD 180,000 upon signing of the agreement, and as of 31 December 2022 the outstanding balance of the grant was USD 122,023. The total amortisation for the year amounted to MNT 232,737 million (See Note 7).

Deferred revenue and income pertains to partial advances received for sale of foreclosed properties.

All unearned fees and commissions at the end of the previous year have been recognised as revenue in the current year.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

30. Share capital, Share premium and Other reserves

Share capital and share premium

	Number of ordinary shares 2022	Number of ordinary shares 2021	Share capital 2022 MNT'000	Share capital 2021 MNT'000	Share premium 2022 MNT'000	Share premium 2021 MNT'000
At 1 January	4,807,082	4,807,082	323,809,925	72,723,171	–	251,086,754
Issued during the year	6	–	404	–	664	–
Transfer	–	–	–	251,086,754	–	(251,086,754)
At 31 December	**4,807,088**	**4,807,082**	**323,810,329**	**323,809,925**	**664**	**–**

The Bank has 5,000,000 shares authorized for issue (2021: 5,000,000 shares) from which total of 4,807,088 shares were issued and outstanding as of 31 December 2022 (2021: 4,807,082 shares). All issued shares were fully paid and have a par value of MNT 67,361.01 (2021: MNT 67,361.01).

On 22 April 2022, the shareholders of the Bank approved to issue additional 6 number of shares at MNT 178,000 per share at total cash consideration of MNT 1,068,000 to its existing shareholder, thus increasing its issued share capital.

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

	2022	2021
The Globull Investment and Development PTE Ltd (Globull)	64.00%	64.00%
TDB Capital LLC (former United Banking Corporation LLC)	31.25%	31.25%
GS Mongolia Investment Limited (Goldman Sachs)	3.28%	3.28%
Other individual and shareholders	1.47%	1.47%
	100.00%	**100.00%**

Other reserves

	Asset revaluation reserve MNT'000	FVOCI revaluation reserve MNT'000	Regulatory reserve MNT'000	Total MNT'000
At 1 January 2022	151,189,070	4,357,074	54,597,188	210,143,332
Net loss on FVOCI instruments	–	(1,753,929)	–	(1,753,929)
Deferred tax liability	–	175,393	–	175,393
Transfer of revaluation reserve due to disposal	(5,537,618)	–	–	(5,537,618)
Net changes in allowance for ECL on debt instruments at FVOCI	–	226,875	–	226,875
Movement on regulatory reserve	–	–	55,654,927	55,654,927
At 31 December 2022	**145,651,452**	**3,005,413**	**110,252,115**	**258,908,980**
At 1 January 2021	168,958,820	24,257,321	27,165,494	220,381,635
Gain on revaluation of premises (Note 21)	14,843,570	–	–	14,843,570
Net loss on FVOCI instruments	–	(22,479,498)	–	(22,479,498)
Deferred tax liability	–	2,247,950	–	2,247,950
Transfer of revaluation reserve due to disposal	(32,613,320)	–	–	(32,613,320)
Net changes in allowance for ECL on debt instruments at FVOCI	–	331,301	–	331,301
Movement on regulatory reserve	–	–	27,431,694	27,431,694
At 31 December 2021	**151,189,070**	**4,357,074**	**54,597,188**	**210,143,332**

As of 31 December 2022 and 2021, the regulatory reserve consist of impairment for foreclosed assets and loans and advances to customers.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

30. Share capital, Share premium and Other reserves (contd.)

Dividend

On 21 April 2022, the Bank has declared a dividend of MNT 34,995,557 thousand to its shareholders in proportion to their ownership. The BoM had approved the dividend disbursement on 7 July 2022. As of 31 December 2022, MNT 1,154,440 thousand of dividend has not yet been paid out and is included within other liabilities.

On 1 October 2021, the Bank has declared a dividend of MNT 9,998,730 thousand to its shareholders in proportion to their ownership. The BoM had approved the dividend disbursement on 9 November 2021 and respectively the Bank has distributed the dividend on 18 November 2021.

31. Segment reporting

Segment information is presented in respect of the Bank's business segments. The primary format, operating segments, is based on the Bank's management and internal reporting structure.

Operating segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

Operating segments

The Bank comprises the following main operating segments:

Corporate Banking: Includes loans, deposits and other transactions and balances with corporate customers. The Bank classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3 billion, or the borrower's sales amount reported in the financial statements is greater than MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is greater than 4 billion), and State-owned enterprises.

Small and Medium sized Enterprise ("SME") Banking: Includes loans, deposits and other transactions and balances with SME customers (both individuals and entities). The Bank classifies its customer as SME Banking customer, where the loan amount is below MNT 3 billion, or the borrower's sales amount is below MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is below 4 billion), and individuals receiving products and services with business nature.

Retail Banking: Includes individual's mortgage, consumers loans and deposits and other transactions and digital banking with retail customers. The Bank classifies its salary and fixed income customers as retail. Retail segment consists sub segments, depending on their income, deposits and asset level: Premier, VIP, Comfort and classic.

International Banking: Includes the Bank's trading, corporate finance, borrowing from foreign financial institutions, issues of debt securities and bond in the international capital market.

Treasury: Undertakes the Bank's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Bank's funds management activities.

Others: Includes Headquarter operations and central shared services operation that manages the Bank's premises and certain corporate costs.

As the Bank's operations are located in Mongolia, no further geographical segment information is provided. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

31. Segment reporting (contd.)

At 31 December 2022	**Corporate Banking MNT'000**	**SME Banking MNT'000**	**Retail Banking MNT'000**	**International Banking MNT'000**	**Treasury MNT'000**	**Other MNT'000**	**Total MNT'000**
Segment results							
External revenue							
Interest income	304,387,400	56,261,659	103,970,776	–	203,607,492	5,850,725	674,078,052
Interest expense	(88,200,886)	(15,415,103)	(181,398,267)	(42,973,852)	(26,319,217)	(170,791)	(354,478,116)
Fee and commission income	20,408,452	16,569,869	21,438,904	237,071	10,706,922	8,600,057	77,961,275
Fee and commission expenses	(1,906)	–	–	–	(23,104,064)	(4,406,703)	(27,512,673)
Trading and other operating income/(expense), net	(28,156,169)	2,608,559	(4,780,723)	231,257	45,715,867	(1,693,866)	13,924,925
Intersegment revenue/(expense)	(126,831,588)	(9,332,893)	134,859,869	52,683,986	–	(51,379,374)	–
Total segment revenue/(expense)	81,605,303	50,692,091	74,090,559	10,178,462	210,607,000	(43,199,952)	383,973,463
Operating expense	8,665,149	3,176,080	7,043,423	3,557,898	3,369,524	146,978,817	172,790,891
Share of profit of an associate	–	–	–	–	–	(418,388)	(418,388)
Credit loss expense on financial assets	(34,120,698)	(20,727,029)	(1,083,596)	–	17,860	27,615,624	(28,297,839)
Profit/(loss) before tax	107,060,852	68,243,040	68,130,732	6,620,564	207,219,616	(217,376,005)	239,898,799
Income tax expense	–	–	–	–	–	45,650,106	45,650,106
Net profit/(loss) for the year	**107,060,852**	**68,243,040**	**68,130,732**	**6,620,564**	**207,219,616**	**(263,026,111)**	**194,248,693**
Segment assets	**3,151,006,341**	**415,621,165**	**899,853,374**	**31,326**	**4,467,505,648**	**720,759,848**	**9,654,777,702**
Segment liabilities	**2,262,065,368**	**874,190,809**	**3,762,806,775**	**914,642,725**	**572,649,032**	**90,411,729**	**8,476,766,438**
Depreciation and amortisation	45,592	24,604	28,923	21,752	16,418	20,034,736	20,172,025
Capital expenditure*	–	–	–	–	732,935	33,499,527	34,232,462

