

IMPORTANT NOTICE

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Confirmation of your representation: The attached Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to the Issuer (as defined in the attached Offering Circular) that (1) you and any customers you represent are outside the United States and that the e-mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, its territories or possessions, (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission, and (3) to the extent you purchase the securities described in the attached Offering Circular, you will be doing so in an offshore transaction as defined in regulations under the Securities Act in compliance with Regulation S thereunder.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Issuer, the Trustee (as defined in the attached Offering Circular), the Agents (as defined in the attached Offering Circular) or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

Restrictions: The attached Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING IS MADE SOLELY OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes, and may be used in connection with, an offer or an invitation by or on behalf of the Issuer to subscribe for or purchase any of the securities described therein, in any place where offers or solicitations are not permitted by law and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). The attached Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed and will not be able to purchase any of the securities described in the attached Offering Circular.

Actions that you may not take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive the attached Offering Circular by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



M BANK CLOSED JSC
(the "Issuer")

(incorporated in Mongolia with limited liability)

U.S.\$100,000,000 9.875 PER CENT. BONDS DUE 19 DECEMBER 2028
ISSUE PRICE FOR THE BONDS: 97.190 PER CENT.

The U.S.\$100,000,000 9.875 per cent. bonds due 19 December 2028 (the "Bonds") will be issued by M Bank Closed JSC (the "Issuer").

The Bonds will bear interest on their outstanding principal amount from and including 19 December 2025 (the "Issue Date") at the rate of 9.875 per cent. per annum. Interest on the Bonds is payable semi-annually in arrear on 19 June and 19 December in each year, commencing on 19 June 2026. Unless previously redeemed, or purchased and cancelled, the Bonds will mature on 19 December 2028 at their principal amount.

The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the terms and conditions of the Bonds (the "Terms and Conditions of the Bonds")) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds will be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Mongolia or any political subdivision or any authority therein or thereof having power to tax to the extent described in "Terms and Conditions of the Bonds – Taxation".

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption upon the occurrence of certain tax events. The Bonds may also be redeemed at the option of the Bondholders (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of the principal amount (together with accrued interest to but excluding the Change of Control Put Settlement Date (as defined in the Terms and Conditions of the Bonds)), upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Bonds). For a more detailed description of the Bonds, see "Terms and Conditions" beginning on page 42.

MCS Holding LLC ("MCS Holding") will enter into a deed of covenant dated the Issue Date (the "Deed of Covenant") with the Issuer and The Bank of New York Mellon, London Branch (the "Trustee") as trustee of the Bonds, for itself and the holders of the Bonds, as more fully described under "Description of Deed of Covenant". **The Deed of Covenant does not constitute a guarantee by MCS Holding of the obligations of the Issuer, which is a wholly-owned subsidiary of MCS Holding, under the Bonds.**

The Bonds will be issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 18 for a discussion of certain risk factors to be considered in connection with an investment in the Bonds.

Application has been made for the listing and quotation of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle for the listing and quotation of the Bonds and admission of the Bonds to the Official List of the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Bonds.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Offering Circular.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of

the Securities Act. For a description of these and certain restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Bonds will be represented initially by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on the Issue Date with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, certificates for the Bonds will not be issued in exchange for interests in the Global Certificate.

The Bonds are expected to be assigned a rating of B3 by Moody's Investor Services, Inc. ("**Moody's**"). The rating does not constitute a recommendation to buy, sell or hold the Bonds and may be subject to suspension, reduction or withdrawal at any time by Moody's. A suspension, reduction or withdrawal of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

This Offering Circular dated 17 December 2025

NOTICE TO INVESTORS

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR ANY OF ITS SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The Issuer accepts responsibility for the information contained in this Offering Circular and declares that the information contained in this Offering Circular is in accordance with the facts and makes no omission likely to affect its import.

Certain information in this Offering Circular has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer does not accept any responsibility for the accuracy of such information, nor has the Issuer independently verified any such information. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer confirms that (i) this Offering Circular contains all information with respect to the Issuer and the Bonds which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws and the information which, according to the particular nature of the Issuer and the Bonds, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the rights attaching to the Bonds); (ii) the statements contained in this Offering Circular are in all material respects true and accurate and not misleading and there are no other facts in relation to the Issuer or the Bonds the omission of which would in the context of the issue and offering of the Bonds make any statement in this Offering Circular misleading in any material respect; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular; and (v) this Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they were made, not misleading.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer to inform themselves about and to observe any such restrictions. None of the Issuer, the Trustee, the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them represents that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including Mongolia, the United States, the United Kingdom, the PRC, Hong Kong, Singapore and Japan, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*". By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally.

to subscribe for, or otherwise acquire, the Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer or the Bonds, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Trustee or the Agents (as defined in Terms and Conditions of the Bonds) or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them). None of the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them) has independently verified any of the information contained in this Offering Circular and can give assurance that such information is accurate, truthful or complete.

Each person receiving this Offering Circular acknowledges that it has not relied on the Trustee or the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision, and such person must rely on its own examination of the Issuer and the merits and risks involved in investing in the Bonds. See "*Risk Factors*" below for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by law, the Trustee and the Agents (and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them) does not accept any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them, or on their behalf in connection with the Issuer or the issue and offering of the Bonds. Each of the Trustee and the Agents (and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them) accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them) undertakes to review the financial condition or affairs of the Issuer during the life of the

arrangements contemplated by this Offering Circular nor to advise any investor or potential investors in the Bonds of any information coming to the attention of the Trustee or any Agent or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them.

This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them) that any recipient of this Offering Circular should subscribe for or purchase the Bonds. Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own tax, legal and business advisers needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

The Bonds have not been and will not be registered with the United States Securities and Exchange Commission under the Securities Act or with any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the offering of the Bonds, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. Investors are advised to read and understand the contents of this Offering Circular before investing and consult their attorney and adviser if in doubt.

Listing of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Bonds. Each of the Issuer, the Trustee and the Agents and each of their respective directors, officers, employees, representatives, advisers, agents and affiliates and each person who controls any of them is not making any representation to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Trustee or the Agents or any of their respective directors, officers, employees, representatives, agents, advisers or affiliates or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision.

Notification under the Securities and Futures Act 2001 of Singapore

In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including internal surveys and materials, market research, publicly available information, various government sources and industry publications. Although this information is believed by the Issuer to be reliable, it has not been independently verified by the Issuer, the Trustee or the Agents or any of their respective directors, officers, employees, representatives, advisers, agents or affiliates or any person who controls any of them, and none of the Issuer, the Trustee or the Agents or any of their respective directors, officers, employees, representatives, advisers, agents or affiliates or any person who controls any of them makes any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside Mongolia. In addition, third party information

providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

PRESENTATION OF FINANCIAL INFORMATION

The financial information of the Issuer (i) as at and for the nine months ended 30 September 2025 and 2024 included in this Offering Circular has been extracted from the Issuer's reviewed condensed interim financial statements for the nine-month period ended 30 September 2025 (the "**3Q2025 Reviewed Condensed Interim Financial Statements**"), and (ii) as at and for the years ended 31 December 2022, 2023 and 2024 included in this Offering Circular has been extracted from the Issuer's audited financial statements as at and for the year ended 31 December 2022 (the "**2022 Audited Financial Statements**"), the Issuer's audited financial statements as at and for the year ended 31 December 2023 (the "**2023 Audited Financial Statements**") and the Issuer's audited financial statements as at and for the year ended 31 December 2024 (the "**2024 Audited Financial Statements**" and, together with the 2022 Audited Financial Statements and the 2023 Audited Financial Statements, the "**Audited Financial Statements**"), which are included elsewhere in this Offering Circular. The Audited Financial Statements were audited by KPMG Audit LLC, the independent non-statutory auditor of the Issuer for the financial years ended 31 December 2022 and 31 December 2023 and the independent statutory auditor of the Issuer for the financial year ended 31 December 2024. The 3Q2025 Reviewed Condensed Interim Financial Statements were reviewed by KPMG Audit LLC, the independent statutory auditor of the Issuer for the nine months ended 30 September 2025. The condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period ended 30 September 2024 presented for the comparative purposes (the "**3Q2024 Comparative Numbers**"), have not been reviewed or audited by KPMG Audit LLC. See "*Risk Factors – Risks relating to our business and industry – The 3Q2024 Comparative Numbers have not been audited or reviewed by the Issuer's auditor. As a result, the 3Q2024 Condensed Interim Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review.*".

The Audited Financial Statements were prepared and presented in accordance with IFRS Accounting Standards ("**IFRS**"). The 3Q2025 Reviewed Condensed Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. IFRS Accounting Standards differ in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP, which might be material to the financial information herein. We have made no attempt to quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of this offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS Accounting Standards and U.S. GAAP, and how those differences might affect the financial information herein.

The differences in presentation in the Audited Financial Statements for the years ended 2022, 2023 and 2024 primarily reflect the Issuer's compliance with IAS 1 Presentation of Financial Statements, under which the Issuer refined and further disaggregated certain classifications and line items to enhance the clarity and understandability of the financial statements. In particular, within the statement of financial position, cash balances with the Bank of Mongolia and cash balances due from other banks, previously presented within separate line items, were reclassified into the broader category of Cash and Cash Equivalents, with mandatory cash balances presented separately. Furthermore, right-of-use (ROU) assets were included within property, plant and equipment in 2022 due to their immaterial balance; however, they have been presented as a separate line item in 2023 and 2024. On the liabilities side, customer current and deposit accounts, previously included within amounts due to banks and financial institutions, have been disaggregated and presented separately as Due to Banks and Due to Customers. These changes did not have a material impact on the Issuer's financial position or performance but resulted in a more detailed presentation and updated disclosures in line with the latest IFRS requirements.

The Issuer also made certain presentation refinements in the statement of profit or loss to improve clarity. Specifically, items previously included within interest income and interest expense were disaggregated and presented separately as other similar interest income/expense; personnel expenses were presented as a separate line item from other operating expenses; foreign exchange (FX) gains/losses were presented separately from other gains/losses. These presentation changes were made solely to enhance the understandability of the financial statements and did not have a material impact on the Bank's financial position or performance.

EXCHANGE RATE INFORMATION

This Offering Circular contains a translation of certain Mongolian Togrog amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless specified in the annual or interim financial statements of the Issuer or otherwise specified, where financial information in relation to the Issuer has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of MNT3,420.46 per U.S.\$1.00, the basic exchange rate published by the Bank of Mongolia on 31 December 2024. On 30 September 2025, the translation of Togrogs into U.S. dollars published by the Bank of Mongolia was MNT3,594.64 to U.S.\$1.00. No representation is made that the Togrog amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

ROUNDING

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

WARNING

The contents of this Offering Circular have not been reviewed by any regulatory authority of any jurisdiction. You are advised to exercise caution in relation to the offering of the Bonds. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

CERTAIN DEFINITIONS AND CONVENTIONS

Unless the context otherwise requires, all references in this document to the "Issuer", "we", "us", "M Bank" or the "Bank" refer to M Bank Closed JSC.

References in this document to "**Government**" are to the government of Mongolia. References in this document to "**IFRS**" are to IFRS Accounting Standards. Unless the context otherwise requires, references to a particular year are to the fiscal or financial year ended December 31 of such year.

All references in this document to "**MNT**" and "**Tugriks**" refer to Togrogs, the lawful currency of Mongolia; "**U.S. dollars**" and "**US\$**" refer to United States dollars, the lawful currency of the United States of America; "**SS**" refers to Singapore dollars, the lawful currency of Singapore; "**euro**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union (the "EU"), as amended.

Certain numerical information in this Offering Circular has been rounded for convenience and, as a result, the totals of the data presented in this Offering Circular may vary slightly from the actual arithmetic totals of such information. In particular, in preparing the audited financial statements included in this Offering Circular, most numerical figures are presented in thousands of Tugriks. For the convenience of the reader of this Offering Circular, financial data, unless otherwise stated, was rounded to the nearest one million.

Certain statistical information has not been prepared in accordance with the international disclosure standards.

The English names of Mongolian nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Mongolian names and are included for identification purpose only. In the event of any inconsistency, the Mongolian name prevails.

FORWARD-LOOKING STATEMENTS

The Issuer has made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "target", "believe", "can", "would", "could", "estimate", "expect", "aim", "intend", "may", "plan", "will", "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to the Issuer discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or by any third party) involve known and unknown risks, including those disclosed under the caption "Risk Factors", uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause the actual results, performances and achievements of the Issuer to be materially different include, among others:

- the Issuer's expected business expansion;
- the Issuer's financial position and results;
- the Issuer's business strategies, plans and objectives of management for future operations;
- the expected changes in the exchange rate of Tugriks;
- the expected growth of certain industry sectors and overall economy of Mongolia;
- development plans and objectives relating to the Issuer's products and services;
- the impact of changes in the international prices of commodities;
- economic conditions in Mongolia's major export markets;
- acts of war;
- the general state of the global economy;
- changes in policies and regulations of the Government
- domestic inflation;
- the level of domestic interest rates;
- extreme climatic events affecting Mongolia;
- the social and political situation in Mongolia; and
- other factors, including those discussed in "*Risk Factors*".

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

M Bank Closed JSC is a licensed commercial bank incorporated and domiciled in Mongolia in March 2022. Established in accordance with Mongolian banking regulations, the Bank provides a comprehensive suite of banking and financial services, including lending, payment and settlement services, foreign exchange trading, remittances, financial leasing, and safekeeping of valuables and Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia. The Bank's registered office is located at tower 15th floor, 8th khoroo, Sukhbaatar District, Ulaanbaatar-14200, Mongolia. The Bank is wholly owned by MCS Holding, one of Mongolia's largest diversified conglomerates, with ultimate control held by MCS Mongolia LLC. The Bank is regulated by the Bank of Mongolia and prepares its financial statements in accordance with IFRS Accounting Standards.

The Bank made its entry into the market as Mongolia's first Neobank, with the aim of setting new standards in digital banking. We go beyond traditional banking by offering tech-driven financial products and services that are intended to faster, simpler, and more accessible to all. The Bank is a modern, customer-centric platform that supports financial well-being and offers innovative solutions tailored to today's lifestyles.

In 2024, the total number of customers reached 453,041, an increase of 93% compared to 234,510 in 2023, with the total number of customer transactions increasing fourfold compared to the previous year. Other notable highlights include the implementation of over 20 major campaigns in 2024 to support our customers' financial well-being, delivering over MNT2 billion in discounts and cashback. The Bank also launched the M business app, which improved access to financial services for business owners which is a significant step in our customer-centric strategy. As of the date of this Offering Circular, the Bank has raised funding various international institutions such as the IFC, Saison Investment Management Private Limited ("Saison"), Delphos Securities Sarl ("Delphos") and Mopane Securities Plc ("Mopane"). See "*Borrowings from central banks and access to International Funding*" below.

COMPETITIVE STRENGTHS

- Strong and sustained growth in assets, loans, and customer deposits demonstrates the Bank's rapid expansion and increasing market presence
- Strong asset quality
- Sufficient capital buffer and sound liquidity with strong Shareholder support
- Diversified Loan Portfolio
- Borrowings from central banks and access to International Funding
- Innovation-driven strategic focus

STRATEGIES

The Bank's strategic priorities are designed to strengthen its market position and ensure sustainable growth. These include:

- Expanding retail and SME lending, with particular emphasis on women-owned enterprises and environmentally sustainable projects, supported by international credit lines.
- Accelerating digital transformation to enhance customer experience, broaden distribution channels, and reduce operating costs.
- Maintaining a conservative approach to risk management and capital adequacy, in line with Bank of Mongolia regulatory requirements.

RECENT DEVELOPMENTS

On 14 October 2025, Moody's Investor Services, Inc. ("Moody's") assigned first time B3 foreign currency and local currency long-term issuer ratings and bank deposit ratings to the Bank.

On 23 October 2025, the Bank entered into a USD 30 million repurchase agreement with Meru Ventures Limited and received the proceeds on 28 October 2025, with the repo settlement transaction involving USD-denominated bonds issued by the Government of Mongolia, and a repurchase date of 14 July 2031.

On 23 October 2025, the Bank entered into a USD 30 million loan facility agreement with Mopane and received the full proceeds in USD on 5 November 2025. The purpose of the loan is to support general corporate activities, and the loan matures on 14 July 2031.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering of the Bonds and is qualified in its entirety by the remainder of this Offering Circular. For a more complete description of the Terms and Conditions of the Bonds, see "Terms and Conditions of the Bonds" and "Summary of Provisions Relating to the Bonds in Global Form". Some of the terms described below are subject to important limitations and exceptions. Defined terms used in this summary shall have the meanings given to them in "Terms and Conditions of the Bonds".

Issuer	M Bank Closed JSC
Issue	U.S.\$100,000,000 in aggregate principal amount of 9.875 per cent. bonds due 19 December 2028
Issue Price	97.190 per cent. of the principal amount of the Bonds
Form and Denomination	The Bonds will be registered and issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 19 December 2025 at the rate of 9.875 per cent. per annum, payable semi-annually in arrear on 19 June and 19 December in each year, commencing on 19 June 2026.
Issue Date	19 December 2025
Maturity Date	19 December 2028
Status of the Bonds	The Bonds will constitute direct unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves.
Deed of Covenant	The Issuer, MCS Holding and the Trustee will enter into a deed of covenant as further described in " <i>Description of Deed of Covenant</i> ".
Negative Pledge	The Bonds contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Bonds.
Events of Default	The Bonds contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Mongolia or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts (" Additional Tax Amounts ") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been

	<p>required. See Condition 8 of the Terms and Conditions of the Bonds.</p>
Final Redemption	<p>Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with Condition 6 of the Terms and Conditions of the Bonds.</p>
Redemption for Taxation Reasons	<p>The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 16 of the Terms and Conditions of the Bonds (which notice shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount together with interest accrued to the date fixed for redemption, if (i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 of the Terms and Conditions of the Bonds as a result of any change in, or amendment to, the laws or treaties (including any regulations or rulings promulgated thereunder) of Mongolia, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or treaties (including any regulations or rulings promulgated thereunder), which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.</p>
Redemption for Change of Control	<p>At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Bonds on the Change of Control Put Settlement Date (as defined in Condition 6(c) of the Terms and Conditions of the Bonds) at a redemption price equal to 101 per cent. of their principal amount, together with accrued interest to but excluding such Change of Control Put Settlement Date. See "<i>Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Change of Control</i>".</p>
Clearing Systems	<p>The Bonds will be issued in registered form and represented initially by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate and this Offering Circular,</p>

	certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 325854332 and the International Securities Identification Number for the Bonds is XS3258543324.
Governing Law	English law.
Trustee	The Bank of New York Mellon, London Branch
Settlement Agent	Kroll Issuer Services Limited
Principal Paying Agent	The Bank of New York Mellon, London Branch
Transfer Agent and Registrar	The Bank of New York Mellon SA/NV, Dublin Branch
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further bonds either having the same terms and conditions as the Bonds in all respects or in all respects except for the issue date and the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See " <i>Use of Proceeds</i> ". For the avoidance of doubt, the Bonds are not green bonds within the scope of the Green Bond Principles administered by the International Capital Markets Association ("ICMA"). The Bonds should not be considered "green", "sustainable", "social" or "sustainability-linked" instruments.
Risk Factors	For a discussion of certain risk factors that should be considered in evaluating an investment in the Bonds, see " <i>Risk Factors</i> ".
Listing	Application has been made to the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST. The Issuers will use commercially reasonable efforts to obtain and maintain such listing as long as any Bonds remain outstanding.
Selling Restrictions	The Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See " <i>Subscription and Sale</i> ".

SUMMARY FINANCIAL INFORMATION

The following summary statements of profit or loss and other comprehensive income and summary statements of cash flow data for the years ended 31 December 2022, 2023 and 2024 and the nine months ended 30 September 2024 and 2025, and the summary statements of financial position as of 31 December 2022, 31 December 2023, 31 December 2024 and 30 September 2025, set forth below have been derived from our 3Q2025 Reviewed Condensed Interim Financial Statements and Audited Financial Statements, as the case may be. The 3Q2025 Reviewed Condensed Interim Financial Statements have been reviewed by KPMG Audit LLC and the Audited Financial Statements have been audited by KPMG Audit LLC. The condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period ended 30 September 2024, presented for the comparative purposes, have not been reviewed or audited by KPMG Audit LLC.

You should read the summary historical financial information below in conjunction with our financial statements and the accompanying notes included in this Offering Circular.

Condensed Statement of Financial Position

As at 30 September 2025
(*MNT thousands*)

ASSETS	
Cash and cash equivalents.....	347,425,138
Mandatory cash balances with Bank of Mongolia.	102,941,746
Due from other banks.....	7,397,247
Reverse sale and repurchase agreements	—
Investments in debt securities.....	194,929,775
Derivative financial assets.....	12,166,320
Loans and advances to customers.....	1,213,357,880
Property and equipment.....	10,038,995
Intangible assets	21,970,285
Right-of-use-assets	6,956,866
Deferred tax assets	1,408,865
Income tax receivables	1,063
Other assets	22,811,205
TOTAL ASSETS	1,941,405,385
LIABILITIES	
Due to other banks.....	195,186
Due to customers.....	1,445,417,248
Other borrowed funds.....	253,583,941
Lease liabilities.....	6,646,435
Current income tax liabilities	—
Other liabilities.....	17,457,450
TOTAL LIABILITIES	1,723,300,260
EQUITY	
Share capital.....	240,000,000
Accumulated losses	(26,217,771)
Other reserve	4,322,896

As at 30 September 2025 (MNT thousands)	
TOTAL EQUITY	218,105,125
TOTAL LIABILITIES AND EQUITY	1,941,405,385

Statement of Financial Position

As at 31 December 2024 (MNT thousands)	
ASSETS	
Cash and cash equivalents	673,517,011
Mandatory cash balances with Bank of Mongolia	48,854,122
Due from other banks	6,797,069
Reverse sale and repurchase agreements	74,089,698
Investments in debt securities	—
Derivative financial assets	4,348,380
Loans and advances to customers	830,649,817
Property and equipment	7,527,892
Intangible assets	17,466,195
Right-of-use-assets	3,878,305
Deferred tax assets	1,159,531
Income tax receivables	—
Other assets	8,477,115
TOTAL ASSETS	1,676,765,135
LIABILITIES	
Due to other banks	308,834,980
Due to customers	1,105,300,290
Other borrowed funds	100,990,229
Repo arrangements	—
Lease liabilities	3,257,966
Current income tax liabilities	446,265
Other liabilities	7,055,260
TOTAL LIABILITIES	1,525,884,990
EQUITY	
Share capital	170,000,000
Accumulated losses	(19,119,855)
TOTAL EQUITY	150,880,145
TOTAL LIABILITIES AND EQUITY	1,676,765,135

As at 31 December 2023
(MNT thousands)

ASSETS

Cash and cash equivalents	382,773,890
Mandatory cash balances with Bank of Mongolia	14,291,395
Reverse sale and repurchase agreements	34,867,161
Investments in debt securities	65,632,054
Loans and advances to customers	172,649,632
Property and equipment	6,154,580
Intangible assets	13,378,422
Deferred tax assets	3,643
Current income tax receivables	9
Other assets	10,700,120
TOTAL ASSETS	700,450,906

LIABILITIES

Due to other banks	242,629,221
Due to customers	350,093,106
Borrowed funds	—
Repurchase arrangements	9,996,445
Lease liabilities	915,612
Other liabilities	9,505,417
TOTAL LIABILITIES	613,139,801

EQUITY

Share capital	100,000,000
Accumulated losses	(12,688,895)
TOTAL EQUITY	87,311,105
TOTAL LIABILITIES AND EQUITY	700,450,906

As at 31 December 2022
(MNT thousands)

ASSETS	
Cash balances with Bank of Mongolia.....	93,934,922
Due from other banks	32,080,976
Loans and advances to customers	92,682,114
Property and equipment	3,735,192
Intangible assets.....	10,809,319
Deferred tax assets.....	4,605
Other assets.....	2,305,777
TOTAL ASSETS	235,552,905
LIABILITIES	
Due to banks and other financial institutions	52,230,034
Due to customers	71,121,593
Borrowed funds	20,101,918
Other liabilities	1,813,621
Lease liabilities	87,200
TOTAL LIABILITIES	145,354,366
EQUITY	
Share capital.....	100,000,000
Accumulated losses.....	(9,801,461)
TOTAL EQUITY	90,198,539
TOTAL EQUITY AND LIABILITIES	235,552,905

Condensed Statement of Profit or Loss and Other Comprehensive Income

Nine months ended 30 September

	2025	2024
	<i>(MNT thousands)</i>	
Interest income calculated using the effective interest method.....	170,618,334	73,860,969
Other similar interest income.....	3,696,302	142,391
Interest expense.....	(113,905,848)	(44,933,551)
Interest similar expense.....	(6,187,848)	(498,794)
Net margin on interest and similar income.....	54,220,940	28,571,015
Impairment losses on financial instruments	(32,328,998)	(7,093,661)
Net margin on interest and similar income after credit loss allowance	21,891,942	21,477,354
Fee and commission income	7,496,496	2,400,386
Fee and commission expense.....	(3,013,620)	(1,254,620)
Gains less losses from financial derivatives	8,488,000	1,138,598
Gains less losses from trading in foreign currencies ..	572,326	158,245
Foreign exchange translation losses less gains.....	(4,395,070)	(50,629)
Personnel expenses	(13,159,816)	(10,662,651)
Depreciation and amortization	(6,708,210)	(4,884,818)
Other operating expenses.....	(14,074,650)	(10,163,906)
Net non-operating expenses	(70,059)	(70,124)
Loss before tax	(2,972,661)	(1,912,165)
Income tax benefit	197,641	343,359
LOSS FOR THE PERIOD	(2,775,020)	(1,568,806)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD.....	(2,775,020)	(1,568,806)

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2024

(MNT thousands)

Interest income calculated using the effective interest method.....	116,083,109
Other similar interest income.....	191,443
Interest expense.....	(72,997,241)
Other similar interest expense.....	(1,293,513)
Net margin on interest and similar income.....	41,983,798
Impairment losses on financial instruments	(16,915,977)
Net margin on interest and similar income after credit loss allowance	25,067,821

Year ended 31 December 2024

(MNT thousands)

Fee and commission income	3,664,762
Fee and commission expense	(1,529,492)
Gains less losses from financial derivatives	5,024,996
Gains less losses from trading in foreign currencies	242,579
Foreign exchange translation losses less gains	(329,347)
Personnel expenses	(15,760,694)
Depreciation and amortization	(6,144,170)
Other operating expenses	(16,817,212)
Net non-operating expenses	(98,229)
Loss before tax	(6,678,986)
Income tax benefit	248,026
LOSS FOR THE YEAR	(6,430,960)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(6,430,960)

Year ended 31 December 2023

(MNT thousands)

Interest income	49,665,352
Interest expense	(23,879,829)
Net interest income	25,785,523
Fee and commission income	787,371
Fee and commission expense	(102,995)
Net fees and commission income	684,376
Net trading income	12,352
Impairment losses on financial instruments	(2,824,134)
Foreign exchange losses, net	(214,825)
Personnel expenses	(12,168,448)
Depreciation and amortization	(3,975,528)
Other operating expenses	(10,239,567)
Net non-operating income	54,931
Loss before tax	(2,885,320)
Income tax expense	(2,114)
Loss for the year	(2,887,434)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(2,887,434)

Year ended 31 December 2022

(MNT thousands)

Interest and similar income	12,347,376
Interest and similar expense.....	(612,269)
Net interest income	11,735,107
Fee and commission income	37,591
Fee and commission expense	(21,629)
Net fee and commission income	15,962
Net trading expense.....	(18,420)
Expected credit loss expense.....	(1,327,673)
Other income	1,157,235
Depreciation and amortization	(3,090,488)
Other expenses.....	(11,959,296)
Net non-operating income.....	8,162,781
Profit before tax	4,675,208
Income tax benefit.....	4,605
PROFIT FOR THE YEAR	4,679,813
Other comprehensive income.....	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR.....	4,679,813

Condensed Statement of Changes in Equity

For the nine months ended 30 September

<i>In thousands of MNT</i>	Share Capital	Accumulated Losses	Other reserve	Total Equity
Balance at 1 January 2024.....	100,000,000	(12,688,895)	—	87,311,105
Total comprehensive loss for the period				
Loss for the period	—	(1,568,806)	—	(1,568,806)
Transactions with owners of the Bank				
Issue of ordinary shares.....	70,000,000	—	—	70,000,000
Increase in regulatory reserve.....	—	(1,870,064)	1,870,064	—
Balance at 30 September 2024.....	170,000,000	(16,127,765)	1,870,064	155,742,299
Balance at 1 January 2025.....	170,000,000	(19,119,855)	—	150,880,145
Total comprehensive loss for the period				
Loss for the period	—	(2,775,020)	—	(2,775,020)
Transactions with owners of the Bank				
Issue of ordinary shares.....	70,000,000	—	—	70,000,000
Increase in regulatory reserve	—	(4,322,896)	4,322,896	—
Balance at 30 September 2025.....	240,000,000	(26,217,771)	4,322,896	218,105,125

Statement of Changes in Equity

(In thousands of MNT)	Share Capital	Accumulated Losses	Total Equity
Balance at 31 December 2022	100,000,000	(9,801,461)	90,198,539
Balance as at 1 January 2023	100,000,000	(9,801,461)	90,198,539
Total comprehensive loss for the year			
Loss for the year	—	(2,887,434)	(2,887,434)
Balance at 31 December 2023	100,000,000	(12,688,895)	87,311,105
Total comprehensive loss for the year			
Loss for the year	—	(6,430,960)	(6,430,960)
Transactions with owners of the Bank			
Issue of ordinary shares	70,000,000	—	70,000,000
Balance at 31 December 2024	170,000,000	(19,119,855)	150,880,145

Condensed Statement of Cash Flows

	Nine months ended 30 September	
	2025	2024
(MNT thousands)		
Cash flows from operating activities		
Loss before tax	(2,972,661)	(1,912,165)
Adjustments to reconcile profit before tax to net cash flow:		
Impairment losses on financial instruments	32,328,998	7,093,661
Depreciation of property and equipment	1,437,025	1,256,876
Depreciation of rights-of-use assets	2,993,409	2,118,489
Amortisation of intangible assets	2,277,776	1,509,453
Gain on written-off of property and equipment	—	(310)
Loss on disposal of property and equipment	487	—
Gain on disposal of right-of-use assets	(6,463)	—
Loss on disposal of intangible asset	—	1,926
Gains less losses from financial derivatives	(8,488,000)	(1,138,598)
Foreign exchange translation losses less gains	4,395,070	50,629
Interest and similar income	(174,314,636)	(74,003,360)
Interest and similar expense	120,093,696	45,432,345
Cash flows used in operating activities before changes in operating assets and liabilities	(22,255,299)	(19,591,054)
Increase in mandatory reserves with the BoM	(54,087,075)	(12,316,358)
Decrease in reverse sale and repurchase agreements	74,209,989	34,867,160
Decrease / (increase) in due from banks	780,932	(6,226,875)
Increase in investments in debt securities at FVTPL	(226,912,302)	—
Increase in loans and advances to customers	(404,745,515)	(416,390,942)
Increase in other assets	(20,952,578)	(2,075,363)

	Nine months ended 30 September	
	2025	2024
<i>(MNT thousands)</i>		
Decrease in due to other banks	(307,474,902)	(105,946,825)
Increase in due to customers	320,408,645	447,461,116
Increase in other liabilities	10,402,190	2,544,803
Net cash used in operating activities before tax and interest	(630,625,915)	(77,674,338)
Interest received.....	183,362,447	66,215,846
Interest paid	(96,051,882)	(29,126,620)
Interest on lease liabilities paid.....	(633,844)	(337,886)
Income tax paid	(499,021)	(384,647)
Net cash used in operating activities.....	(544,448,215)	(41,307,645)
Acquisition of debt securities at AC	(52,539,500)	(29,190,000)
Proceeds from redemption of debt securities at AC ...	65,516,820	73,668,775
Acquisition of property and equipment.....	(2,589,939)	(2,944,096)
Acquisition of right-of-use assets	—	(274,865)
Acquisition of intangible assets	(1,525,713)	(4,955,603)
Proceeds from disposal of property and equipment ...	500	4,448
Proceeds from right-of-use assets	—	10,635
Proceeds from disposal of intangible assets.....	—	34,462
Net cash generated from investing activities.....	8,862,168	36,353,756
Cash flows from financing activities		
Proceeds from repurchase arrangements.....	245,820,803	4,345,870,517
Repayment of repurchase arrangements	(245,820,803)	(4,355,852,740)
Repayment of lease liabilities	(2,677,036)	(1,490,966)
Proceeds from borrowed funds	235,280,434	92,290,240
Repayment of borrowed funds.....	(93,165,510)	—
Issue of ordinary shares	70,000,000	70,000,000
Net cash generated from financing activities	209,437,888	150,817,051
Credit loss allowance reversal / (charge) on cash and cash equivalent	56,286	(340,754)
Net (decrease) / increase in cash and cash equivalents	(326,091,873)	145,522,408
Cash and cash equivalents at the beginning of the period	673,517,011	382,773,890
Cash and cash equivalents at the end of the period	347,425,138	528,296,298
 Year ended 31 December 2024		
<i>(MNT thousands)</i>		
Cash flows from operating activities		
Loss before tax	(6,678,986)	
Adjustments to reconcile profit before tax to net cash flow:		
Impairment losses on financial instruments.....	16,915,977	
Depreciation of property and equipment.....	1,752,024	