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

31. Segment reporting (contd.)

At 31 December 2021	**Corporate Banking MNT'000**	**SME Banking MNT'000**	**Retail Banking MNT'000**	**International Banking MNT'000**	**Treasury MNT'000**	**Other MNT'000**	**Total MNT'000**
Segment results							
External revenue							
Interest income	230,125,054	61,153,689	98,545,040	–	205,649,650	1,634,032	597,107,465
Interest expenses	(150,616,576)	(21,876,275)	(196,492,636)	(20,832,262)	(15,517,778)	(301,035)	(405,636,562)
Fee and commission income	18,483,593	13,291,538	17,803,697	9,735,152	518,897	5,404,118	65,236,995
Fee and commission expenses	(2,543)	–	(16,719,066)	(57)	(140,497)	(3,938,692)	(20,800,855)
Trading and other operating income/(expense), net	(21,379,859)	2,352,915	(6,734,783)	–	7,905,694	4,450,435	(13,405,598)
Intersegment revenue/(expense)	(79,985,571)	(880,553)	160,145,132	24,175,169	(163,375,933)	59,921,756	–
Total segment revenue	(3,375,902)	54,041,314	56,547,384	13,078,002	35,040,033	67,170,614	222,501,445
Operating expense	9,910,135	2,613,950	5,296,645	4,211,034	2,809,330	106,097,469	130,938,563
Share of loss of an associate	–	–	–	–	–	28,728,932	28,728,932
Credit loss expense/(reversal) on financial assets	(48,443,708)	(2,274,800)	(24,307,745)	–	(30,386)	17,351,090	(57,705,549)
Profit/(loss) before tax	35,157,671	53,702,164	75,558,484	8,866,968	32,261,089	(85,006,877)	120,539,499
Income tax expense	–	–	–	–	–	15,729,066	15,729,066
Net profit/(loss) for the year	**35,157,671**	**53,702,164**	**75,558,484**	**8,866,968**	**32,261,089**	**(100,735,943)**	**104,810,433**
Segment assets	**3,321,669,894**	**479,270,138**	**935,808,687**	**23,289**	**4,112,722,977**	**699,176,830**	**9,548,671,815**
Segment liabilities	**2,766,670,792**	**992,344,518**	**3,544,265,433**	**759,100,506**	**424,148,842**	**42,033,004**	**8,528,563,095**
Depreciation and amortisation	27,282	14,866	5,149,002	14,078	9,047	15,941,625	21,155,900
Capital expenditure*	2,424	816	–	5,128	880	25,342,353	25,351,601

*Represents total cash additions to property and equipment and intangible assets.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments (contd.)

Undrawn credit balances

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2022	**284,295,098**	**11,612,186**	**1,188,453**	**297,095,737**
New exposures	122,319,732	4,044,473	–	126,364,205
Exposures derecognised or matured/lapsed	(163,126,077)	(11,154,106)	(932,375)	(175,212,558)
Transfer to/(from) Stage 1	767,165	(453,445)	(313,720)	–
Transfer to/(from) Stage 2	(724,592)	769,941	(45,349)	–
Transfer to/(from) Stage 3	(186,520)	(1,991)	188,511	–
At 31 December 2022	**243,344,806**	**4,817,058**	**85,520**	**248,247,384**
ECL allowance as at 1 January 2022	**3,983,938**	**35,503**	**–**	**4,019,441**
New exposures	1,167,930	26,477	–	1,194,407
Exposures derecognised or matured/lapsed	(2,816,054)	(22,256)	(760)	(2,839,070)
Transfer to/(from) Stage 1	13,737	(13,737)	–	–
Transfer to/(from) Stage 2	(7,825)	7,825	–	–
Transfer to/(from) Stage 3	(739)	(30)	769	–
At 31 December 2022	**2,340,987**	**33,782**	**9**	**2,374,778**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	**249,364,112**	**21,129,401**	**5,053,877**	**275,547,390**
New exposures	166,605,550	10,895,014	–	177,500,564
Exposures derecognised or matured/lapsed	(131,455,487)	(18,613,031)	(5,883,699)	(155,952,217)
Transfer to/(from) Stage 1	1,419,311	(1,024,747)	(394,564)	–
Transfer to/(from) Stage 2	(651,704)	718,483	(66,779)	–
Transfer to/(from) Stage 3	(986,684)	(1,492,934)	2,479,618	–
At 31 December 2021	**284,295,098**	**11,612,186**	**1,188,453**	**297,095,737**
ECL allowance as at 1 January 2021	**1,566,649**	**173,398**	**5,644**	**1,745,691**
New exposures	3,284,190	32,374	–	3,316,564
Exposures derecognised or matured/lapsed	(972,924)	(67,357)	(2,533)	(1,042,814)
Transfer to/(from) Stage 1	109,380	(103,736)	(5,644)	–
Transfer to/(from) Stage 2	(2,242)	2,242	–	–
Transfer to/(from) Stage 3	(1,115)	(1,418)	2,533	–
At 31 December 2021	**3,983,938**	**35,503**	**–**	**4,019,441**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments (contd.)

Undrawn credit balances (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	243,344,806	–	–	**243,344,806**
Special mention	–	4,817,058	–	**4,817,058**
Substandard	–	–	85,520	**85,520**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**243,344,806**	**4,817,058**	**85,520**	**248,247,384**
At 31 December 2021				
Performing	284,295,098	–	–	**284,295,098**
Special mention	–	11,612,186	–	**11,612,186**
Substandard	–	–	1,188,453	**1,188,453**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**284,295,098**	**11,612,186**	**1,188,453**	**297,095,737**

As of 31 December 2022, the Bank had capital commitments for construction in progress of USD 89 million (2021: USD 98 million) (Note 18 and 21) and other contractual commitments of MNT 1,030 million (2021: nil).

Contingent liabilities

Guarantees and letter of credits 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.

Undrawn credit lines

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorized credit line. With respect to credit risk on commitments to extend credit, the Bank can be exposed to loss in an amount equal to the total unused credit commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining certain specific credit standards.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss can be reasonably estimated, the Bank makes provision to account for any adverse effects on its financial statements.

As at 31 December 2022 and 2021, there were no major litigation cases involving the Bank.