Year ended 31 December 2024

(MNT thousands)

Depreciation of rights-of-use assets	2,341,020
Amortisation of intangible assets	2,051,126
Loss on written-off of property and equipment	13,537
Loss on disposal of property and equipment	2,075
Loss on disposal of intangible assets	1,926
Foreign exchange translation losses	329,347
Interest and similar income	(116,274,552)
Interest and similar expense	74,290,754
Cash flows used in operating activities before changes in operating assets and liabilities.....	(25,255,752)
Increase in mandatory reserves with the BoM.....	(34,562,727)
Increase in reverse sale and repurchase agreements ..	(39,234,052)
Increase in due from banks.....	(5,825,895)
Increase in loans and advances to customers.....	(665,492,927)
Decrease in other assets.....	2,304,694
Increase in due to other banks	66,406,671
Increase in due to customers.....	734,805,192
Decrease in other liabilities	(2,450,157)
Net cash generated from operating activities before tax and interest	30,695,047
Interest received	102,940,029
Interest paid.....	(55,879,271)
Interest on lease liabilities paid	(458,595)
Income tax paid.....	(461,588)
Net cash generated from operating activities	76,835,622
Cash flows from investing activities	
Acquisition of debt securities at AC.....	—
Proceeds from redemption of debt securities at AC ..	69,532,786
Acquisition of property and equipment	(4,151,360)
Acquisition of right-of-use assets	(925,651)
Acquisition of intangible assets.....	(6,260,920)
Proceeds from disposal of property and equipment...	130,371
Proceeds from right-of-use assets.....	209,938
Proceeds from disposal of intangible assets	34,462
Net cash generated from investing activities	58,569,626
Cash flows from financing activities	
Proceeds from repurchase arrangements	3,366,771,248
Repayment of repurchase arrangements.....	(3,376,753,471)
Repayment of lease liabilities.....	(2,281,217)
Proceeds from borrowed funds.....	97,809,872
Repayment of borrowed funds	—
Issue of ordinary shares.....	70,000,000
Net cash generated from financing activities.....	155,546,432

Year ended 31 December 2024	
	<i>(MNT thousands)</i>
Credit loss allowance charge on cash and cash equivalent	(208,559)
Net increase in cash and cash equivalents	290,743,121
Cash and cash equivalents at the beginning of the year	382,773,890
Cash and cash equivalents at the end of the year	673,517,011
Year ended 31 December 2023	
	<i>(MNT thousands)</i>
Cash flows from operating activities	
Loss for the year.....	(2,887,434)
Adjustments for:	
Impairment losses on financial instruments.....	2,824,134
Depreciation of property and equipment	1,119,176
Depreciation of rights-of-use assets	1,151,293
Amortisation of intangible assets	1,705,059
Property and equipment written-off	—
Gain on disposal of property and equipment.....	(27,605)
Interest and similar income	(49,665,352)
Interest and similar expense	23,879,829
Income tax expense	2,114
Cash flows used in operating activities before changes in operating assets and liabilities.....	(21,898,786)
Changes in assets and liabilities:	
Mandatory reserves with BoM	(12,812,570)
Reverse sale and repurchase agreements	(34,867,161)
Loans and advances to customers.....	(80,991,495)
Other assets	(9,428,631)
Due to banks.....	211,156,637
Due to customers.....	250,149,881
Other liabilities.....	7,691,796
Net cash generated from operating activities before tax and interest	308,999,671
Interest received	47,495,256
Interest paid.....	(15,804,449)
Interest on lease liabilities paid	(98,895)
Income tax paid	(1,152)
Net cash generated from operating activities	340,590,431
Cash flows from investing activities	
Acquisition of debt securities at AC.....	(114,332,054)
Proceeds from redemption of debt securities at AC ..	48,700,000
Purchase of property and equipment	(2,631,608)
Purchase of intangible assets	(3,015,005)
Proceeds from disposal of property and equipment...	78,414

Year ended 31 December 2023	
<i>(MNT thousands)</i>	
Net cash used in investing activities	(71,200,253)
Cash flows from financing activities	
Proceeds from repurchase arrangements	878,290,081
Repayment of repurchase arrangements	(868,307,858)
Payment of lease liabilities	(1,073,879)
Proceeds from borrowed funds	—
Repayment of borrowed funds	(20,000,000)
Net cash used in financing activities	(11,091,656)
Credit loss allowance charge on cash and cash equivalent	(61,705)
Net increase in cash and cash equivalents	258,236,817
Cash and cash equivalents at 1 January	124,537,073
Cash and cash equivalents at 31 December	382,773,890
Year ended 31 December 2022	
<i>(MNT thousands)</i>	
Cash flows from operating activities	
Profit for the year	4,679,813
Adjustments for:	
Expected credit loss expense	1,327,673
Depreciation of property and equipment	951,268
Amortisation of Intangible assets	2,139,220
Property and equipment written-off	2,627
Loss on disposal of property and equipment	(1,121)
Intangible assets written-off	—
Interest income	(12,347,376)
Interest expense	612,269
Income tax benefit	(4,605)
Changes in assets and liabilities:	
Statutory reserves with BoM	(2,957,651)
Loans and advances to customers	(93,075,157)
Other assets	(1,490,147)
Due to banks and other financial institutions	52,222,757
Due to customers	71,119,243
Other liabilities	(26,904,203)
Interest on lease liabilities paid	(17,992)
Interest paid	(500,724)
Interest received	11,320,179
Net cash from operating activities	7,076,073
Cash flows from investing activities	
Purchase of property and equipment	(1,726,217)

Year ended 31 December 2022

(MNT thousands)

Purchase of intangible assets	(2,223,733)
Proceeds from disposal of property and equipment...	6,100
Net cash used in investing activities	(3,943,850)
Cash flows from financing activities	
Payment of lease liabilities.....	(204,567)
Proceeds from borrowed funds.....	30,000,000
Repayment of borrowed funds	(10,000,000)
Net cash flows from financing activities	19,795,433
Net increase in cash and cash equivalents	22,927,656
Cash and cash equivalents at 1 January	100,038,024
Cash and cash equivalents at 31 December	122,965,680

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Factors which we believe may be material for the purpose of assessing the market risks associated with the Bonds are also described below. We believe that the factors described below represent the principal risks inherent in investing in the Bonds, but our inability to fulfil our respective obligations under the Bonds may occur for other reasons and we do not represent that the statements below regarding the risks of investment in the Bonds are exhaustive. Additional considerations and uncertainties not presently known to us or which they currently deem immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring. The market price of the Bonds could decline due to any of these risks, and investors may lose part or all of their investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our loan portfolio, business, financial condition and results of operations may be materially and adversely affected by changes in the economic environment.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. Our total loans and advances to customers as of 30 September 2025 was MNT1,213,357.88 million compared to MNT830,649.82 million as of 31 December 2024, MNT172,649.63 million as of 31 December 2023 and MNT92,682.11 million as of 31 December 2022. A number of factors affect our ability to monitor, control and reduce non-performing loans. Some of these factors, including macroeconomic developments in the Mongolian economy, changes in global trade policies and introduction of reciprocal tariffs, movements in global commodity markets, global competition, interest rates, exchange rates, heightened geopolitical tensions and wars, and outbreak of disasters or major accidents in Mongolia or other regions, are not within our control. All of these may adversely affect the businesses, operations, or liquidity of our customers, counterparties or ultimate financing parties of our business, as a result of which, we may not be able to realise the value of relevant collateral, or guarantees securing its assets. For example, falling commodity prices, slower gross domestic product ("GDP") growth, fluctuating levels of foreign direct investment and depreciation of the Tugrik against foreign currencies may cause certain customers to experience difficulties repaying their loans in foreign currencies, leading to an increase in our non-performing loan ratio.

We have adopted measures to control our risk exposure to our loan portfolio, including implementing a Non-Performing Asset Reduction Strategy working toward the phased reduction of non-performing loans within the framework of the strategy and the establishment of a dedicated unit responsible for loan collection and non-performing loans in 2024 to introduce structural changes to strengthen oversight. We cannot assure you that these measures will always be sufficient to mitigate risks associated with non-performing loans or that the overall quality of our loan portfolio will not deteriorate in the future. Any significant deterioration in our asset quality may lead to significant increase in our non-performing loans, credit loss allowance and write-off due to impairment, which may materially and adversely affect our business, financial condition and results of operations. If we are not able to control the absolute levels, as well as the percentage relative to our total loan portfolio, of non-performing loans, or if there is a significant increase in our restructured loans, our business, financial condition and results of operations could be materially and adversely affected.

While we have adopted measures to control risk exposure and have articulated strategies to expand into the SME segment and collateralised loan products, there can be no assurance that these strategies will be implemented as planned or will achieve the intended results. Failure to execute our planned strategy may result in operational challenges, including potential deterioration of asset quality, increased non-performing loans, and adversely impact the Bank's credit quality and financial condition.

Our credit loss allowances may prove inadequate.

We have two approaches for expected credit loss measurement and those are based on our assessment of various factors affecting the quality of our loan portfolio. These factors include our borrowers' operational and financial condition, their repayment ability and intention and macroeconomic factors. Many of these factors are beyond our control, and therefore our assessment of, and expectations for, these factors may differ from their future development. In addition, we have experienced and may continue to experience significant write-offs of non-performing loans. These write-offs primarily relate to borrowers in industries facing adverse economic conditions and to accounts where recovery prospects are limited. If we incur further material write-offs, particularly in respect of exposures concentrated in specific borrower industries or sectors, this could indicate heightened credit risk within our portfolio and may require us to increase our credit loss allowance. Such developments could materially and adversely affect our financial condition and results of operations. We therefore cannot assure you that we will not be required to make significant additional credit loss allowance in future periods if we experience higher than anticipated loan defaults and delinquencies due to increased credit losses resulting from, among other things, ineffective collection management, discrete events adversely affecting specific customers or businesses or adverse changes in the economy, which could in turn materially and adversely affect our business, financial condition and results of operations.

We operate in Mongolia, where credit risks and counterparty exposure experienced by banks may be greater than in more developed countries.

Our principal business includes lending to or deposits from our Mongolia-based customers. Therefore, our continued growth depends to a large extent to the continued growth of the Mongolian economy. We are subject to the credit risk of our borrowers, who may not pay interest or repay principal on their loans in a timely fashion or at all. The credit risk of our borrowers may be higher than in more developed countries primarily due to (i) the perceived greater uncertainty in the Mongolian regulatory, political, economic and industrial environment, (ii) the level of foreign debt of the Government and Mongolian companies relative to Mongolia's GDP and (iii) the volatility of interest rates and Tugriks to U.S. dollar exchange rates. Any increase in market interest rates present a greater risk that borrowers would be unable to remain current with interest payments and any income from higher rates would be offset by increased default and impairment rates on our loan portfolio. Higher credit risk therefore has a material adverse effect on the quality of loan portfolios and exposes Mongolian banks, including us, to potential losses and risks that may be higher than for banks operating in more developed countries. Such losses, if material, would have a material adverse effect on our business, financial condition and results of operations.

Economic difficulties in Mongolia that have a material adverse effect on Mongolian consumers could result in reduced growth and deterioration in the credit quality of our personal loan portfolio. For example, a rise in unemployment, an increase in interest rates in Mongolia or inflationary pressures could have a material adverse impact and reduce overall demand for personal loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other adverse macroeconomic factors.

Increased competition arising from economic liberalisation in Mongolia, variable industrial growth, volatile prices of Mongolia's exports, the high level of debt in the financing of projects and capital structures of companies in Mongolia and high interest rates in Mongolia may reduce the profitability of some of our customers, thereby increasing the credit risk associated with loans we extend to such customers. Additionally, any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Mongolia, or any material adverse change in the financial condition of our customers in Mongolia could cause instability for the banking sector, thereby increasing our credit risks.

Competition in the Mongolian banking industry is intense, and our growth strategy depends in part on our ability to compete effectively.

We are subject to significant levels of competition in all areas of our business from a number of other Mongolian banks, and non-bank finance institutions, including competitors which, in some geographical areas and areas of business, have a greater market share and greater name recognition than us. As of 30 September 2025, the Mongolian financial sector comprised 12 commercial banks, 11 of which were privately owned and one was state-owned. Moreover, in Mongolia, the number of fintech based non-bank financial institutions has increased significantly in recent years. The competition between banks, financial firms and fintech companies is becoming increasingly fiercer. Internationally, the growth of digital-first banks such as Revolut in the United Kingdom and Halyk Bank in Kazakhstan illustrate how innovative technology platforms and regional expansion strategies can disrupt traditional banking markets. Their ability to scale quickly, offer seamless digital services and capture younger, tech-savvy customers highlights the potential threat posed by similar entrants in Mongolia. In the future, we may face increased competition from other traditional financial institutions or fintech entrants offering a wider range of commercial banking services, including having larger lending limits, greater financial resources and stronger balance sheets or are also digitally based and offer greater innovations such as biometrics, AI, automation, cryptocurrencies and quantum computing. Increased competition may arise from:

- other large Mongolian banking and financial institutions with significant presence in Ulaanbaatar and large country-wide branch networks;
- our inability to provide banking and financial services if the Bank of Mongolia and the FRC do not provide the required approvals;
- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to open branch offices or to invest in other domestic banks that have extensive branch networks;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources;
- emerging non-bank financial institutions increasing their market shares through innovation and are accelerating the transition to digital business models, which may undermine our market leading position;
- consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions; and
- fintech based non-bank financial institutions that provide superior digital solutions with respect to consumer lending, payments, currency trading and other e-services.

We cannot assure you that we will be able to compete effectively or at all in the face of such increased competition.

In addition, our digital-only business model exposes us to additional operational risks. These include potentially lower depositor loyalty due to the ease of switching between digital banks, higher deposit costs to attract and retain customers, and a higher non-performing loan (NPL) ratio for digital loan products, which may be more susceptible to credit risk than traditional lending channels. These factors may adversely affect our ability to compete, maintain stable funding, and manage asset quality.

Moreover, although the Bank recorded a net profit of MNT4,679,813 thousand in 2022, it recorded consecutive net losses of MNT2,887,434 thousand, MNT6,430,960 thousand and MNT2,775,020 thousand for the years ended 31 December 2023 and 31 December 2024 and the nine-month period ended 30 September 2025, respectively. Continued losses and a failure to effectively implement our growth strategy and manage customer acquisition costs could erode capital, impair debt service ability, and limit access to future funding.

Our funding is primarily short-term and depositors may not roll-over deposited funds upon maturity.

Our funding needs are partially satisfied from short-term sources, primarily in the form of customer deposits. As of 31 December 2024, 95.77% of our total deposits from customers were due within one year or were payable on demand. Such deposits may not continue to be a stable source of funding for us. In the event we cannot attract or

retain sufficient deposits or if a substantial number of our depositors withdraw their demand deposits or do not roll-over their term deposits upon maturity, our ability to meet capital and other liquidity requirements could be adversely affected and we may be unable to fund our loan growth and may be required to seek alternative sources of short-term or long-term funding. We cannot assure you as to the availability of such funding or the terms of such funding. To the extent we are unable to obtain sufficient funding on acceptable terms or at all, our business, financial condition and results of operations may be materially and adversely affected. In addition, if the amount of our loans were to increase in excess of the increase in our deposits, the loans to deposits ratio could rise and this could have a material adverse effect on our liquidity position and hence our ability to make payments under the Bonds.

We may be unable to obtain sufficient external financing to support our operations or to grow our business.

We require a substantial amount of cash for our operations, including for the extension of credit to our customers through our principal lending activities and for the expansion of certain business segments. To satisfy our liquidity and other funding requirements, we may need to issue equity or debt securities in the Mongolian or international capital markets or otherwise incur additional borrowings. In addition, as part of our efforts to reduce funding costs and establish a stable capital structure, we intend to continue to maintain diverse sources of funding, which includes the reduction of our reliance on short-term borrowings. Our ability to rely on alternative sources of funding will depend on our financial position and the liquidity of the Mongolian and international capital markets as well as the Government's policies regarding domestic and foreign currency borrowings. Our failure to obtain sufficient financing on commercially reasonable terms or at all could delay or limit our ability to pursue our business expansion and diversification strategies, which could materially and adversely affect our business, financial condition and results of operations.

We are required by the Bank of Mongolia to maintain minimum levels of capital and liquidity.

Under the current capital requirements set by the Bank of Mongolia, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level. As of 30 September 2025, we are required by the Bank of Mongolia to maintain a minimum liquidity ratio of 25.0% and a minimum capital to risk weighted assets ratio of 12.0%. Our liquidity ratio was 82.81%, 59.54%, 34.09% and 32.46% as of 31 December 2022, 2023, 2024 and 30 September 2025, respectively. Our capital adequacy ratios were 69.78%, 34.61%, 17.49% and 15.96% as of 31 December 2022, 2023, 2024 and 30 September 2025, respectively.

Our ability to support and grow our business would be limited by a declining liquidity ratio or capital adequacy ratio. Regulatory requirements regarding our liquidity ratio or capital adequacy ratio may also become more stringent as the Mongolian economy grows. In addition, if we fail to maintain the required minimum liquidity or capital adequacy ratios, the Bank of Mongolia may impose penalties or revoke our banking license. No assurance can be given that our financial condition and other sources of capital will be sufficient to keep our liquidity and capital adequacy ratios above the minimum required amounts.

We face high unseasoned loan risks from its rapid credit growth, which could pose a risk of asset-quality deterioration as the bank's loans season.

Since the beginning of 2025, our asset quality has weakened with the non-performing loan (NPL) ratio rising meaningfully to 8.0% as of 31 September 2025 from 2.7% as of 31 December 2024. This is because of the crystallisation of unseasoned loan risks, particularly in its unsecured consumer loan segment. Our digital salary loan products target a broad range of retail borrowers, including individuals of weak credit profiles that are underserved by other commercial banks. In addition, in terms of borrower behaviour, retail borrowers tend to exhibit higher loan delinquency when borrowing via online platforms compared to physical branches.

We may be involved in legal and other disputes from time to time arising out of our operations.

We may be involved in legal and other disputes from time to time for a variety of reasons, which are generally for loan collection purposes or other claims arising out of our ordinary daily operations. We cannot guarantee that the outcome in any of the litigation in which we are involved would be favourable to us, or that the judgment in relation to the rejected litigation against us will not be subject to disputes resulting in new litigation, appeal or retrial. In

addition, we cannot guarantee that any existing or potential investigations against us, our shareholders or our management will not have a material adverse effect on us, or that any future legal disputes we may confront will not result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our business operations, in which case our business, financial condition and results of operations may be adversely affected.

Our risk management policies and procedures may not adequately protect us against credit, market, operational, liquidity and other risks.

We are exposed to a variety of risks, including credit risk, market risk, currency risk, interest rate risk, operational risk and liquidity risk. In recent years, we have undertaken various initiatives to strengthen our risk management capabilities, including improving our internal credit-approving mechanisms and upgrading our information technology systems. Although we have established risk management policies and procedures, the effectiveness of our risk management is limited by the quality, amount and timeliness of available data in Mongolia in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. As such, we cannot assure you that any of our risk management policies or procedures will be fully effective. Some methods of managing risks are based upon observed historical market behaviour. As a result, we may not be able to accurately or in a timely fashion predict future risk exposures, which could be greater than the historical measures indicated. In addition, the information generated by different groups within our organisation may be incomplete or obsolete. Management of operational, legal or regulatory risk requires policies and procedures to properly record and verify a large number of transactions and events. Other risk management methods depend upon an evaluation of information regarding markets, customers and other factors. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Parts of our risk management framework are new and subject to continuous testing and improvement. We cannot assure you that these policies and procedures will operate in the way that we anticipate or that such policies and procedures will be adequate to identify and manage risks as intended. If we are unable to effectively improve our risk management and internal control policies, procedures or systems in a timely manner, our asset quality, business, financial condition and results of operations could be materially and adversely affected.

The 3Q2024 Comparative Numbers have not been audited or reviewed by the Issuer's auditor. As a result, the 3Q2024 Condensed Interim Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review.

The 3Q2024 Comparative Numbers contained in 3Q2025 Reviewed Condensed Interim Financial Statements have not been audited or reviewed by the Issuer's auditor. Consequently, the 3Q2024 Condensed Interim Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and prospects.

Failure to implement and maintain an effective system of financial reporting and internal controls may materially and adversely affect our ability to accurately or timely prepare financial information.

Our internal controls over financial reporting are intended to ensure that we maintain accurate records, promote the accurate and timely reporting of our financial information, maintain adequate control over our assets, and detect unauthorised acquisition, use or disposition of our assets. Effective internal and disclosure controls are necessary for the Bank to be able to provide reliable financial reports and to operate successfully as a business. Our management is responsible for establishing and maintaining adequate internal controls. If our financial and reporting procedures and internal controls do not keep pace with our growth and the applicable financial reporting framework, we may not be able to prepare financial information in a timely and accurate manner, whether in accordance with the terms of the Bonds or otherwise. This includes the implementation of internal controls by management to ensure that our financial statements are prepared in accordance with IFRS or other applicable financial reporting standards. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS. A failure by the Issuer to implement and maintain effective internal controls, could result in material misstatements in its financial

statements or failure to prepare interim and/or annual financial information in a timely manner, which may cause a need to restate financial statements or result in a loss of confidence in its reported financial information, which in turn and could have a negative impact on the Bank's compliance with the terms of the Bonds, access to external financing, and potentially its business and results of operations.

We may not be able to successfully implement our product expansion and business diversification strategies.

We will continue to expand the range of our products and services in the future. Expansion of our business activities to offer new financial products and services as well as investing in developing our digital platform and fintech products and e-services exposes us to a number of risks and challenges, including, among others, the following:

- new business activities may require greater marketing and compliance costs than our traditional services;
- new business activities may have lower growth or profit potential than we anticipate, and we cannot assure you that new business activities will become profitable at the level we forecast or at all;
- we may fail to identify and offer attractive new services in a timely fashion;
- our competitors may have substantially greater experience and resources for the new business activities we wish to commence, particularly the number of fintech based non-bank financial institutions in Mongolia has increased significantly in recent years, and we may not be able to attract customers from our competitors;
- we may need to hire or retrain personnel to conduct and supervise new business activities;
- we may need to enhance our information technology capabilities and actively cooperate with fintech and digital developers to introduce digital solutions and support a broader range of activities; and
- general economic conditions in Mongolia and worldwide, such as rising interest rates or housing prices, could hinder our expansion into the personal loan and mortgage industries.

New business endeavours may require experience, knowledge and expertise which differ from those used in our current business operations, including different management skills, risk management procedures, guidelines and systems, credit appraisal, monitoring and recovery systems. We may not be successful in developing such knowledge and expertise. In addition, managing such growth and expansion requires significant managerial and operational resources and the number of qualified managerial personnel in Mongolia may be limited. Our inability to implement our product expansion and business diversification strategies could have a material adverse effect on our business, financial condition and results of operations.

The value of our collateral may be overstated and may decline in the future.

A sizeable portion of our loans were secured by mortgages, pledges and guarantees. We generally accept collateral, including cash deposits, real estate properties, vehicles, machinery, inventories, credit enhancements and other assets. The value of the collateral securing our loans may fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting the Mongolian economy. We cannot assure you that the realised value of the collateral would be adequate to cover our loans. An economic downturn or inflationary pressures could result in a fall in our relevant collateral values. In particular, a downturn in the real estate market may result in the principal amount of certain loans exceeding the value of the underlying real estate collateral. Our collateral may be over-valued and not accurately reflect our liquidation value, which is the maximum amount we are likely to recover from a sale of collateral, less expenses of such sale. In addition, some of the valuations in respect of the collateral may be outdated or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, such collateral may be worthless.

Any decline in the value of the collateral securing our loans, including with respect to any future collateral we take, would mean that our loan loss provisions may be inadequate and require an increase in such provisions. We cannot assure you that the collateral securing any particular loan will protect us from suffering a partial or complete loss if the loan becomes non-performing. Any increase in our provisions would adversely affect our capital adequacy ratio and otherwise adversely affect our business, financial condition and results of operations.

We may experience delays in enforcing our collateral when our borrowers default on their obligations to us.

Mongolian banks may not be able to fully recover amounts owed to them through enforcement of collateral or guarantees, as a result of, among other factors, the legal uncertainties in enforcing such rights, delays in bankruptcy and foreclosure proceedings, inability to perfect security interests for certain types of collateral, defects in the perfection of certain types of collateral and fraudulent transfers by borrowers. Bankruptcy laws and enforcement procedures in Mongolia are less developed than those in certain other countries and the enforcement process in Mongolia may be comparatively lengthy. As a result, a bank may require several years to enforce and realise the value of collateral underlying non-performing loans, and a particular loan may be classified as non-performing for several years before collateral can be seized and liquidated. During such period, the physical condition and market value of the collateral can deteriorate, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be adequately insured or insured at all.

In the past, these factors have exposed, and continue to expose, lenders in Mongolia to legal liability while in possession of collateral. The current difficulty of bringing enforcement actions under the Mongolian legal system significantly reduces the ability of lenders to realise the value of collateral located in Mongolia and therefore the effectiveness of taking a secured position on loans to Mongolian borrowers. We cannot assure you that we will be able to realise the full value, or any value, of any collateral located in Mongolia in a bankruptcy or foreclosure proceeding or otherwise. In addition, we may incur significant administrative costs in maintaining and disposing of seized properties. A failure to recover the expected value of collateral security could expose us to a potential loss. Any unexpected losses could adversely affect our business, financial condition and results of operations.

We have contingent liabilities and commitments not stated on our statements of financial position.

Similar to other banks and financial institutions, we enter into various irrevocable commitments and contingent liabilities in the ordinary course of business to meet the financial needs of our customers. Even though these obligations are not recognised on the statement of our financial position, they do contain credit risk. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that we will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit, and therefore expose the Bank to loss in an amount equal to the total unused commitments.

If our contingent liabilities and credit related commitments become due earlier or in an amount greater than the Bank expects, the Bank may encounter difficulty in meeting obligations associated with its financial liabilities or meet its capital adequacy and liquidity ratio requirements in accordance with the regulations of Bank of Mongolia, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks associated with certain covenants or restrictions under our bank borrowings or other financing arrangements which may adversely affect our business, financial condition and results of operations.

We are subject to certain restrictive covenants in the loan contracts, guarantee or financing agreements between us and certain banks and financial institutions. For instance, some agreements are subject to covenants that require us to maintain certain prudential and other financial ratios as well as restrictions and limitations. We cannot assure you that we will be able to abide by all restrictive covenants of any of our loan agreements in the future or obtain lenders' consents or waivers in a timely manner or at all. For example, in 2024 we entered into a total of USD 30 million loan agreement with the International Finance Corporation ("IFC"). As at 31 December 2024, the Bank was in breach of a covenant relating to its single foreign currency exposure ratio. In the absence of a waiver at the reporting date, the loan was classified as repayable on demand in accordance with IAS 1. The Bank subsequently obtained a waiver from IFC on 27 March 2025. As of 30 June 2025, the Bank was in breach of the economic group exposure ratio set by the IFC. As soon as the Bank became aware of the breach, it notified IFC and has taken necessary remedial action. Following discussions with the IFC, the Bank applied for a waiver of the breach. The

Bank subsequently obtained the waiver on 30 October 2025. Most recently as of 30 September 2025, the Bank was in breach of two financial covenants relating to interest rate risk and aggregate interest rate risk. As soon as the Bank became aware of the breach, it notified IFC and has initiated necessary remedial action to remedy the breach within the applicable grace period, such that no event of default will be triggered. Following discussions with the IFC, the Bank has applied for a waiver of the breach. The Bank subsequently obtained the waiver on 2 December 2025. See "*Business – Loan Covenants and Waivers*". Should we fail to abide by the provisions of our loan contracts and financing agreements, the IFC or such other lenders may be entitled to accelerate repayment of our loans or other obligations, in which case our business, financial condition and results of operations will be adversely affected.

We are exposed to volatility in the exchange and interest rate.

As a financial institution, we are exposed to exchange rate risk. Movements in foreign exchange rates may materially and adversely impact our borrowers, which may in turn adversely impact the nature of our exposure to these borrowers. Volatility in foreign exchange rates could materially and adversely affect our ability to meet our obligations under the Bonds and our business, financial condition and results of operations. A sizeable portion of our loan portfolio is denominated in U.S. dollars. The Tugrik has fluctuated against the U.S. dollar for recent years. As of 31 December 2022, 2023, 2024 and 30 September 2025, the Tugrik to U.S. dollar exchange rate was MNT3,444.60 to US\$1.00, MNT3,410.69 to US\$1.00, MNT3,420.46 to US\$1.00 and MNT3,594.64 to US\$1.00, respectively¹. While the Government has taken, or may take, measures, including raising the policy rate, in response to the Tugrik's depreciation, if the Tugrik depreciates significantly at any time when we have a significant net open borrowing position denominated in foreign currencies, such depreciation could cause us to suffer losses, reduce our capital adequacy ratio and require us to seek additional capital or breach capital adequacy regulations set by the Bank of Mongolia. We may be subject to higher credit risk of our borrowers, who may not pay interest or repay principal on their loans in a timely fashion or at all due to the volatility of Tugriks to U.S. dollar exchange rates. Higher credit risk has a material adverse effect on the quality of our loan portfolios and exposes us to potential losses. We cannot assure you that any additional required capital would be available on acceptable terms or at all.

We realise income from the margin, or "**spread**", between interest-bearing assets, such as investments and loans, and interest paid on interest-bearing liabilities, such as deposits and borrowings. The performance of Mongolian banks, including our performance, is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations, cash flow and financial condition of Mongolian banks, including us. We are exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. Although we manage interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimise interest rate risk, we cannot assure you that any of these measures will adequately protect us against interest rate risks. In a rising interest rate environment, if we are not able to pass along our higher interest expenses to customers with loans with us in the form of higher interest rates for such loans, our profitability would be materially and adversely affected. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence our operating revenues may be materially and adversely affected. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which we operate and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on our margins and volumes and in turn result in an adverse effect on our business, financial condition and results of operations.

¹ Source: Central Bank of Mongolia - <https://www.mongolbank.mn/en/currency-rates>.

We cannot assure you of the accuracy of facts, forecasts and statistics derived from official government publications contained in this Offering Circular with respect to Mongolia, its economy or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to Mongolia, the Mongolian economy and its banking industry, are derived from various governmental sources and information published by various government authorities, such as Bank of Mongolia, National Statistical Office of Mongolia or other public sources. We believe these sources of information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. Such information has not been independently verified by us, and no representation is given as to its accuracy. In addition, these facts, forecasts and statistics may not be consistent with information available from other sources, and may not be complete or up to date. As a result, you should not place undue reliance on such information.

We rely on certain key personnel and may not be able to recruit or retain a sufficient number of qualified staff.

Our continued success depends upon the continuing service of our directors and members of our senior management, who have been instrumental in our success, and upon our ability to attract and retain other highly capable individuals. If we lose the services of any of our senior executives and cannot replace them in a timely manner, our business may be materially and adversely affected.

Our rate of growth may be limited as competitors compete for such talented and skilled personnel who are becoming an increasingly scarce resource in Mongolia. The current demand for these talented and skilled personnel is expected to continue for the foreseeable future as the Mongolian banks develop in line with the economic development of Mongolia. Further, if we are unable to attract, assimilate and retain these talented and skilled personnel, it may be on terms that are financially onerous for us. There is no assurance that we will be able to recruit staff in sufficient numbers or with sufficient experience, or that competition in recruitment will not lead to increases in our staff costs. Our failure to attract and retain competent personnel and any increase in staffing costs to retain such personnel could have a negative effect on our business, financial condition and results of operation.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or outsiders.