Tax legislation

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

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments (contd.)

Tax legislation (contd.)

Mongolian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, including those related to domestic transfer pricing. In case of deviation of transaction terms from market terms, the tax authorities have the right to adjust taxable items and to impose additional taxes, fines and interest penalties. Given the brief nature of the current Mongolian transfer pricing rules, the impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the entity.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax and other areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management performs regular re-assessment of tax risks and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

33. Risk management

(1) Introduction

The main risks inherent in the Bank’s operations are credit risks, liquidity risks and market risks. The Bank’s Credit Underwriting Department ("CUD") is responsible for managing the Bank’s credit risks, while Risk Management Policy and Validation Department is responsible for managing market and liquidity risks. This note provides information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management structure

The Board of Directors (“BoD”) is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances. However, there are separate independent bodies responsible for managing and monitoring risks.

Representative Governing Board (“RGB”)

The Bank’s Representative Governing Board is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The RGB is assisted in these functions by Internal Audit.

Internal Audit

Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the RGB. Internal audit examines both the adequacy of the procedures and the Bank's compliance with the procedures.

Executive Committee

The Executive Committee consists of all the executive management of the Bank and is chaired by the CEO and holds regular meetings to discuss and decide the Bank’s strategic issues and planning required for sustainable business management.

Asset and Liability Committee ("ALCO")

ALCO is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed. The purpose of ALCO is to set up the asset and liability structure of the Bank’s balance sheet conducive for sustainable growth of the Bank, its profitability and liquidity through comprehensive management of the Bank’s assets and liabilities and monitoring of the foreign currency, interest rate and other market risks.

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.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

Credit Committees

The Bank's Credit Committee's structure was established to manage the Bank's credit risk at various levels. The Bank has following types of credit committees for loan approval and monitoring:

1. Credit committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures above MNT 1 billion.
2. Credit subcommittee is responsible for approving all credit exposures above MNT 500 million and up to MNT 1 billion.
3. Credit council is responsible for approving all credit exposures exceeding branch credit authorization limit and up to MNT 500 million.
4. Branch credit council approves all loans except for salary and pension loan that amounts exceeding authorization limits of Branch director and up to authorization limit of Branch credit council
5. Credit council approves salary and pension loans exceeding MNT 30 million.
6. Branch credit council, depending on the branch size approves credit exposures from MNT 60 million up to MNT 180 million.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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, RGB, ALCO, RMC and Credit Committees, and the head of each business departments. The reports include the aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes.

Both ALCO and RMC 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, and liquidity, and any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses basis sensitivity analysis to measure and analyse exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively utilizes collaterals and personal guarantees to reduce its credit risks.

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 risk, 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.

At the individual basis, BoM sets the standards of limitation as follows:

- The maximum amount of the overall credit exposures issued and other credit-equivalent assets to an individual creditor and his/her related persons shall not exceed 20% of the equity of the Bank.
- The maximum amount of the credit exposures issued, and other credit-equivalent assets shall not exceed 5% of the equity for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the equity of the Bank.

The Bank's policy requires it to maintain sufficient liquidity corresponding to the level of deposit concentration.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(2) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail to fulfil 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, geographical area, 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 allows the Bank to identify potential losses 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.

Credit-related Commitments Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Impairment assessment

Definition of default, impaired and cure

The Bank considers exposure to be in default for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments, or where the obligor is unlikely to repay the exposure fully without the Bank's realisation of collaterals.

As part of the qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikeliness 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:

- An exposure is forborne or modified due to financial difficulties of the borrower
- The debtor's exposure to the Bank is more than 90 days past due
- Internal rating of the borrower indicating default or near-default
- The borrower is deceased or became disabled
- The borrower's operations had experienced unexpected operational risks
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- The debtor filing for official bankruptcy

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 six 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 internal rating and PD estimation process

The Bank's Credit Underwriting Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from international rating agencies, such as Moody's, Standard & Poor's and/or Fitch rating. These information sources are first used to determine the stage classification of the exposures.

The PD for loans and advances to customers is derived from historical data and adjusted to incorporate forward looking information using available forecasts projected from relevant macroeconomic factors, when applicable. The PD is defined as conditional PD given that the account has not defaulted in prior periods taking into account full and partial prepayments, therefore the marginal PD's are considered to build the PD curve. Further, the Bank uses cohort analysis to estimate the multi period PD curves.

The PD model used for financial assets other than loans and advances are based on rating matrices and are derived using international credit ratings of the counterparties, which intrinsically contains forward-looking information.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(2) Credit risk (contd.)

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Policy and Validation Department analyses publicly available external information such the ratings of international rating agencies, e.g. Moody's, and assigns the internal rating.

Corporate and SME loans

For corporate and SME loans, the borrowers are assessed by loan specialists under the supervision of the credit risk analysts from CUD. The credit risk assessment takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties.
- Any macro-economic or geopolitical information relevant to the borrower and/or portfolio
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the borrower's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Retail loans

Retail loans comprises all types of consumer loans, mortgage loans, credit cards and overdrafts. These products along with some of the less complex SME loans are rated by methodology primarily driven by days past due. Herein: demographics, credit history of loan applicants, collateral, current income levels, changes in account income, outstanding liabilities and desired loan conditions.

The Bank's internal credit rating grades

Internal rating	Internal rating description	International rating (when applicable)
Performing	High grade	A- to AA+ rated
Special mention	Upper medium grade	BBB- to BBB+
Substandard	Lower medium grade	B- to BB+
Doubtful	Low grade	Caa-C
Loss	Credit impaired	–
Not rated	Not rated	–
Individually impaired	Individually impaired	–

Exposure at default

The EAD represents the 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. The EAD of a financial asset represents its gross carrying amount subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(2) Credit risk (contd.)

Exposure at default (contd.)

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

- For amortising product and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For the revolving products, the EAD is predicted by taking current drawn balance and adding "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.

Loss given default

LGD represents the Bank's expectation of the extent of loss on defaulted exposure. LGD varies by customer segments, which represents customer potential and credit exposure. LGD is expressed as a percentage loss per unit of exposures at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

LGD varies over time depending on the payments and the value of collateral. The key elements of the LGD coefficient are:

- Time dimension (dividing the EAD parameter into a secured and unsecured part) and
- Change in the value of collateral over time (in the case of such collateral as real estate, the value may remain unchanged)

In the absence of collateral for the financial instrument and sufficient historical data on default, the Bank applies expert judgment. Depending on the circumstances and completeness of the data at the reporting date, the Bank applies historical data approach or historical data from external sources to determine the LGD coefficient in stages.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

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

The Bank applies qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming forborne. In certain cases, the Bank may also consider that events explained in "Definition of default" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECL on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on collective basis

As explained in Note 2.5 *"Overview of the ECL principles"* dependant on the factors below, the Bank calculates the allowance for ECL either on collective or individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Stage 3 borrowers who have total exposure of more than MNT 5 billion
- Stage 3 borrowers with exposure of less than MNT 5 billion, who relate to a group of related parties for which the total group exposure exceed MNT 5 billion
- Large and unique exposures of the Corporate loan portfolio regardless of the staging

Asset classes where the Bank calculates ECL on a collective bases include all the remaining exposures not assessed individually. The bank groups these exposures into smaller portfolios, based on customer segments:

- Corporate loans
- SME loans
- Retail loans

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of inputs to ECL model – forward looking information

The Bank has incorporated the effect of future macroeconomic developments into the ECL by applying forward-looking information on the component of the ECL, the PD. A simple linear model was built to analyse the relationship between the observed default rates and macroeconomic variables. The data set includes quarterly time series of main macro indicators and probability of default per customer segment. Macroeconomic variables are taken from the database of the National Statistical Office and BoM, and PD rates are derived from the bank's internal database. The Bank has selected Policy rate and Inflation rate with one year quarter lag for Retail and GDP and Credit growth for SME and Corporate loans for 2022 (for 2021, GDP growth with one year quarter lag and Policy rate for Retail, SME and Corporate loans), which had the highest correlation with the default rate.

In terms of the methodology, correlation analysis was conducted initially to preselect the suitable macroeconomic variables. Then coefficients were estimated applying simple regression analysis. From the estimated coefficients and forecasts, adjustment factors to incorporate forward-looking information into PD were derived as the ratio between the predicted default rate and historical average default rate. These adjustment factors and adjusted PD rates are considered as Base scenario for ECL model, as it represents the best prediction of the future economic development. The good and bad scenarios are derived from historical adjustment factors based on the model predicted default rates and selected as certain quantiles of the adjustment factor distribution. Expected loss for different scenarios are calculated based on those estimated PD rates under the different scenarios, and the actual expected credit loss allowance is estimated as weights of 3 scenarios: 20% for Good and Bad, and 60% for Base scenario.

The following table sets out the results of adjustment factors under 3 different scenarios:

31 December 2022

	Corporate loans	SME loans	Retail loans
Bad case	2.1048	2.1048	1.6981
Base case	1.3574	1.3574	1.1363
Good case	0.4406	0.4406	0.4922

31 December 2021

	Corporate loans	SME loans	Retail loans
Bad case	2.0515	2.0515	1.9102
Base case	1.5049	1.5049	1.4340
Good case	0.4702	0.4702	0.5423

Overview of modified and forborne loans

From a risk management point of view, once an asset is forborne or modified, the Bank's credit risk department and special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below shows the gross carrying amount of restructured financial assets with corresponding ECL for the year ended 31 December 2022 and 2021, as follow:

	2022 MNT'000	2021 MNT'000
Restructured loans		
Gross carrying amount	56,806,027	64,091,637
Corresponding ECL	(21,933,646)	(30,898,992)

33. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of risk concentration

Disclosure of credit quality and maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification are disclosed in Notes 12, 13, 14 and 17 where relevant.

The table below show the analysis per industry sector of the Bank's loans and advances to customers (Note 17) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	Gross maximum exposure			
	2022 MNT'000	**%**	**2021 MNT'000**	**%**
Trading	989,179,347	21%	1,183,191,976	23%
Mining and quarrying	618,573,404	13%	910,296,524	18%
Construction	473,147,282	10%	520,921,588	10%
Financial service	355,983,175	8%	373,142,568	7%
Manufacturing	523,074,747	11%	515,616,099	10%
Mortgage loan	515,069,970	11%	517,222,290	10%
Card loan	278,200,090	6%	251,922,005	5%
Hotel, restaurant and tourism	151,931,463	3%	166,213,301	3%
Transportation and communication	168,262,695	4%	137,752,916	3%
Deposit collateralized loan	100,641,414	2%	93,026,232	2%
Health	30,018,101	1%	43,576,125	1%
Education	58,040,193	1%	80,961,554	2%
Electricity and thermal energy	19,875,704	0%	31,187,578	1%
Agriculture	23,345,917	1%	22,047,101	0%
Other	312,523,722	7%	271,721,499	5%
	4,617,867,224	**100%**	**5,118,799,356**	**100%**

*The Bank classified the holding company that only owns shares of companies in other industries as financial services in accordance with the Bank's sector codification.

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The main types of collateral obtained are as follows:

- corporate lending: charges over real-estate properties, equipment and machineries;
- retail lending: charges over automobiles and assignment of income; charges over real estate properties; and mortgages over residential properties;
- small and medium-sized enterprise lending: charges over real estate properties.

The Bank regularly monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

It is the Bank's policy to dispose of foreclosed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy foreclosed properties for business use.

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year end stage classification are further disclosed in Notes 12, 13, 14 and 17.

Where financial instruments are recorded at fair value the amounts shown in Note 14 represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(2) Credit risk (contd.)

Collateral and other credit enhancements (contd.)

The table below summarise the Bank's collateral for loans and advances:

	2022 Gross MNT'000	2022 Fair value of collaterals MNT'000	2021 Gross MNT'000	2021 Fair value of collaterals MNT'000
Corporate	3,238,302,119	2,184,315,132	3,672,863,022	2,652,553,356
SME	420,167,378	389,174,705	535,436,302	477,497,748
Retail	628,521,161	647,754,740	572,177,859	319,753,238
	4,286,990,658	**3,221,244,577**	**4,780,477,183**	**3,449,804,342**

Credit concentration ratio

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to single borrower or group of related borrowers shall not exceed 20% of the total equity of the Bank. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the Bank, and the total amount shall not exceed 20% of the capital of the Bank respectively.

As at 31 December 2021, certain loans disbursed to single borrower and its' group of related borrowers exceeded the regulatory ratio limit on the single borrower exposure of 20%. The total excess amount was MNT 4,259 million, which was adjusted when assessing core capital adequacy and risk-weighted capital ratios (See Note 37). There were no such breaches as at 31 December 2022.

(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 is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia.

For this purpose the Bank maintains a liquidity ratio; calculated as a ratio of a the Bank's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BoM and investment securities to the Bank's liquid liabilities; including deposit from customers, deposits and placements from the banks and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

Details of the reported ratio at the reporting date were as follows:

	2022	2021
At 31 December	43.4%	40.6%

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and financial liabilities at 31 December 2022 and 2021 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2022	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	894,574,372	862,425,315	–	–	–	–	1,756,999,688
Due from other banks and financial institutions	604,503,816	162,788,478	–	–	–	–	767,292,294
Financial investments	–	599,363,877	342,187,217	275,776,071	358,963,322	684,426,096	2,260,716,583
Gross settled swaps:							
- Inflows	–	282,913,155	139,256,202	218,641,936	790,922,559	–	1,431,733,852
- Outflows	–	(235,350,417)	(128,895,332)	(196,375,805)	(606,584,744)	–	(1,167,206,298)
Loans and advances to customers	616,534,166	580,849,138	457,103,700	1,459,680,496	1,683,555,250	1,115,064,950	5,912,787,700
Other financial assets	29,546,378	17,757,526	400,965	615,039	116,839,519	–	165,159,428
	2,145,158,733	2,270,747,073	810,052,752	1,758,337,737	2,343,695,906	1,799,491,046	11,127,483,247
Financial liabilities							
Due to banks and other financial institutions	32,154,100	971,557	–	–	–	–	33,125,657
Repurchase agreements	–	34,008,500	155,797,971	89,725,369	50,324,598	–	329,856,439
Due to customers	2,959,462,153	909,434,848	646,073,155	1,131,845,094	756,958,947	18,698,206	6,422,472,402
Gross settled swaps:							
- Inflows	–	18,964,043	18,775,430	39,471,074	537,066,596	–	614,277,143
- Outflows	–	(22,893,227)	(16,498,851)	(35,609,830)	(693,809,266)	–	(768,811,174)
Borrowed funds	112,757,080	357,969,027	4,711,828	667,258,150	252,205,602	74,734,328	1,469,636,016
Lease liabilities	–	1,762,365	1,762,365	3,478,172	11,843,553		18,846,455
Other financial liabilities	–	80,113,415	–	180,389,295	–	–	260,502,710
Uncovered Guarantees and Letters of credit	321,497,517	–	–	–	–	–	321,497,517
Undrawn credit lines	248,247,384	–	–	–	–	–	248,247,384
	3,674,118,234	1,380,330,528	810,621,899	2,076,557,324	914,590,030	93,432,534	8,949,650,548
	(1,528,959,501)	890,416,545	(569,147)	(318,219,587)	1,429,105,876	1,706,058,513	2,177,832,699

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2021	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	976,548,511	8,017,940	–	–	–	–	984,566,451
Due from other banks and financial institutions	405,038,221	101,772,804	–	–	–	–	506,811,025
Financial investments	60,692,439	1,271,633,439	93,249,457	241,384,642	939,200,934	634,783,058	3,240,943,969
Gross settled swaps:							
- Inflows	–	863,327,381	1,245,156	2,147,447	135,860,418	–	1,002,580,402
- Outflows	–	(798,718,006)	(2,623,675)	(3,897,800)	(137,754,694)	–	(942,994,175)
Loans and advances to customers	649,683,374	638,054,503	479,178,506	1,119,480,176	2,815,075,468	1,385,374,372	7,086,846,399
Other financial assets	126,484,571	7,701,212	–	–	–	–	134,185,783
	2,218,447,116	2,091,789,273	571,049,444	1,359,114,465	3,752,382,126	2,020,157,430	12,012,939,854
Financial liabilities							
Due to banks and other financial institutions	12,938,713	–	–	1,057,485	–	–	13,996,198
Repurchase agreements	–	–	–	31,917,764	279,002,309	–	310,920,073
Due to customers	2,810,243,953	1,117,061,112	704,809,250	1,169,427,606	617,578,194	23,249,103	6,442,369,218
Gross settled swaps:							
- Inflows	–	(802,772,467)	–	(9,298,099)	(310,630,156)	–	(1,122,700,722)
- Outflows	–	872,643,457	–	2,687,736	301,286,951	–	1,176,618,144
Borrowed funds	117,283,832	112,766,644	17,883,897	257,832,573	965,512,018	46,555,619	1,517,834,583
Debt securities issued	–	–	166,382,466	–	–	–	166,382,466
Lease liabilities	–	1,703,352	1,703,352	3,394,578	3,751,781	–	10,553,063
Other financial liabilities	–	73,958,633	–	–	255,519,365	1,300,946	330,778,944
Uncovered Guarantees and Letters of credit	352,804,653	–	–	–	–	–	352,804,653
Undrawn credit lines	297,095,737	–	–	–	–	–	297,095,737
	3,590,366,888	1,375,360,731	890,778,965	1,457,019,643	2,112,020,462	71,105,668	9,496,652,357
	(1,371,919,772)	716,428,542	(319,729,521)	(97,905,178)	1,640,361,664	1,949,051,762	2,516,287,497

33. Risk management (contd.)

(4) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank's sensitivity to a 100 basis point (BP) increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Change in basis points	Sensitivity of net interest income MNT'000	Risk limit set for profit or loss MNT'000	Sensitivity of equity MNT'000	Risk limit set for equity MNT'000
At 31 December 2022					
Currency					
USD	+/- 100	+/- 153,528	+/- 275,730,685	+/- 138,175	+/- 275,730,685
MNT	+/- 100	+/- 29,217,621	+/- 275,730,685	+/- 26,295,859	+/- 275,730,685
OTHER	+/- 100	+/- 687,465	+/- 275,730,685	+/- 618,719	+/- 275,730,685
At 31 December 2021					
Currency					
USD	+/- 100	+/- 5,740,349	+/- 241,711,954	+/- 5,166,314	+/- 241,711,954
MNT	+/- 100	+/- 32,308,020	+/- 241,711,954	+/- 29,077,218	+/- 241,711,954
OTHER	+/- 100	+/- 2,215,464	+/- 241,711,954	+/- 1,993,918	+/- 241,711,954

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO sets limits on the level of exposure by currencies (primarily USD), which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the BoM and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Market Risk Department oversees that the currency exchange operations are managed within the approved limits.

Objectives and limitations of the VaR Methodology

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.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

Objectives and limitations of the VaR Methodology (contd.)

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:

	Historical Simulation 2022 MNT'000	2021 MNT'000
31 December	(249,173)	(708,488)
Average Daily	(1,080,401)	(843,269)
Highest	(2,842,583)	(1,237,652)
Lowest	(152,528)	(83,473)

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

	2022			2021		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash and balances with Bank of Mongolia	254,823,322	1,501,383,972	1,756,207,294	217,353,302	758,998,935	976,352,237
Due from other banks and financial institutions	–	767,067,640	767,067,640	–	504,417,550	504,417,550
Financial investments	1,539,613,538	130,298,046	1,669,911,584	2,509,400,449	93,246,654	2,602,647,103
Derivative financial instruments	265,374,431	–	265,374,431	87,403,498	14,244,000	101,647,498
Loans and advances to customers	3,268,342,745	868,839,653	4,137,182,398	3,584,773,816	1,003,691,589	4,588,465,405
Other financial assets	89,000,307	18,420,858	107,421,165	74,311,973	14,026,959	88,338,932
	5,417,154,343	3,286,010,169	8,703,164,512	6,473,243,038	2,388,625,687	8,861,868,725
Financial liabilities						
Due to banks and other financial institutions	3,241,357	29,878,877	33,120,234	3,018,387	10,920,326	13,938,713
Repurchase agreements	316,804,791	–	316,804,791	289,792,528	–	289,792,528
Due to customers	3,162,766,558	3,044,542,847	6,207,309,405	4,033,034,308	2,233,276,211	6,266,310,519
Derivative financial instruments	166,203,537	–	166,203,537	78,035,961	–	78,035,961
Borrowed funds	526,637,791	892,193,404	1,418,831,195	660,996,891	747,743,238	1,408,740,129
Debt securities issued	–	–	–	160,140,274	–	160,140,274
Lease liabilities	15,869,783	–	15,869,783	8,999,663	–	8,999,663
Other financial liabilities	218,064,284	20,896,217	238,960,501	261,454,257	13,182,997	274,637,254
	4,409,588,101	3,987,511,345	8,397,099,446	5,495,472,269	3,005,122,772	8,500,595,041
Off-balance foreign currency exposure, net		616,786,705			425,866,057	
Net foreign currency exposure		(84,714,471)			(190,631,028)	