We are exposed to fraud or other misconduct committed by our employees or third parties, which could subject us to financial losses, third-party claims, regulatory actions or reputational damages. Similar to other financial institutions, we are exposed to the risk of fraud and other misconduct committed by employees or outsiders. Such fraud and other misconduct may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash transacted. This risk is further exacerbated by the handling of physical cash, which is inherently difficult to track and reconcile compared to electronic transactions. Cash transactions often involve manual processes and multiple touchpoints, increasing opportunities for misappropriation or concealment of fraudulent activities. We may not be able to prevent, or otherwise fully detect or deter, all incidents of fraud and misconduct involving our employees or third parties, including, without limitation, fraud, bribery, corruption and embezzlement. In the past, we have experienced cases of employee misappropriation and fraud. While we have taken various steps to improve our internal control and audit procedures and prevent fraudulent actions as disclosed in the section below "*Business – Operational Risk*" such steps may be insufficient to detect and prevent similar occurrences from transpiring in the future. In addition, our failure to prevent future fraudulent actions may result in administrative or other regulatory sanctions by the FRC or other Government agencies and may also result in the suspension or other limits on our banking and other business licenses. We cannot assure you that we will be able to avoid future material incidents of fraud, which may in turn expose us to certain risks resulting us to suffer from negative publicity, reputation damage or litigation loss.

Our rapid growth may outpace the development of our systems, internal controls, and risk management framework, potentially resulting in operational and compliance risks.

The Bank has experienced rapid growth in assets, customers, and product offerings since its incorporation. While we are investing in systems and risk management, there is a risk that our internal controls, compliance procedures, and risk management framework may not keep pace with the scale and complexity of our operations. Any failure

to maintain effective systems and controls could result in operational disruptions, regulatory breaches, or financial losses, and could adversely affect our reputation and financial condition.

We may not be able to respond to rapid technological changes.

Our future success will depend, in part, on our ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. We cannot assure you that we will successfully implement new technologies effectively or adapt our transaction-processing systems to customer requirements or emerging industry standards. If we are unable, for technical, legal, financial or other reasons, to adapt in a timely manner or at all to changing market conditions, customer requirements or technological changes, our business, financial condition and results of operations may be materially and adversely affected.

We may fail to manage risks associated with our information technology systems, including cyber security risks.

We are subject to risks relating to our information technology systems and processes. These risks, which may arise internally and externally, include malfunctions and failures, human error or misconduct and other external factors. We rely on internal and external information and technology systems to generate new business, provide services to customers, administer customer data and manage our operations. We use increasingly advanced software, systems and networks to manage and back-up our customer and accounting data and other aspects of our business. Such hardware and software is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses and similar events or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulty experienced by any of these information and technology systems could result in delays in the provision or repayment of borrowings or decreased consumer confidence in our business, or otherwise adversely affect our business, financial condition and results of operations.

We also seek to protect our computer systems and network infrastructure from security breaches and other disruptive problems caused by our increased use of the internet. Cyber hacking and power disruptions could affect the security of information stored in and transmitted through these computer systems and network infrastructure. Because our computer systems and network infrastructure have only been recently deployed, there are areas in the system that have not been properly protected from security breaches. Although we employ security systems, including firewalls and password encryption, designed to minimise the risk of security breaches and maintain operational procedures to prevent break-ins, damage and failures, the potential for fraud and security problems is likely to persist, and we cannot assure you that these security measures will be adequate or successful. Failure in security measures could have a material adverse effect on our business, financial condition and results of operations.

Our trading activities may result in losses.

We engage in trading of currencies. For the nine-month period ended 30 September 2025, gains less losses from trading foreign currencies were MNT572.33 million as compared to MNT242.58 million for the year ended 31 December 2024, MNT12.35 million for the year ended 31 December 2023 and MNT(18.42) million for the year ended 31 December 2022. We may from time to time maintain long and short positions in different asset categories, from which we expect to earn revenues based on changes in the relative values of the assets. Our trading positions are inherently volatile as the prices of trading assets are subject to general economic, political and market conditions that may fluctuate from time to time. To the extent that the relative values of our trading assets change in a direction, manner or scope that we did not anticipate or against which we did not hedge, we may realise a loss in those paired positions. Risks arising both from our trading and investment strategy and general market volatility, which is beyond our control, could expose us to potential losses and may materially and adversely affect our business, financial condition and results of operations.

Our insurance may not be adequate to cover our losses or liabilities.

Consistent with industry practice in Mongolia, we maintain insurance against some, but not all, operational and natural disasters. In particular, consistent with industry practice, we do not maintain coverage for business

interruption. We cannot assure you that our insurance will be adequate to cover losses or liabilities that may arise. In addition, we cannot predict the continued availability of insurance at acceptable premium levels. If we fail to renew our existing insurance policies at acceptable premium levels, we cannot assure you that we will be able to secure other insurance policies on acceptable terms in a timely manner. A significant uninsured or underinsured claim against us or the failure of our insurers to pay claims could materially and adversely affect our business, financial condition and results of operations.

We may be unable to procure or maintain the necessary licenses for the operation of our business.

All banking operations and various related operations in Mongolia require a general banking license from the Bank of Mongolia. We hold such a license, but we cannot assure you that we will be able to maintain such license or obtain a new general banking license, if necessary, in the future. Our failure to comply with applicable rules and regulations could result in penalties, loss of regulatory permits and damage to our business reputation, which could materially and adversely affect our business, financial condition and results of operations. If we lose our general banking license, we would be required to cease all banking operations immediately.

Cybersecurity threats and technology infrastructure vulnerabilities pose significant operational and reputational risks to digital-first banking operations for the digital banking sector as a whole.

As a digital-first bank, we are heavily dependent on technology infrastructure, digital platforms, and online systems to deliver all banking services to customers. This digital-first model creates heightened exposure to several sector-wide risks:

- ***Cybersecurity Risks:*** Digital banks face constant threats from cyberattacks, data breaches, hacking attempts, and other malicious activities targeting customer data and financial assets. A successful breach could result in (i) loss or theft of sensitive customer information and financial data, (ii) unauthorized access to customer accounts and fraudulent transactions, (iii) significant financial losses and regulatory penalties, (iv) severe reputational damage and loss of customer trust and (v) potential legal liability and litigation costs;
- ***Technology Dependency:*** Unlike traditional banks with physical branch networks, digital banks cannot fall back on manual or in-person processes if technology systems fail. System outages, software malfunctions, or infrastructure failures could completely halt banking operations and prevent customers from accessing their funds or conducting transactions;
- ***Rapid Technological Change:*** The digital banking sector requires continuous investment in emerging technologies to remain competitive. We may face challenges in:
 - Keeping pace with rapid technological advancements and evolving customer expectations;
 - Competing with fintech companies and other digital-first competitors offering superior innovations such as biometrics, AI, automation, and quantum computing; and
 - Maintaining and upgrading IT infrastructure to ensure reliability and security; and
- ***Third-Party Dependencies:*** Digital banks often rely on third-party technology providers, cloud services, and payment networks, creating additional points of vulnerability and potential service disruptions beyond our direct control.
- ***Heightened AML/KYC Challenges:*** Increased reliance on digital onboarding and remote verification amplifies the risk of identity fraud and money laundering. Cybersecurity breaches can compromise customer identification data, undermining the effectiveness of anti-money laundering ("AML") and know-your-customer ("KYC") controls and exposing us to regulatory scrutiny and penalties.

Although we have implemented PCI-DSS compliance and invested in cybersecurity infrastructure, the evolving nature of cyber threats and our reliance on digital channels means these risks remain ongoing concerns for the digital banking sector as a whole. If any of the above occurs, our reputation, operations and financial position may be adversely impacted.

RISKS RELATING TO THE MONGOLIA BANKING INDUSTRY

The Mongolian system for the reporting of credit information is underdeveloped and evolving.

The Mongolian banking system relies on the credit information system, which consists of the public system operated by the Bank of Mongolia and private bureaus licensed by the Bank of Mongolia. It offers basic details of a customer's credit history and credit quality, including the loan amount, disbursement date, the status of outstanding loans, and some rudimentary form of credit scoring. The system depends heavily upon participating banks, other non-bank financial institutions supplying accurate and timely credit information, which is difficult in the many areas where some micro-credit institutions and other organisations operate without connection to the centralised information systems or fail to provide information in timely and complete manner.

Pursuant to the Law of Mongolia on Credit Information, activity related to the collection and transmission of credit information is subject to license by the Bank of Mongolia. In recent years, the Bank of Mongolia has granted licenses to two private credit information bureaus, Sainscore and Burenscore. However, these bureaus are underdeveloped and have limited capacity/ability to collect, evaluate, and process credit information effectively.

As a result of the foregoing, we may not have knowledge of additional credit obligations or exposures of our borrowers. We may therefore be exposed to credit risk which we may not be able to accurately assess and provide for, which could have a material adverse effect on our financial condition and results of operations.

The Mongolian banking system is underdeveloped, and the regulations governing banks are evolving.

Mongolia's banking and other financial systems remain in the early stages of development and the standard and degree of legislation, supervision and transparency of the Mongolian banking sector in some respects, in particular, with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements, differs or lags behind internationally accepted norms. Deficiencies in the Mongolian banking sector may result in the banking sector being more susceptible to market downturns or economic slowdowns. If a banking crisis were to occur, we and other Mongolian banks could be subject to severe liquidity constraints due to the limited supply of deposits and the potential withdrawal of foreign funding sources. Certain Mongolian legislation relating to banks and bank accounts can also be subject to varying interpretations and inconsistent application. The imposition of more stringent regulations or interpretations as the Mongolian banking sector develops could lead to weakened capital adequacy and the insolvency of some banks.

We are regulated principally by, and have reporting obligations to, the Bank of Mongolia and the FRC. We are also subject to the banking, corporate and other laws in effect in Mongolia from time to time. The regulatory and legal framework governing our business differs in certain material respects from that in effect in other jurisdictions, including the United States, and may continue to change as the Mongolian economy and commercial and financial markets evolve. If any additional rules and regulations are introduced by the FRC and the Bank of Mongolia, as regulators, we may be unable to implement the changes in a consistent manner and there may be uncertainties in the application or official interpretation of such laws and regulations. Further, if these and other additional rules or regulations are introduced, we may incur substantial compliance and monitoring costs. We cannot assure you that we will be able to meet all applicable regulatory requirements and guidelines, or comply with all the applicable regulations, at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of noncompliance. Failure to comply with applicable rules and regulations could result in penalties, loss of regulatory permits and damage to our business reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Guidelines for non-performing loan classifications and provisioning for regulatory reporting in Mongolia require subjective determinations and may be less stringent than regulations in other jurisdictions.

In June 2019, the Bank of Mongolia approved the revised Regulation on Asset Classification and Provision and its Disbursements under Order No. A-155/134. This regulation, which seeks to establish loss provisioning on both loans and assets, requires the total loss provision is to be determined as the sum of a general provision and a specific provision, and that banks must set their provision at a level sufficient enough to cover any loss which the Bank expects to incur or may face due to uncertainty. The Bank of Mongolia's regulations with respect to loan

classifications and provisioning, in certain circumstances, may be less stringent than similar regulations applicable to banks operating in other jurisdictions. These differences may result in our classifying particular loans as non-performing at a later time, or in a category reflecting a lower degree of risk, than might be expected in other jurisdictions, including the United States. As a result, the level of our non-performing loans, and our associated reserves, may be lower than would be required if we were regulated in another jurisdiction.

In addition, the level of provisions we make for our loan portfolio depends largely on the accuracy of our information on, and our evaluation of, the credit position of our borrowers. If our evaluation of the quality of our loan portfolio is inaccurate, the level of our provisions may not be adequate to cover actual losses resulting from our existing non-performing loan portfolio. We may also have to increase our level of provisions if there is any deterioration in the overall credit quality of our existing loan portfolio, including the value of the underlying collateral. See also "*Risks Relating to Our Business — The value of our collateral may be overstated and may decline in the future*" and "*Mongolia has an underdeveloped and evolving system for the reporting of credit information.*"

We are exposed to the risks of the Mongolian financial system which may in turn be affected by financial and other difficulties faced by Mongolian financial institutions.

The Parliament of Mongolia approved the revised version of the Law on Deposits, Transfer of Funds and Lending Activities of Banks and Authorised Legal Entities, and it came into force on 1 July 2021. This law has been revised in line with the concept of harmonising with the legal reform of the banking and financial sector, improving it in line with the current situation, protecting the interests of consumers, depositors and borrowers in the financial sector, and increasing public confidence in the banking and financial sector. Nonetheless, as an emerging market economy, the Mongolian financial system faces risks of a nature and magnitude not typically faced in more developed countries, including the risk of significant withdrawals of deposits by depositors ("**deposit runs**"). Historically, the Mongolian financial system experienced difficulties in its banking sector such as high levels of non-performing loans, which led to liquidity difficulties for commercial banks. This led to the receivership and insolvency of several domestic commercial banks. Although we did not suffer from illiquidity and insolvency difficulties during these banking crises, we cannot assure you that we will not be affected by such difficulties in the future as a result of deposit runs, non-performing loans or other factors. The problems faced by individual Mongolian financial institutions and any instability in or difficulties faced by the Mongolian financial system generally could create a negative market perception towards Mongolian financial institutions and banks, which could in turn materially and adversely affect our business, financial condition and results of operations.

Our ability to conduct our business activity in Mongolia is subject to political risk.

Our ability to efficiently conduct our business activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond our control. Government policy may change to discourage foreign investment, nationalisation of mining industries may occur or other Government limitations, restrictions or requirements not currently foreseen may be implemented. In addition to direct Government policies regarding foreign investment as well as disputes relating to foreign investors, such as the tax dispute relating to the Oyu Tolgoi mine, may negatively affect the international perception of investment in Mongolia and discourage foreign investment. We cannot assure you that potential foreign investors would not decrease their investment due to the uncertainties surrounding these disputes and resolution. Our business activities are subject to political risks that are beyond our control.

We cannot assure you that our assets will not be subject to nationalisation, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of our original investment. In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations. See "*Mongolia has experienced and may continue to experience political and social instability.*"

Weaknesses relating to the Mongolian legal system and Mongolian legislation create an uncertain environment for investment and business activity.

The legal system in Mongolia is at an early stage of development and has various uncertainties that could limit the full legal protections that may be available to Bondholders in more developed countries. The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. Local institutions and bureaucracies responsible for administrating laws may lack proper understanding of the laws or the experience necessary to apply them in a modern business context. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. We carry out activities that are provided in Articles 6.1 and 6.2 of the Banking Law, which do not include business arrangements or structures that may carry significant risks, and are prohibited from conducting any other activities. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated. The Government may also, in certain circumstances interfere with the performance of contracts or engage in unlawful, selective or arbitrary actions, such as the suspension or withdrawal of licenses of Khan Resources and the tax dispute with Turquoise Hill. We cannot assure you that the Government will not engage in such actions in the future such that our business and operations would be materially and adversely affected.

The following risks relating to the Mongolian legal system create uncertainties, many of which rarely exist in countries with more developed market economies:

- inconsistencies among, or uncertainties in the application or official interpretation of, laws, decrees, orders and regulations, and regional and local rules and regulations, as a result of limited judicial guidance, lack of *stare decisis* or established precedents and other factors;
- limited judicial guidance on interpreting Mongolian legislation;
- gaps in the regulatory structure due to delay in, or absence of, implementing regulations;
- the lack of experience of judges and courts in interpreting new principles of Mongolian legislation, particularly those relating to securities laws;
- a relatively high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

In general, the Mongolian judicial system is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. The Mongolian judicial system may also favour Mongolian parties over foreign companies and individuals. Further, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The introduction of new Mongolian laws and regulations and the application or interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the Mongolian legal system continues to develop, we cannot assure you that changes in such legislation or application or interpretation thereof will not have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, while legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our businesses, our assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects and on the trading price of the Bonds.

The rapid growth of the Issuer and the wider banking industry in Mongolia may not be sustainable.

Since incorporation, the Bank has achieved sizeable growth in terms of products offered, customers and total assets. The Mongolia banking industry has also experienced rapid growth along with Mongolia's economic development. Notwithstanding the Bank and the wider banking industry's positive growth, it is uncertain whether the current rate

of growth is sustainable. A slowdown in the growth of the Mongolian economy or other parts of the world could materially adversely affect the banking industry in Mongolia and the Bank's business, financial condition and results of operations.

We are reliant on the continued support and leverage of the broader network of MCS Group, and any reduction or withdrawal of such support or leverage could adversely affect our business, financial condition, and results of operations.

The Bank is wholly owned by MCS Holding, part of the MCS Group, one of Mongolia's largest conglomerates. Historically, the Bank has benefited from capital injections, operational support, and reputational backing from MCS Group. The Bank also leverages the broader MCS Group network and partnerships with MCS Group subsidiaries to broaden its customer base. See "*Description of the Issuer - Competitive Strengths - Sufficient capital buffer and sound liquidity with strong Shareholder support*" for more information. There can be no assurance that such support or leverage will continue at current levels or at all. Any reduction or withdrawal of support from or leverage of the broader network of MCS Group, whether financial, operational, or reputational, could materially and adversely affect our ability to meet regulatory requirements, fund our operations, or maintain market confidence. In addition, our operational and strategic decisions may be influenced by the interests of MCS Group, which may not always align with those of other stakeholders.

Conflicts of interest may arise due to our concentrated ownership structure and limited board independence, which may constrain management's ability to act independently in the best interests of the Bank.

The Bank's board of directors is not majority independent, and the ownership structure is highly concentrated in MCS Holding LLC. As a result, decisions of the board and management may be influenced by the interests of MCS Group, which may not always align with those of minority shareholders, bondholders, or other stakeholders. This structure may limit the ability of the management team to act independently, and may give rise to actual or perceived conflicts of interest in related party transactions, strategic direction, or risk management. Such conflicts could adversely affect our governance, reputation, and financial performance.

RISKS RELATING TO MONGOLIA

Public health crisis and pandemics/epidemics, such as the COVID-19 pandemic, may materially and adversely affect Mongolia's economy.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which was declared a "**pandemic**" by the World Health Organisation ("WHO") in March 2020. In early 2020, China imposed a strict lockdown, which led to decreased demand for coal imports and physical closure of border crossings between Mongolia and China for an extended period. Decreasing global economic activity reduced demand and the price of raw materials such as coal, one of Mongolia's major exports and economic drivers. The Government and the Bank of Mongolia may implement such restrictive travel and social-distancing measures in the future to manage the adverse impact of public health crisis such as COVID-19 or other pandemics which may lead to significant global economic and financial disruptions, including an adverse impact on international trade and business activities.

Mongolia's economy has experienced recent periods of slow or negative growth.

Historically, Mongolia has experienced periods of slow or negative growth and a devaluation of the Tugriks. The ability of the Issuer to pay amounts of principal or interest under the Bonds is subject to, among other considerations, the performance of the Mongolian economy. Historically, certain policies implemented by the Government from time to time and other factors have caused fiscal imbalances or current account deficits. While the government has implemented various measures in an attempt to stabilise the economy and reduce its budget deficits and improve fiscal discipline, factors outside of its control, such as the collapse of copper and coking coal prices in 2008 and 2015, the outbreak of COVID-19 in 2019, the Russia-Ukraine war since 2022, continued weak commodity prices, or a slowdown in China's economic growth, may materially and adversely affect the economy and operating environment in Mongolia.

In addition, Mongolia has received and will continue to seek financial support and resources from the international community. On 24 May 2017, the IMF announced a program of financial assistance for Mongolia which included approximately US\$434.3 million in an extended fund facility. This program was accompanied by a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The IMF program was concluded on 23 May 2020. In addition, Mongolia also has significant amounts of outstanding foreign currency denominated bonds and Government-guaranteed indebtedness. In response to the COVID-19 pandemic, Mongolia also received a total of US\$318.0 million of loans and grants, with tenors of 30 to 40 years, from various international institutions and foreign governments, such as the EU, the International Monetary Fund, the Asian Development Bank, the World Bank and the Asian Infrastructure Investment Bank. Any slowdown in the Mongolian economy, including a significant deterioration of the fiscal budget or the value of the Tugriks, an increase in interest rates, or decline in global commodity prices for Mongolia's export commodities could adversely affect the ability of Mongolia to meet its obligations under its outstanding and future borrowings. All of our business operations and assets are based in Mongolia. As a result, our income, results of operations and the quality and growth of our assets depend, to a large extent, on the performance of the Mongolian economy. This, in turn, could adversely affect our business, the quality of our assets, our financial performance and trading in the Bonds.

Mongolia has experienced and may continue to experience political and social instability.

Prior to 1990, Mongolia was a socialist country and the only functioning political party was the Mongolian People's Revolutionary Party, which is now the Mongolian People's Party. Since the collapse of communism in 1990, Mongolia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Mongolia's evolving political landscape. Such events have resulted in political instability as well as general social and civil unrest on certain occasions.

Mongolia's transition to democracy has been relatively peaceful, and transitions between governments have generally been smooth and peaceful (aside from the protests and riots of 2008). However, since there has historically been representation of various political parties in the government, tensions continue to exist between the political parties and within each political party. We cannot assure you that politically generated disturbances will not occur in the future or on a wider scale, or that the government will not pursue or implement policies that differ significantly from those of previous governments. Future changes in the government, the ruling party, major policy shifts or lack of consensus between the various political groups and within each political party could lead to political instability and have a significant adverse impact on the economy and development of Mongolia, and investors may adopt an even more cautious approach towards Mongolia's securities markets or investments in Mongolia in general, and such factors could also adversely affect trading in the Bonds.

It may not be possible for investors to effect service of process or to enforce certain judgments against us.

The Issuer is a bank organised as a closed joint-stock company incorporated under the laws of Mongolia. All or a substantial portion of our assets are located in Mongolia. In addition, most of our directors and officers are residents of Mongolia and all or a substantial portion of their assets are or may be located in Mongolia. As a result, it may be difficult for you to effect service of process upon us or such persons, or to enforce against us or them judgments obtained in courts or arbitral tribunals outside Mongolia predicated upon the laws of jurisdictions other than Mongolia, including under English law.

We have been advised by our Mongolian legal counsel that the courts of Mongolia will not enforce judgments of English courts obtained against us, our directors or officers which are predicated on English law. There can be no assurance that the claims or remedies available under Mongolian law will be the same, or as extensive, as those available in other jurisdictions.

Any downgrade of Mongolia's and our credit rating could have a material adverse effect on the market value and trading price of the Bonds.

On 1 September 2025, Fitch affirmed Mongolia's credit rating as "B+" with stable outlook. On 16 October 2025, Moody's upgraded Mongolia's credit rating from "B2" to "B1" with stable outlook and shortly after that Standard

& Poor's upgraded Mongolia's credit rating from "B+" to "BB-" with stable outlook 30 October 2025. Despite the recent rating affirmation and improvements, any future downgrades in Mongolia's sovereign rating or placement of Mongolia on ratings watch may have an adverse effect on the market value and trading price of the Bonds. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors above and other factors that may affect the value of the Bonds issued. Negative changes to Mongolia's credit ratings may affect the availability of financing for the Issuer from new and existing counterparties.

RISKS RELATING TO THE BONDS

The Bonds may not be a suitable investment for all investors.

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Bonds unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institution investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

We will subscribe for and hold a portion of the Bonds, which may adversely affect the price and liquidity of the Bonds in the secondary market.

We will subscribe for and own a portion of the Bonds being offered. The existence of us as a holder may adversely affect the price of the Bonds and reduce the liquidity of the Bonds in the secondary trading market. Additionally, as certain of our affiliates may also purchase the Bonds in the secondary market, circumstances may occur in which our interests or those of our affiliates may be in conflict with the interest of other holders of the Bonds. If the Issuer as a holder or any of our affiliates sells a material portion of the Bonds in the secondary market, it may materially and adversely affect the trading price of the Bonds. The negative effect of such sales on the prices of the Bonds could be more pronounced if secondary trading in the Bonds is limited or illiquid.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Although an application has been made to the SGX-ST for the listing of, and permission to deal in, the Bonds on the SGX-ST, no assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or be sustained. No assurance can be given as to the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds or that a liquid market will develop. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. See also "*– We will subscribe for and hold a portion of the Bonds, which may adversely affect the price and liquidity of the Bonds in the secondary market*" above. Bondholders should note that they may need to hold their Bonds until maturity as there may not be an active secondary market for the Bonds. The Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to, or exempt from, registration under the Securities Act.

The Deed of Covenant is not a guarantee of the payment obligations under the Bonds.

MCS Holding will enter into the Deed of Covenant in relation to the Bonds. See "*Description of Deed of Covenant*" below for further information. Neither the Deed of Covenant nor any action required to be taken by MCS Holding thereunder can be deemed as a guarantee by MCS Holding for the payment obligation of the Issuer under the Bonds. Accordingly, MCS Holding will only be obliged to comply, and to cause the Issuer to comply, with the undertakings given in the Deed of Covenant, rather than assume the payment obligation as in the case of a guarantee.

The Letter of Support does not constitute a guarantee and does not contain any legally binding obligations of the Bank of Mongolia in relation to the Bonds.

On 1 December 2025, the Bank of Mongolia issued a letter of support to the Issuer (the "**Letter of Support**"). See "*Capital adequacy*" below for further information. The Letter of Support from the Bank of Mongolia does not constitute a guarantee and does not represent legally binding obligations of the Bank of Mongolia in relation to the Bonds. The Bank of Mongolia is not a shareholder of the Bank, and the Letter of Support issued by it is not intended to be legally binding and will not create any legally binding obligations on the Bank of Mongolia, and in particular, is not and should not be construed as or be deemed to constitute direct or indirect guarantee by the Bank of Mongolia to any party of the payment of the interest, principal or any additional amounts under the Bonds. Accordingly, there is no assurance that the Bank of Mongolia will be able to provide support to us in the manner contemplated by the Letter of Support, or at all. In addition, neither the Trustee nor you nor any other person will be able to bring any action against the Bank of Mongolia to enforce the Letter of Support.

Investors in the Bonds may be subject to foreign exchange risks.

The Bonds are denominated and payable in U.S. Dollars. An investor who measures investment returns by reference to a currency other than U.S. Dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Group has no control. Depreciation of the U.S. Dollars against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

Changes in market interest rates may adversely affect the value of the Bonds.

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The Bonds will carry a fixed interest rate. Consequently, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. If Bondholders sell the Bonds they hold before the maturity of such Bonds, they may receive an offer less than their investment.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. There is no assurance that these developments will not occur in the future.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds. Modifications and waivers may be made in respect of the Terms and Conditions, the Trust Deed, the Agency Agreement or the Deed of Covenant by the Trustee or less than all of the holders of the Bonds.

The Terms and Conditions of the Bonds contain provisions for calling meetings of holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of the holders of the Bonds may be adverse to the interests of the individuals.

The Terms and Conditions of the Bonds also provide that the Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of the Bonds, any of the Terms and Conditions of the Bonds or any of the provisions of the Trust Deed, the Agency Agreement or the Deed of Covenant that in its opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of the Bonds, any of the Terms and Conditions of the Bonds or any of the provisions of the Trust Deed, the Agency Agreement or the Deed of Covenant that is in the opinion of the Trustee not materially prejudicial to the interest of the Bondholders. Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, waiver or authorisation shall be notified by the Issuer to the Bondholders as soon as practicable.

The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or pre-funding to its satisfaction.

Where the Trustee is under the provisions of the Trust Deed bound to act at the request or direction of the Bondholders, the Trustee shall nevertheless not be so bound to take any steps and/or actions and/or institute any proceedings unless first indemnified and/or provided with security and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take any steps and/or actions and/or institute any proceedings, notwithstanding the provision of an indemnity or security or pre-funding, in breach of the terms of the Trust Deed or the Terms and Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Bonds to take such actions directly.

The Bonds will initially be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System.

The Bonds will initially be represented by a Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Bonds. Euroclear and Clearstream will maintain records of the beneficial interests in the Global Certificate.

While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream. While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and Clearstream to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream to appoint appropriate proxies.

Ratings of the Bonds may not reflect all risks and may be changed at any time, which may adversely affect the value of the Bonds.

The Bonds are expected to be assigned a rating of "B3" by Moody's. One or more independent credit rating agencies may assign credit ratings to an issue of the Bonds. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer to perform their respective obligations under the Bonds and the credit risks in determining the likelihood that payments will be made when due under the Bonds. Such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Bonds will remain in effect for any given period or that the ratings will not be lowered, suspended or withdrawn by the rating agencies in the future if, in their judgment, the circumstances so warrant. The Issuer is not obligated to inform holders of the Bonds of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Bonds at any time may materially and adversely affect the market price of the Bonds and the Issuer's ability to access the debt capital markets.

Bonds which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

The denominations of the Bonds are U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Therefore, it is possible that the Bonds may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$1,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than U.S.\$200,000 will not receive a definitive certificate in respect of such holding of Bonds (should definitive certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations. If definitive certificates are issued, Bondholders should be aware that Bonds with aggregate principal amounts that are not an integral multiple of U.S.\$1,000 may be illiquid and difficult to trade.

The Bonds may be redeemed by the Issuer prior to maturity.

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with any interest accrued to, but excluding, the date fixed for redemption if, subject to certain conditions, as a result of a change in tax law, the Issuer has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions of the Bonds), as further described in Condition 6(b) of the Terms and Conditions of the Bonds.

If the Issuer redeems the Bonds prior to their maturity dates, investors may not receive the same economic benefits they would have received had they held the Bonds to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, the Issuer's ability to redeem the Bonds may reduce the market price of the Bonds.

The Issuer may issue additional securities in the future.

The Issuer may from time to time without the consent of the Bondholders create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds. The issue of any such debt securities may also reduce the amount recoverable by investors in the Bonds upon the Issuer's bankruptcy, winding-up or liquidation.

USE OF PROCEEDS

The gross proceeds of the issue of the Bonds are estimated to be approximately U.S.\$97,190,000 before deducting underwriting commission and expenses in relation to the offering. The net proceeds will be for general corporate purposes including the expansion of the Bank's SME loan portfolio including green loans. For the avoidance of doubt, the Bonds are not green bonds within the scope of the Green Bond Principles administered by ICMA. The Bonds should not be considered "green", "sustainable", "social" or "sustainability-linked" instruments.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the Issuer's capitalisation and indebtedness as at 30 September 2025 and as adjusted to give effect to the issuance of the Bonds. For additional information, see the 3Q2025 Reviewed Condensed Interim Financial Statements and related notes thereto included elsewhere in this Offering Circular.

This table should be read in conjunction with the 3Q2025 Reviewed Condensed Interim Financial Statements and related notes thereto included elsewhere in this Offering Circular. Except as disclosed in this Offering Circular, there has been no material adverse change to the capitalisation or indebtedness of the Issuer since 30 September 2025.

	As at 30 September 2025			
	Actual		As adjusted	
	(MNT thousands)	(U.S.\$ thousands) ⁽¹⁾	(MNT thousands)	(U.S.\$ thousands) ⁽¹⁾
LIABILITIES				
Due to other banks	195,186	54	195,186	54
Due to customers	1,445,417,248	402,103	1,445,417,248	402,103
Other borrowed funds	253,583,941	70,545	253,583,941	70,545
Debt securities in issue	-	-	359,464,000	100,000
Lease liabilities	6,646,435	1,849	6,646,435	1,849
Other liabilities	17,457,450	4,857	17,457,450	4,857
TOTAL LIABILITIES	1,723,300,260	479,408	2,082,764,260	579,408
EQUITY				
Share capital	240,000,000	66,766	240,000,000	66,766
Accumulated losses	(26,217,771)	(7,294)	(26,217,771)	(7,294)
Other reserve	4,322,896	1,203	4,322,896	1,203
TOTAL EQUITY	218,105,125	60,675	218,105,125	60,675
TOTAL LIABILITIES AND EQUITY	1,941,405,385	540,083	2,300,869,385	640,083

Notes:

- (1) Translation of Togrog amount to U.S. dollar amount were made at a rate of MNT3,594.64 to U.S.\$1.00, the basic exchange rate published by the Bank of Mongolia on 30 September 2025.
- (2) Representing the aggregate principal amount of the relevant series of Bonds to be issued, without taking into account and before deduction of any fees, commission or expenses.
- (3) Total capitalisation comprises current and non-current interest-bearing debts and total equity.
- (4) There may be a slightly discrepancy between the sum of individual items and the total as shown in the tables owing to rounding.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to the modification and other than the words in italics, is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates representing the Bonds:

The issue of the U.S.\$100,000,000 9.875 per cent. bonds due 19 December 2028 (the "**Bonds**" which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 15 and to be consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of M Bank Closed JSC (the "**Issuer**") passed on 10 December 2025. The Bonds are constituted by a trust deed dated the Issue Date (as amended, supplemented and/or replaced from time to time, the "**Trust Deed**") between the Issuer and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression shall include its successor(s) and all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and the holders of the Bonds. The Bonds are the subject of an agency agreement dated the Issue Date (as amended, supplemented and/or replaced from time to time, the "**Agency Agreement**") between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds and, together with any other paying agents appointed under the Agency Agreement, the "**Paying Agents**"), The Bank of New York Mellon SA/NV, Dublin Branch as registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (the "**Transfer Agent**", which expression shall include any successor transfer agent appointed from time to time in connection with the Bonds) and any other agents named in it. References herein to "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds. The Bonds have the benefit of a deed of covenant dated the Issue Date (as amended, supplemented and/or replaced from time to time, the "**Deed of Covenant**") and executed by MCS Holding LLC ("**MCS**") and the Issuer, a wholly-owned subsidiary of MCS, in favour of the Trustee for itself and the Bondholders (as defined below).