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

An analysis of the Bank's open position sensitivity to a 10 percent appreciation or depreciation of MNT against USD (assuming all other variables constant) is as follows:

	Change in currency rate	Sensitivity of open position MNT'000	Risk limit for net positions MNT'000
At 31 December 2022			
Currency			
USD	+/- 10%	+/- 7,875,319	+/- 230,000,000
OTHER	+/- 10%	+/- 352,184	+/- 230,000,000
At 31 December 2021			
Currency			
USD	+/- 10%	+/- 6,978,181	+/- 230,000,000
OTHER	+/- 10%	+/- 9,553,834	+/- 230,000,000

Prepayment risk

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

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the interest income for the year would be reduced by MNT 134,815,610 thousand (2021: MNT 114,665,796 thousand).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

34. Fair value disclosures

Determination of fair value and fair value hierarchy

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

Determination of fair value and fair value hierarchy (contd.)

The following table shows an analysis of financial instruments and other assets recorded at fair value by level of the fair value hierarchy.

At 31 December 2022	**Level 1 MNT'000**	**Level 2 MNT'000**	**Level 3 MNT'000**	**Total MNT'000**
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	102,883,542	–	–	102,883,542
Unquoted BoM treasury bills	–	949,566,385	–	949,566,385
MIK USD bond	27,362,835	–	–	27,362,835
Equity instruments measured at FVOCI				
Unquoted equities	–	–	3,168,532	3,168,532
Quoted equities	70,359,946	–	–	70,359,946
Financial assets at FVTPL				
Residential mortgage-backed securities	–	–	260,184,968	260,184,968
Loan backed securities - Junior tranche	–	–	5,832,160	5,832,160
Loans and advances to customers at FVTPL	–	330,876,566	–	330,876,566
Derivative financial instruments	–	265,374,431	–	265,374,431
Non-financial assets				
Revalued properties	–	–	225,309,201	225,309,201
Investment properties	–	–	79,997,754	79,997,754
	200,606,323	**1,545,817,382**	**574,492,615**	**2,320,916,320**
Financial liabilities				
Derivative financial instruments	–	166,203,537	–	166,203,537
	–	**166,203,537**	**–**	**166,203,537**

At 31 December 2021				
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	58,774,436	–	–	58,774,436
Unquoted BoM treasury bills	–	1,661,230,725	–	1,661,230,725
MIK USD bond	34,429,486	–	–	34,429,486
Equity instruments measured at FVOCI				
Unquoted equities	–	–	3,395,537	3,395,537
Equity securities, at fair value	54,267,410	–	–	54,267,410
Financial assets at FVTPL				
Residential mortgage-backed securities	–	–	199,870,221	199,870,221
Loans and advances to customers at FVTPL	–	338,322,173	–	338,322,173
Derivative financial instruments	–	101,647,498	–	101,647,498
Non-financial assets				
Revalued properties	–	–	246,797,379	246,797,379
Investment properties	–	–	79,902,629	79,902,629
	147,471,332	**2,101,200,396**	**529,965,766**	**2,778,637,494**
Financial liability				
Derivative financial instruments	–	78,035,961	–	78,035,961
	–	**78,035,961**	**–**	**78,035,961**

Transfers between level 1, 2 and 3

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

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:

	Fair value 2022 MNT'000	2021 MNT'000	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	949,566,385	1,661,230,725	Market value approach	Central bank policy and repo rates
Loans and advances to customers at FVTPL	330,876,566	338,322,173	Discounted Cash Flow approach	Future cash flows, PD, LGD and market interest rate of instruments
Derivative financial instruments	265,374,431	101,647,498	Discounted Cash Flow approach	Libor and SOFR rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD
Financial liabilities				
Derivative financial instruments	166,203,537	78,035,961	Discounted Cash Flow approach	Libor and SOFR rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD

The were no change in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2022 and 2021.

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

At 31 December 2022	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	260,184,968	+/- 1%	+/- 2,601,850	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Loan backed securities - Junior tranche	5,832,160	+/- 1%	+/- 58,322	Discounted Cash Flow method	Market interest rates	9.5%
Unquoted equities	3,168,532	+/- 10%	+/- 316,853	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	225,309,201	+/- 10%	+/- 22,530,920	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 0.5 million - 2.4 million per sq meter; MNT 2.5 - 8.7 million per sq.meters
Investment properties	79,997,754	+/- 10%	+/- 7,999,775	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.3 million - 8.2 million per sq.meters

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

At 31 December 2021	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	199,870,221	+/- 1%	+/- 1,998,702	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Unquoted equities	3,395,537	+/- 10%	+/- 339,554	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	246,797,379	+/- 10%	+/- 24,679,738	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 0.5 million - 2.4 million per sq meter; MNT 2.5 - 8.7 million per sq.meters
Investment properties	79,902,629	+/- 10%	+/- 7,990,263	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.2 million - 8.3 million per sq.meters

There were no changes in valuation techniques during the year ended 31 December 2022 and 2021. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2022.

Movements in fair value measurements within Level 3 during the year

	2022 MNT'000	2021 MNT'000
Residential mortgage-backed securities		
At 1 January	199,870,221	127,666,125
Addition	191,776,200	102,858,400
Sold	(147,530,300)	(36,061,600)
Interest accrued	19,265,652	14,266,919
Interest received	(3,196,805)	(8,859,623)
At 31 December	**260,184,968**	**199,870,221**
Loan backed securities - Junior tranche		
At 1 January	–	–
Addition	5,746,900	–
Interest accrued	278,965	–
Interest received	(193,705)	–
At 31 December	**5,832,160**	**–**
Unquoted equity		
At 1 January	3,395,537	7,313,358
Disposal	(227,005)	(3,917,821)
At 31 December	**3,168,532**	**3,395,537**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

Movements in fair value measurements within Level 3 during the year (contd.)

	2022 MNT'000	2021 MNT'000
Revalued properties		
At 1 January	246,797,379	240,695,719
Addition	–	34,749,130
Transfer	–	593,884
Disposal	(8,829,494)	(36,218,370)
Depreciation charged in profit or loss	(5,623,684)	(6,121,359)
Write-off	(7,035,000)	–
Revaluation	–	13,098,375
At 31 December	**225,309,201**	**246,797,379**
Investment properties		
At 1 January	79,902,629	148,990,218
Disposal	–	(20,898,204)
Transfer	–	(48,623,002)
Revaluation	95,125	433,617
At 31 December	**79,997,754**	**79,902,629**

Revaluation of properties and investment properties

The properties' fair values are based on valuations performed by an accredited independent valuer. The fair value of the land and buildings were determined using market approach. Market approach means that the valuations performed by the valuer were based on transactions and advertised process for similar buildings in the market, applying comparison adjustments for location, condition age, listing, and similar factors.