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Covenant, and are deemed to have notice of all those provisions applicable to them of the Agency Agreement. The statements in these Conditions (as defined below) include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Copies of the Trust Deed and the Agency Agreement are available (i) for inspection by the Bondholders at all reasonable times during usual business hours (being between 9:00 am to 3:00 pm (London time) from Monday to Friday (other than public holidays)) at the principal office of the Trustee (being at the Issue Date at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom) and at the specified office for the time being of the Principal Paying Agent, and (ii) electronically to a requesting Bondholder, in each case upon prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed.

1. Form, Specified Denomination and Title

The Bonds are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (the "**Authorised Denomination**").

The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be

deemed to be and shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and "**holder**" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be represented by a global certificate (the "Global Certificate") registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking S.A. These Conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

2. Transfers of Bonds and Delivery of New Certificates

(a) Transfer

A holding of Bonds may, subject to the Agency Agreement and Conditions 2(d) and 2(e), be transferred in whole or in part in the Authorised Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent (as the case may be) may require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding (which must be in an Authorised Denomination) not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

Transfers of interests in the Bonds represented by the Global Certificate will be effected in accordance with the rules and procedures of the relevant clearing systems.

(b) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within seven business days of receipt by the Registrar or the Transfer Agent, as the case may be, of a duly completed and signed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar, as the case may be.

(c) Transfer or Exercise Free of Charge

Transfer of the Bonds and Certificates shall be effected without charge to the relevant Bondholder by or on behalf of the Issuer, the Registrar or the Transfer Agent, but upon (i) payment by the relevant Bondholder of any tax or other governmental charges that may be levied or imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Agent being satisfied that the Regulations have been complied with.

(d) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after a Change of Control Put Exercise Notice has been deposited in respect of such Bond pursuant to Condition 6(c), or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 77(a)).

(e) ***Regulations***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer and registration of Bonds, the initial form of which is scheduled to the Agency Agreement (the "Regulations"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current Regulations will be made available for inspection at all reasonable times during normal business hours (between 9:00 am to 3:00 pm (local time) from Monday to Friday (other than public holidays)) upon prior written request and proof of holding and identity to the satisfaction of the Registrar at the specified office of the Registrar.

3. Status

The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 44(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

4. Covenants

(a) ***Negative Pledge***

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and the Issuer will ensure that none of its Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a "Security Interest") (other than a Permitted Security Interest) upon, or with respect to, any part of its present or future business, undertakings, assets or revenues (including any uncalled capital) to secure any indebtedness or liabilities, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (i) all amounts payable by it under the Bonds and the Trust Deed are secured by such Security Interest equally and ratably with any such indebtedness or liabilities; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the granting of a Security Interest) is provided either (i) as the Trustee in its absolute discretion deems to be not materially less beneficial to the interests of the holders of the Bonds or (ii) as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Bonds.

(b) ***Provision of Information***

- (i) The Issuer will furnish the Trustee with, in the English language (and an English translation of any financial or other report in any other language):

- (A) as soon as they are available, but in any event within the earlier of (x) 120 calendar days after the end of the financial year of the Issuer and (y) the earliest date on which such information is provided to the holders of any of the Issuer's other debt securities that are outstanding from time to time, copies of the consolidated (where applicable) financial statements and related reports (on a consolidated basis where applicable) of the Issuer in respect of such financial year (including a consolidated statement of profit or loss and other comprehensive income, a consolidated statement of financial position, a consolidated statement of changes in equity and a consolidated statement of cash flows) audited by a member firm of an internationally recognised firm of independent accountants; and
- (B) as soon as they are available, but in any event within the earlier of (x) 60 calendar days after the end of each half-year period of the Issuer in a particular calendar year and (y) the earliest date on which such information is provided to the holders of any of the Issuer's other debt securities that are outstanding from time to time, copies of the unaudited and unreviewed consolidated (where applicable) financial statements and, if any, related reports (on a consolidated basis where applicable) of the Issuer in respect of such half-year period (including, if any, a consolidated statement of profit or loss and other comprehensive income, a consolidated statement of financial position, a consolidated statement of changes in equity and a consolidated statement of cash flows); and
- (ii) the Issuer will provide to the Trustee (A) within 14 calendar days of any written request by the Trustee and (B) at the same time when providing the Trustee with the financial reports mentioned in Condition 4(b)(i) above a Compliance Certificate substantially in the form provided in the Trust Deed and the Trustee shall be entitled to accept such Compliance Certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on the Bondholders.

The Trustee shall not be required to review the financial statements or any other financial report furnished or delivered to it as contemplated in this Condition 4 and, if the same shall not be in the English language, shall not be required to request or obtain an English translation of the same or to investigate or verify the accuracy, content, validity, genuineness or completeness of any translation of any financial statements or any other financial report furnished or delivered to it as contemplated in this Condition 4, and the Trustee shall not be liable to any Bondholder or any other person for not doing so.

(c) ***Limitation on Restricted Payments***

The Issuer will not, and will not permit any of its Subsidiaries, directly or indirectly, to (any such dividend, distribution, purchase, redemption, retirement, acquisition, repurchase or defeasance described in paragraphs (i) to (iv) of this Condition 4(c) being collectively referred to as "**Restricted Payments**"):

- (i) declare or pay any dividend or make any distribution on or with respect to the Issuer's or any of the Issuer's Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Issuer's or any of the Issuer's Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Issuer or any Wholly-Owned Subsidiary of the Issuer;
- (ii) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Issuer or any of the Issuer's Subsidiaries (including options, warrants or other rights to acquire shares of such Capital Stock) or any direct or indirect parent of the

Issuer held by any Persons other than the Issuer or any Wholly-Owned Subsidiary of the Issuer;

- (iii) make any Investment, other than a Permitted Investment; or
- (iv) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is expressed by its terms to be subordinated in right of payment to the Bonds (excluding any intercompany Indebtedness between or among the Issuer and any Wholly-Owned Subsidiary of the Issuer);

unless at the time of, and after giving effect to, any such Restricted Payment:

- a. no Event of Default shall have occurred and be continuing (or would result therefrom); and
- b. the aggregate amount of such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Subsidiaries on and after the Issue Date, would not exceed the sum, without duplication, of:
 - i. 50.0% of the Issuer's Consolidated Net Income (or, if the Issuer's Consolidated Net Income is a loss, minus 100.0% of such loss), accrued in the period beginning on the first day of the fiscal half-yearly period in which the Bonds are issued and ending on the last day of the most recent fiscal half-year period for which the Issuer's internal consolidated (where applicable) financial statements are available prior to the date of such proposed Restricted Payment, plus;
 - ii. 100.0% of the aggregate net cash proceeds received by the Issuer subsequent to the Issue Date as a contribution to its ordinary share capital from the issue or sale of its Capital Stock (other than Disqualified Stock), plus;
 - iii. the amount of reduction in Indebtedness of the Issuer that has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of the Issuer subsequent to the Issue Date.

The foregoing provisions will not prohibit:

- (A) any purchase or redemption of Subordinated Indebtedness of the Issuer made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Indebtedness of the Issuer that qualifies as Refinancing Indebtedness; and
- (B) (x) the payment of any dividends or distributions declared, paid or made by a Subsidiary of the Issuer to, or (y) the redemption, repurchase, defeasance or other acquisition by a Subsidiary of the Issuer of any shares of its Capital Stock from, all holders of any class of Capital Stock of such Subsidiary, a majority of which is held, directly or indirectly through Subsidiaries of the Issuer, by the Issuer, in each case on a *pro rata* basis or on a basis more favourable to the Issuer;

provided that, each Restricted Payment made pursuant to clause (A) of this paragraph will be excluded in calculating whether the conditions of clause (b) of the first paragraph of this Condition 4(c) have been met with respect to any subsequent Restricted Payments.

For the purposes of these Conditions:

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate borne by the Bonds of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and

Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"Board of Directors" means the representative governing board elected or appointed by the stockholders of the Issuer to manage the business of the Issuer or any committee of such board duly authorised to take the action purported to be taken by such committee.

"Capital Stock" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Capitalised Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with IFRS, is required to be capitalised on the balance sheet of such Person.

"Capitalised Lease Obligations" means the capitalised amount of any rental obligations under a Capitalised Lease in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of penalty.

"Cash Equivalents" means:

- (i) securities issued or directly and fully guaranteed or insured by the government of the United States of America, a member state of the European Union, the United Kingdom, Switzerland, Norway, Türkiye, Mongolia or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the United States of America, the relevant member state of the European Union, the United Kingdom, Switzerland, Norway, Türkiye, Mongolia or Canada, as the case may be, having maturities of not more than 6 years from the date of acquisition;
- (ii) certificates of deposit, time deposits, eurodollar time deposits, money market deposits, overnight bank deposits or bankers' acceptances (and similar instruments) having maturities of not more than twelve months from the date of acquisition thereof issued by any commercial bank which is organised under, or authorised to operate as a commercial bank under, the laws of a member state of the European Union or of the United States of America, the United Kingdom, Switzerland, Norway, the Republic of Türkiye or Canada the long term debt of which (or of the holding company of which) is rated at the time of acquisition thereof at least "A+" or the equivalent thereof by S&P, "A-1" or the equivalent thereof by Moody's, "A+" or the equivalent thereof by Fitch or the equivalent rating category of another internationally recognised rating agency (or, in the case of a commercial bank which is organised under, or authorised to operate as a commercial bank under, the laws of Mongolia, the long term debt of which (or of the holding company of which) is rated at the time of acquisition thereof no worse than one rating below the sovereign rating of Mongolia), and having combined capital and surplus in excess of U.S.\$500.0 million (or the Dollar Equivalent thereof);
- (iii) repurchase obligations with a term of not more than 6 years for underlying securities of the types described in paragraphs (i) and (ii) entered into with any financial institution meeting the qualifications specified in paragraph (i) above;
- (iv) commercial paper having at least one of the two highest ratings obtainable from Fitch or Moody's, or carrying an equivalent rating by another internationally recognised rating agency if both of the two named rating agencies cease publishing ratings of investments, and in any case maturing within one year after the date of acquisition thereof; and

(v) interests in any investment company or money market fund which invests 95 per cent. or more of its assets in instruments of the type specified in paragraphs (i) through (iv) above.

"Common Stock" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

"Compliance Certificate" means a certificate (substantially in the form scheduled to the Trust Deed) of the Issuer in English signed by any Authorised Signatory (as defined in the Trust Deed) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the **"Certification Date"**) not more than five days before the date of the certificate that:

- (i) no Event of Default (as defined in Condition 9) or Potential Event of Default (as defined in the Trust Deed) has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (ii) the Issuer has complied with all its covenants and obligations under the Trust Deed and the Bonds or, if any non-compliance had occurred, giving details of it.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries for such period, on a consolidated basis, as set out in the accounts of such Person and its Subsidiaries prepared on a basis consistent with IFRS and in respect of which an unqualified opinion has been issued by a member firm of an internationally recognised firm of independent accountants in accordance with the International Standards on Auditing.

"Currency Agreement" means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or otherwise is (a) required to be redeemed prior to the Stated Maturity of the Bonds, (b) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Bonds or (c) convertible into or exchangeable for Capital Stock referred to in clause (a) or (b) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Bonds.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"Hedging Obligation" of any Person means the obligations of such Person pursuant to any Currency Agreement or Interest Rate Agreement.

"IFC Loan" means the term loan facility of up to U.S.\$30,000,000 made available to the Issuer by International Finance Corporation as implementing entity pursuant to the Managed Co-Lending Portfolio Program.

"IFRS" means International Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Trust Deed shall be computed in conformity with IFRS applied on a consistent basis.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons in the forms of loans (including guarantees or other obligations), advances (excluding commission, travel and similar advances to officers and employees made in the ordinary course of

business), capital contributions, purchases or other acquisitions for consideration of Indebtedness, equity interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. The amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value. For the purposes of Condition 4(c), if the Issuer or any of its Subsidiaries issues, sells or otherwise disposes of any Capital Stock of a Subsidiary of the Issuer such that, after giving effect thereto, such Person is no longer a Subsidiary of (x) the Issuer or (y) a Subsidiary of the Issuer, any Investment by the Issuer or any Subsidiary of the Issuer in such Person remaining after giving effect thereto will be deemed to be a new Investment made at that time.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (including any premium to the extent such premium has become due and payable);
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (e) all Capitalised Lease Obligations and Attributable Indebtedness;
- (f) all Indebtedness of other Persons secured by a Security Interest on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (i) the Fair Market Value of such asset at such date of determination and (ii) the amount of such Indebtedness;
- (g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;
- (h) to the extent not otherwise included in this definition, Hedging Obligations; and
- (i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"Offering Circular" means the offering circular dated 17 December 2025 relating to the issue of the Bonds.

"Officers' Certificate" means a certificate signed by two Officers of the Issuer.

"Permitted Business" means any business conducted or proposed to be conducted by the Issuer and its Subsidiaries (as described in the Offering Circular) and other businesses reasonably related, ancillary or complementary thereto, and the holding of a minority interest in any Person that is primarily engaged in a Permitted Business.

"Permitted Investment" means:

- (a) any Investment in (x) the Issuer or a Subsidiary of the Issuer that is, directly or indirectly, primarily engaged in a Permitted Business or (y) a Person which will, upon the making of such Investment, become a Subsidiary of the Issuer that is primarily engaged in a Permitted

Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Issuer or a Subsidiary of the Issuer that is primarily engaged in a Permitted Business;

- (b) any Investment in cash and Cash Equivalents;
- (c) Investments existing, or made pursuant to legally binding commitments in existence, at the Issue Date and any Investment that amends, extends, renews, replaces or refinances an Investment existing on such date; provided that such new Investment is on terms and conditions no less favorable to the Issuer or the applicable Subsidiary of the Issuer than the Investment being amended, extended, renewed, replaced or refinanced;
- (d) receivables, trade credits or other current assets owing to the Issuer or any of its Subsidiaries, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms *provided* that such trade terms may include such concessionary trade terms as the Issuer or any such Subsidiary deems reasonable under the circumstances;
- (e) Investments received in compromise or resolution of obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of its Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or as a result of foreclosure of or transfer of title with respect to any secured Investment and any Investments obtained in exchange for any such Investments;
- (f) Investments in the Bonds;
- (g) Investments received as a result of a foreclosure by the Issuer or any of its Subsidiaries with respect to any secured Investment in default;
- (h) payroll, travel, entertainment, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with IFRS, not to exceed, in the aggregate, U.S.\$1 million (or the Dollar Equivalent thereof);
- (i) other Investments in any Person who is engaged in a Permitted Business having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (i) since the Issue Date, not to exceed 5.0% of Total Assets (or the Dollar Equivalent thereof).

"Permitted Security Interest" means:

- (a) Security Interests in existence on the Issue Date;
- (b) Security Interests granted in favour of the Issuer by any of its Subsidiaries;
- (c) Security Interests on assets or property acquired in connection with a finance lease, or claims arising from the use or loss of or damage to such assets or property, *provided* that any such Security Interest secures only Indebtedness under such finance lease, including, without limitation to the generality of the foregoing, any Security Interest created pursuant to any repurchase transaction;
- (d) Security Interests arising in the ordinary course of a Permitted Business (including netting or set off arrangements for the purposes of netting debit and credit balances);
- (e) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which are standard or customary in the relevant market and in the ordinary course of business (and not for the purposes of raising credit or funds for the operation of the Issuer and/or any Subsidiary of the Issuer, as the case may be, other than on a short term basis as part of the

Issuer's or such Subsidiary's liquidity management activities), in connection with (i) contracts entered into substantially simultaneously for sales and purchases at market prices of foreign exchange or securities (including, but not limited to, repurchase transactions and "Lombard" credits extended by the Central Bank of Mongolia), (ii) insurance deposits placed by the Issuer or any of its Subsidiaries as security for guarantees issued in respect of the export import operations of the Issuer's or such Subsidiary's customers, (iii) the establishment of margin deposits and similar collateral in connection with any trading transaction, (iv) proprietary trading activities generally or (v) any derivative transaction entered into by the Issuer or any such Subsidiary in connection with taking protection against or benefiting from a fluctuation in any rate or price;

(f) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, *provided* that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(g) any Security Interests arising by operation of law; and

(h) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided* that the Indebtedness secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any assets or property not previously subject to such Security Interest.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"Refinancing Indebtedness" means any Indebtedness that is incurred to refinance any other Indebtedness including any Indebtedness that refinances Refinancing Indebtedness provided that: (x) such Refinancing Indebtedness is incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accredited value) then outstanding of the Indebtedness being refinanced (plus premiums, accrued interest, fees and expenses); and (y) such Refinancing Indebtedness is expressed by its terms to be subordinated in right of payment to the Bonds.