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

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. Based on fair value assessments performed by the management, the estimated fair values of due from banks of more than one year approximate their carrying amounts as shown in the statement of financial position. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. 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 significant difference between the two values which are categorized in level 2.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

Fixed rate financial instruments (contd.)

As at 31 December 2022	Carrying amount MNT'000	Fair value MNT'000
Financial assets		
Loans and advances to customers	4,137,182,398	4,195,665,298
Debt instruments at amortised cost	250,553,216	252,759,224
Financial liabilities		
Due to customers	6,207,309,405	6,226,909,035
As at 31 December 2021		
Financial assets		
Loans and advances to customers	4,588,465,405	4,639,813,219
Investment securities held to maturity	590,679,288	601,122,783
Financial liabilities		
Due to customers	6,266,310,519	6,249,211,370

35. Related party disclosures

The following are considered as related parties of the Bank:

- Valiant Art LLC - The Bank's executive officer's immediate relative owns Valiant Art LLC
- TDB Securities LLC (former TDB Capital LLC), TDB Asset Management SC LLC – The companies are subsidiaries of TDB Capital LLC (former United Banking corporation LLC), the shareholder of the Bank
- MIK – An associate (see Note 15)
- Mongol General Leasing LLC and its subsidiaries ("MGLL") – The Bank owns 10% equity interest in MGLL and the company is owned by close family member of beneficial owner of the Bank
- National News Corporation LLC ("NNC") – The Bank owns 9.85% equity interest in NCC and the Bank's beneficial owner is BOD member of the company
- NNC Publishing LLC, JCDecaux LLC - The companies are subsidiaries of NNC
- CNB Consulting LLC ("CNB") – CEO of CNB is immediate family member of the beneficial owner of the Bank
- Absolute Management LLC – The company is owned by close family member of beneficial owner of the Bank
- Times Media Corporation – The company is subsidiary of TDB Capital LLC
- Mongolian National Rare Earth Corporation LLC ("MNREC") - in 2016, the Bank has repossessed the shares of MNREC in accordance with the terms and conditions of the loan agreement made between the Bank and the shareholders of MNREC, which stipulate that the shareholders of MNREC transfers 100% ownership of its shares to the Bank in the event of default on the loan. The repossessed shares were fully written-off in as of 31 December 2019.
- Key management personnel – Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors, Executive officers and their immediate relatives to be related parties.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

Significant transactions and balances with related parties as of 31 December 2022 and 2021 and for the years then ended were as follows:

At 31 December 2022	TDB Capital LLC* MNT'000	Globull MNT'000	US Global Investment LLC MNT'000	JCDecaux LLC MNT'000	MIK MNT'000	TDB Securities LLC MNT'000	TDB Leasing LLC MNT'000	NNC MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Mongol General Leasing LLC MNT'000	Times Media Corporation LLC MNT'000	Valiant Art LLC MNT'000	TDB Asset Management SC LLC MNT'000	Beneficial owner and its immediate family MNT'000	Key Management Personnel MNT'000
Balances																		
Deposit and accrued interest	1,020,494	361	320	3,629,237	67,692,020	2,643,944	16,019,311	262,769	13,282	107	7,676	4,828,309	675	84	9,951	813	95,618	845,952
Loan and advances, accrued interest	7,857,045	–	–	–	10,026,377	–	18,862,957	–	–	9,010,151	–	11,811,345	–	–	–	–	67,651	1,949,644
Receivables and prepayments	547,500	–	–	–	879,178	–	54,584	–	–	20,081,613	–	–	–	–	–	–	3,100,000	–
RMBSs	–	–	–	–	260,184,968	–	–	–	–	–	–	–	–	–	–	–	–	–
Quoted USD bonds	–	–	–	–	27,362,835	–	–	–	–	–	–	–	–	–	–	–	–	–
Accrued interest payable on swap	–	–	–	–	3,024,561	–	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	158,847,086	–	85,271	–	–	–	–	–	–	–	–	–	–	–
Letter of credit and Letter of guarantee	–	–	–	–	–	2,540	–	–	–	–	–	–	–	–	–	–	–	–
Undrawn credit line	–	–	–	–	–	3,674	4,598	–	–	–	–	478,216	–	–	–	–	717,590	540,681
Derivative financial liability	–	–	–	–	160,848,700	–	–	–	–	–	–	–	–	–	–	–	–	–
Transactions																		
Interest income on																		
Loans and advances	898,594	–	–	–	1,469,179	36	2,405,516	–	–	422,844	–	678,061	–	–	–	–	8,716	197,909
Financial instruments	–	–	–	–	3,600,173	–	–	–	–	–	–	–	–	–	–	–	–	–
RMBSs	–	–	–	–	19,265,652	–	–	–	–	–	–	–	–	–	–	–	–	–
Swap	–	–	–	–	5,811,621	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest expense on																		
Deposits	–	–	–	158,302	26,665,840	72,084	371,276	–	–	–	–	–	–	–	–	–	313	38,490
Services obtained	–	–	–	213,840	–	547,498	718,302	5,850,833	–	–	–	–	–	263,148	–	–	–	–
Commission income	15	12	12	483	2,008,901	890	11,689	3,251	216	37	36	4,105	26	76	320	13	818	4,881
Remuneration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	19,703,582

*Former United Banking Corporation LLC

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

At 31 December 2021	United Banking Corporation LLC MNT'000	Globull Investment and Development PTE Ltd MNT'000	JCDecaux LLC MNT'000	MIK MNT'000	TDB Securities LLC MNT'000	TDB Leasing LLC MNT'000	NNC MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Times Media Corporation LLC MNT'000	Valiant Art LLC MNT'000	Beneficial owner and its immediate family MNT'000	Key Management Personnel MNT'000
Balances															
Deposit and accrued interest	712,608	373	2,729,245	505,688,015	6,175,728	25,541,582	476,703	29,761	139	7,706	7,269	141,874	4,035	680,642	972,327
Loan and advances, accrued interest	7,069,939	–	–	15,451,856	–	35,834,064	–	–	7,248,282	–	–	–	581,388	117,217	2,369,648
Receivables and prepayments	547,500	–	–	1,376,014	–	–	–	–	17,751,627	–	–	–	–	–	–
RMBSs	–	–	–	199,870,221	–	–	–	–	–	–	–	–	–	–	–
Quoted USD bonds	–	–	–	34,429,486	–	–	–	–	–	–	–	–	–	–	–
Accrued interest receivable on swap	–	–	–	2,148,019	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	200,678,622	–	450,982	–	–	–	–	–	–	–	–	–
Letter of credit and Letter of guarantee	–	–	–	–	8,540	3,986,557	–	–	–	–	–	–	–	–	–
Undrawn credit line	–	–	–	–	3,980	1,537	–	–	–	–	–	–	–	433,202	265,858
Derivative financial liability	–	–	–	67,586,124	–	–	–	–	–	–	–	–	–	–	–
Transactions															
Interest income on															
Loans and advances	666,266	–	–	2,060,553	444,128	2,747,999	408,329	–	–	–	–	76,436	–	21,456	221,687
Financial instruments	–	–	–	3,278,645	–	–	–	–	–	–	–	–	–	–	–
RMBSs	–	–	–	14,266,919	–	–	–	–	–	–	–	–	–	–	–
Swap	–	–	–	11,448,055	–	–	–	–	–	–	–	–	–	–	–
Interest expense on															
Deposits	–	–	68,156	85,816,540	50,922	1,666,122	–	–	–	–	–	–	–	922	58,150
Services obtained	100,000	–	–	–	100,000	776,101	2,824,392	246,818	–	–	–	538,548	–	–	–
Commission income	2,522	12	154	2,803,723	–	18,194	2,018	227	28	48	2,019	101	94	4,747	1,290
Remuneration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	14,266,762

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

Terms and conditions of transactions with related parties

The above outstanding balances and transactions arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the period-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables.

Key management have banking relationships with the Bank which are entered into in the normal course of business.

36. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 33 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2022	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	1,756,207,294	–	1,756,207,294
Due from other banks and financial institutions	767,067,640	–	767,067,640
Financial assets at fair value through profit or loss	23,785,328	242,231,800	266,017,128
Debt instruments at FVOCI	953,832,580	125,980,182	1,079,812,762
Equity instruments at FVOCI	–	73,528,478	73,528,478
Debt instruments at amortised cost	242,721,212	7,832,004	250,553,216
Investment in associate	–	924,685	924,685
Derivative financial instruments	90,166,256	175,208,175	265,374,431
Loans and advances to customers	2,357,796,491	1,779,385,907	4,137,182,398
Other assets	84,276,486	381,674,074	465,950,560
Investment property	–	79,997,754	79,997,754
Assets held for sale	24,665,717	–	24,665,717
Property and equipment	–	470,625,143	470,625,143
Right-of-use assets	–	15,449,135	15,449,135
Intangible assets	–	1,421,361	1,421,361
Total assets	6,300,519,004	3,354,258,698	9,654,777,702
Liabilities			
Due to banks and other financial institutions	33,120,234	–	33,120,234
Repurchase agreements	273,521,721	43,283,070	316,804,791
Due to customers	5,514,573,270	692,736,135	6,207,309,405
Derivative financial instruments	2,330,277	163,873,260	166,203,537
Borrowed funds	1,129,029,788	289,801,407	1,418,831,195
Other liabilities	101,064,523	159,419,062	260,483,585
Lease liabilities	–	15,869,783	15,869,783
Income tax liabilities	55,742,118	–	55,742,118
Deferred tax liabilities	–	2,401,790	2,401,790
Total liabilities	7,109,381,931	1,367,384,507	8,474,364,648
Net*	**(808,862,927)**	**1,986,874,191**	**1,180,413,054**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

36. Maturity analysis of assets and liabilities (contd.)

At 31 December 2021	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	976,352,237	–	976,352,237
Due from other banks and financial institutions	504,417,550	–	504,417,550
Financial assets at fair value through profit or loss	7,631,221	192,239,000	199,870,221
Debt instruments at FVOCI	1,663,846,240	90,588,407	1,754,434,647
Equity instruments at FVOCI	–	57,662,947	57,662,947
Debt instruments at amortised cost	299,482,131	291,197,157	590,679,288
Investment in associate	–	506,297	506,297
Derivative financial instruments	99,678,247	1,969,251	101,647,498
Loans and advances to customers	2,297,395,568	2,291,069,837	4,588,465,405
Other assets	53,580,450	146,471,143	200,051,593
Investment property	–	79,902,629	79,902,629
Assets held for sale	3,605,964	–	3,605,964
Property and equipment	–	480,838,433	480,838,433
Right-of-use assets	–	7,902,693	7,902,693
Intangible assets	–	2,334,413	2,334,413
Total assets	5,905,989,608	3,642,682,207	9,548,671,815
Liabilities			
Due to banks and other financial institutions	13,938,713	–	13,938,713
Repurchase agreements	41,331,885	248,460,643	289,792,528
Due to customers	5,681,330,229	584,980,290	6,266,310,519
Derivative financial instruments	75,951,189	2,084,772	78,035,961
Borrowed funds	495,290,103	913,450,026	1,408,740,129
Debt securities issued	160,140,274	–	160,140,274
Other liabilities	81,615,708	207,454,257	289,069,965
Lease liabilities	–	8,999,663	8,999,663
Income tax liabilities	12,499,999	–	12,499,999
Deferred tax liabilities	–	1,035,344	1,035,344
Total liabilities	6,562,098,100	1,966,464,995	8,528,563,095
Net*	**(656,108,492)**	**1,676,217,212**	**1,020,108,720**

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

37. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM.

Capital management

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 healthy capital ratios to be able to absorb negative shocks.

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.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

37. Capital adequacy (contd.)

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2021: 9%) and risk weighted capital ratio of at least 12% (2021: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31 December were as follows:

	2022	2021
Core capital adequacy ratio	15.15%	13.03%
Risk-weighted capital ratio	15.15%	13.03%

	2022 MNT'000	2021 MNT'000
Tier I Capital		
Share capital	323,810,329	323,809,925
Share premium	664	–
Retained earnings	595,291,291	486,155,463
Adjustment (See Note 33)	–	(4,258,874)
Total Tier I Capital	919,102,284	805,706,514
Tier II capital		
Revaluation surplus	–	–
Total Tier II Capital	–	–
Total capital /capital base	**919,102,284**	**805,706,514**

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

%	2022 Risk Assets MNT'000	2022 Weighted MNT'000	2021 Risk Assets MNT'000	2021 Weighted MNT'000
0	3,312,908,980	–	3,360,928,946	–
20	781,046,774	156,209,355	532,097,176	106,419,435
50	1,420,900,075	710,450,039	1,248,466,378	624,233,189
100	3,627,626,768	3,627,626,768	4,300,089,528	4,300,089,528
150	967,597,227	1,451,395,840	621,453,461	932,180,192
Adjustments:				
Operational risk ratio		78,694,871		86,819,388
Foreign exchange risk ratio		42,571,900		133,595,360
Total	**10,110,079,824**	**6,066,948,773**	**10,063,035,489**	**6,183,337,092**

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

38. Events after reporting date

Management is not aware of other events that occurred after the end of the reporting period, which would have any impact on these financial statements except for:

On 11 January 2023, the shareholders of the Bank approved to make 1 for 10 share split, as a result, the Bank`s number of ordinary shares in issue had increased to 48,070,880. The share split has been adjusted in the calculation of EPS for all periods presented (See Note 11).

39. Mongolian translation

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.

18001977

Sukhbaatar district,
Central building of TDB. 14210
Peace avenue 19, 1st khoroo