"Stated Maturity" means: (a) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final instalment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (b) with respect to any scheduled instalment of principal or interest on any Indebtedness, the date specified as the fixed date on which such instalment is due and payable as set forth in the documentation governing such Indebtedness.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Issuer or any Subsidiary of the Issuer transfers such property to another Person and the Issuer or any Subsidiary of the Issuer leases it from such Person.

"Subordinated Indebtedness" means any Indebtedness of the Issuer which is contractually subordinated or junior in right of payment to the Bonds, pursuant to a written agreement to such effect.

"Subsidiary" means any company (a) in which the Issuer holds a majority of the voting rights, (b) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors

or (c) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a subsidiary of a Subsidiary.

"Total Assets" means, as of any date of determination, the total consolidated assets of the Issuer and its Subsidiaries measured in accordance with IFRS as of the last day of the most recently ended half-yearly period prior to such date for which consolidated (if applicable) financial statements (which may be internal financial statements) of the Issuer are available; *provided* that "Total Assets" will be calculated after giving *pro forma* effect to reflect (without duplication) any asset acquisitions and asset dispositions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made since the last day of such half-yearly period and on or prior to such date of determination.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

"Wholly-Owned" means, with respect to any Subsidiary of any Person, the ownership of 100.0 per cent. of the outstanding Capital Stock of such Subsidiary by such Person or one or more Wholly-Owned Subsidiaries of such Person.

(d) ***Affiliate Transactions***

The Issuer shall not, and will not permit any of its Subsidiaries to, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, lease or exchange of any asset or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Subsidiary (an "**Affiliate Transaction**") involving aggregate payments or consideration in excess of U.S.\$1.0 million (or its Dollar Equivalent), unless:

- (i) the terms of the Affiliate Transaction are no less favourable to the Issuer or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in a comparable arm's-length transaction with a Person who is not an Affiliate of the Issuer or such Subsidiary; and
- (ii) the Issuer delivers to the Trustee with respect to any Affiliate Transaction, or series of related Affiliate Transactions, a resolution of the Issuer's Board of Directors (in the English language) along with an Officers' Certificate certifying that such Affiliate Transaction complies with this Condition 4(d) and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Issuer's Board of Directors or such Subsidiary's Board of Directors, as the case may be (or, in the event there is only one disinterested member of the Issuer's or its Subsidiary's Board of Directors, as the case may be, approved by such disinterested member); provided, however, that Conditions 4(d)(i) and (ii) shall not apply to:
 - (A) any employment agreement, employee compensation arrangements, consulting agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by the Issuer or any of its Subsidiaries in the ordinary course of business and compensation (including bonuses and equity compensation) paid to and other benefits (including retirement, health and other benefit plans) and indemnification arrangements provided on behalf of directors, officers, consultants and employees of the Issuer or any of its Subsidiaries;
 - (B) transactions between or among or solely for the benefit of the Issuer and/or its Subsidiaries;
 - (C) any issuance of Capital Stock of the Issuer to Affiliates of the Issuer or the receipt of capital contributions by the Issuer from Affiliates of the Issuer;

- (D) any Permitted Investment or any Restricted Payments permitted to be made pursuant to Condition 44(c); and
- (E) agreements and arrangements, and transactions pursuant thereto, existing on the Issue Date, and any amendment, extension, renewal, refinancing, modification or supplement thereof; provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are, on the whole, no less favourable to the Issuer and its Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Issue Date.

In these Conditions:

"Affiliate" means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (b) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (a) of this definition. For purposes of this definition, "**control**" (including, with correlative meanings, the terms "**controlling**," "**controlled by**" and "**under common control with**"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Bank of Mongolia on the date of determination.

(e) ***Regulatory Compliance***

The Issuer shall:

- (i) not permit any of the following ratios to fall below the relevant minimum percentage set by the Central Bank of Mongolia from time to time: (A) Tier-1 Capital Ratio; (B) Capital Adequacy Ratio; and (C) Liquidity Ratio;
- (ii) remain in good standing with the Central Bank of Mongolia; and
- (iii) comply with all applicable laws, regulations, orders, judgments and decrees of any governmental body except where failure to so comply would not have a Material Adverse Effect or result in the imposition of fines, penalties or other regulatory sanctions against the Issuer or any of its Subsidiaries.

For the purposes of these Conditions:

"Capital Adequacy Ratio" means the capital as defined in the Capital Regulation with specified adjustments divided by the risk-weighted assets as defined in and calculated in accordance with the Capital Regulation.

"Capital Regulation" means Article 17 of the Banking Law of Mongolia and "Regulation on setting and monitoring prudential ratios to banking operation" approved by Governor's Decree A-138 of 2019, as may be amended, supplemented, restated or superseded from time to time.

"Liquidity Ratio" means such term as defined in and calculated in accordance with the Capital Regulation.

"Material Adverse Effect" means a material adverse effect on (a) the business, financial condition or results of operations of the Issuer or its Subsidiaries or (b) the Issuer's ability to perform its obligations under the Bonds and/or the Trust Deed.

"Tier-1 Capital Ratio" means the Tier-1 capital with specified adjustments divided by the risk-weighted assets as defined in and calculated in accordance with the Capital Regulation.

(f) ***Consolidation, Merger and Sale of Assets***

The Issuer will not consolidate with, or merge with or into, another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets, computed on a consolidated basis with its Subsidiaries (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (i) the Issuer will be the continuing Person, or the Person (if other than the Issuer) formed by such consolidation or merger or that acquired or leased such property and assets (the **"Surviving Person"**) will be a corporation organised and validly existing under the laws of the jurisdiction in which the Issuer is organised and will (A) retain or succeed to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorisations and (B) expressly assume, by a deed supplemental to the Trust Deed (a **"supplemental deed"**), executed and delivered to the Trustee, all the obligations of the Issuer under the Trust Deed and the Bonds, and the Trust Deed and the Bonds will remain in full force and effect;
- (ii) immediately after giving effect to such transaction, no Potential Event of Default or Event of Default will have occurred and be continuing;
- (iii) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental deed complies with this Condition 4(f) and that all conditions precedent provided for in the Trust Deed relating to such transaction have been complied with and that the relevant supplemental deed is enforceable; and
- (iv) no Rating Decline will have occurred.

For the purposes of these Conditions:

"Investment Grade" means a rating of "Aaa", "Aa", "A" or "Baa", as modified by a "1", "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns; a rating of "AAA", "AA", "A" or "BBB", as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns; a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; or an equivalent rating representing one of the four highest rating categories of any internationally recognised rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for Moody's, Fitch, S&P or any combination thereof, as the case may be.

"Opinion of Counsel" means a written opinion from legal counsel which opinion is reasonably acceptable to the Trustee that meets the requirements of the Trust Deed; *provided that* legal counsel shall be entitled to rely on a certificate of the Issuer as to matters of fact.

"Rating Agencies" means (i) Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("S&P"); (ii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors ("Fitch"); (iii) Moody's Investors Service, Inc. and its successors ("Moody's"); and (iv) if one or more of S&P, Fitch or Moody's shall not make a rating of the Bonds publicly available, a United

States nationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P or Fitch or any combination thereof, as the case may be.

"Rating Category" means (i) with respect to S&P and Fitch, any of the following categories: "BB", "B", "CCC", "CC", "C" and "D" (or equivalent successor categories), (ii) with respect to Moody's, any of the following categories: "Ba", "B", "Caa", "Ca", "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P, Fitch or Moody's used by another Rating Agency. In determining whether the rating of the Bonds has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P and Fitch; "1", "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) will be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB", as well as from "BB-" to "B+", will constitute a decrease of one gradation).

"Rating Date" means, in connection with actions or events contemplated under Condition 4(f), that date which is 90 days prior to the earlier of (i) the occurrence of any such actions as set forth therein and (ii) a public notice of the occurrence of any such actions.

"Rating Decline" means, in connection with actions or events contemplated under Condition 4(f), the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (i) in the event the Bonds are rated by all three Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by any two of the three or all three Rating Agencies will be below Investment Grade;
- (ii) in the event the Bonds are rated by any two, but not all three, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by either of such two Rating Agencies will be below Investment Grade;
- (iii) in the event the Bonds are rated by only one of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by such Rating Agency will be below Investment Grade; or
- (iv) in the event the Bonds are rated below Investment Grade by all Rating Agencies on the Rating Date, the rating of the Bonds by any Rating Agency will be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

5. Interest

The Bonds bear interest on their outstanding principal amount from and including 19 December 2025 (the **"Issue Date"**) at the rate of 9.875 per cent. per annum (the **"Rate of Interest"**), payable semi-annually in arrear in equal instalments of U.S.\$49.375 per Calculation Amount (as defined below) on 19 June and 19 December in each year (each an **"Interest Payment Date"**) commencing on 19 June 2026.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Bondholder under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date, and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per U.S.\$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the Rate of Interest, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

For so long as the Bonds are represented by a Global Certificate and the Global Certificate is held on behalf of Euroclear and Clearstream, or any other clearing system, the interest payable in respect of the Bonds shall be calculated on the aggregate principal amount of the Bonds represented by the Global Certificate.

6. Redemption and Purchase

(a) *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 19 December 2028. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) *Redemption for Taxation Reasons*

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable), and in writing to the Trustee and the Principal Paying Agent, at their principal amount together with interest accrued to the date fixed for redemption, if (i) the Issuer has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or treaties (including any regulations or rulings promulgated thereunder) of Mongolia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or treaties (including any regulations or rulings promulgated thereunder), which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate in English signed by any Authorised Signatory stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer taking reasonable measures available to it and (B) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled (but shall not be obliged) to accept and rely conclusively upon such certificate and opinion (without further investigation or enquiry and without liability to the Issuer, the Bondholders or any other person) as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event they shall be conclusive and binding on the Bondholders. All Bonds in respect of which any notice of redemption is given under this Condition 6(b) shall be redeemed on the date and in such manner as specified in such notice in accordance with this Condition 6(b).

Neither the Trustee nor any of the Agents shall be responsible for monitoring or taking any steps to ascertain whether any of the circumstances mentioned in this Condition 6(b) has occurred and none of them shall be liable to the Bondholders, the Issuer or any other person for not doing so.

(c) ***Redemption for Change of Control***

At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Bonds on the Change of Control Put Settlement Date at a redemption price equal to 101 per cent. of their principal amount, together with accrued interest to but excluding the Change of Control Put Settlement Date. In order to exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Change of Control Put Exercise Notice**"), together with the Certificate representing the Bonds to be redeemed, by not later than 30 days following a Change of Control, or, if later and provided that the Issuer shall have given notice of a Change of Control to Bondholders in accordance with Condition 16 within 14 days of such Change of Control, 30 days following the date upon which such notice is given to Bondholders. The "**Change of Control Put Settlement Date**" in respect of any Bond shall be the fourteenth day after the expiry of such period of 30 days as referred to above in this Condition 6(c).

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Settlement Date.

The Issuer shall give notice to Bondholders (in accordance with Condition 16) and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

None of the Trustee or any of the Agents shall be required to monitor or to take any steps to ascertain whether a Change of Control has occurred and shall not be responsible for or liable to the Bondholders or the Issuer for any loss arising from any failure to do so.

For the purposes of these Conditions:

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or exercisable only upon the occurrence of a subsequent condition. The terms "**Beneficially Owns**" and "**Beneficially Owned**" will have a corresponding meaning.

"**Change of Control**" means the occurrence of one or more of the following events:

- (i) the direct or indirect sale of all or substantially all the assets of the Issuer (calculated on a consolidated basis) to another Person, other than one or more Permitted Holders;
- (ii) the Issuer consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person (other than one or more Permitted Holders) consolidates with, or merges with or into, the Issuer, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Issuer or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Issuer outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (iii) the Permitted Holders are the Beneficial Owners of less than 50.01% of the total voting power of the Voting Stock of the Issuer;

- (iv) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), is or becomes the Beneficial Owner, directly or indirectly, of total voting power of the Voting Stock of the Issuer greater than such total voting power held beneficially by the Permitted Holders; or
- (v) the adoption of a plan relating to the liquidation or dissolution of the Issuer.

"Permitted Holders" means any or all of the following:

- (i) Mr. Odjargal J.;
- (ii) Mr. Od J.;
- (iii) any spouse or immediate family member of any of the persons named in clause (i) or (ii) above;
- (iv) any trust established for the benefit of any of the persons referred to in clause (i), (ii) or (iii) above; and
- (v) any Affiliate of any of the Persons (including any Affiliate of the Persons referred to in clause (i) and (ii) above considered as a group) referred to in clauses (i) or (ii) above.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

(d) ***Notices of Redemption***

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Change of Control Put Exercise Notice given by a Bondholder pursuant to Condition 66(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for monitoring or taking any steps to ascertain whether any of the circumstances mentioned in this Condition 6 has occurred or for calculating or verifying any calculations of any amounts payable under any notice of redemption or Change of Control Put Exercise Notice and none of them shall be liable to the Bondholders, the Issuer or any other person for not doing so.

(e) ***Purchase***

The Issuer and its Affiliates may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Affiliate, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Condition 9, Condition 12(a) or Condition 13 or when the Trustee is determining prejudice or material prejudice to Bondholders. Any Bonds purchased by the Issuer or any of its Affiliates may, at the Issuer's discretion, be held, resold or surrendered to the Registrar for cancellation.

(f) ***Cancellation***

All Bonds redeemed by the Issuer or surrendered by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

7. **Payments**

(a) ***Method of Payment***

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii).
- (ii) Interest on each Bond shall be paid on the due date for such payment to the person shown on the Register at the close of business on the fifth Payment Business Day before the relevant due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made by transfer to a U.S. dollar account of the Bondholder maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the relevant Record Date.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(b) ***Payments Subject to Fiscal Laws***

All payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto but no commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) ***Payment Initiation***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day) or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent, on a Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) ***Appointment of Agents***

The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, the Transfer Agent and any other Agents appointed from time to time act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent or any of the other Agents and to appoint

additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(e) ***Delay in Payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date for a payment is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so), or if a wire transfer made in accordance with Condition 7(a) arrives in the registered account of the Bondholder after the due date for payment.

(f) ***Payment Business Days***

If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**Payment Business Day**" means a day (other than a Saturday, Sunday or a public holiday) on which banks and foreign exchange markets are generally open for business in New York, Mongolia and the place in which the specified office of the Principal Paying Agent is located and, if surrender of the relevant Certificate is required, the relevant place of presentation.

8. **Taxation**

All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Mongolia or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within Mongolia at a rate up to and including the aggregate rate applicable on the Issue Date (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding by or within the Mongolia in excess of the Applicable Rate, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (a) to, or to a third party on behalf of, a Bondholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with Mongolia other than the mere holding of the Bond; or
- (b) presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such Additional Tax Amounts on presenting it for payment on the 30th day.

References in these Conditions to principal, premium and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No Additional Tax Amounts shall be paid to a holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the

income declarable under the laws of Mongolia, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Tax Amounts had that beneficiary, settlor, member or beneficial owner been the holder thereof.

"Relevant Date" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date falling seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Mongolia, references in these Conditions to Mongolia shall be construed as references to Mongolia and/or such other jurisdiction (as the case may be).

Neither the Trustee nor any Agent shall be responsible for paying any taxes, duties, assessments, charges, withholding or other payment referred to in this Condition 8 or otherwise in connection with the Bonds or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer or the Bondholders or any other person to pay such taxes, duties, assessments, charges, withholding or other payment and shall not be responsible to provide any notice or information in relation to the Bonds in connection with payment of such taxes, duties, charges, assessments, governmental charges, withholding or other payment imposed by or in any jurisdiction, including without limitation any notice or information to the Trustee or any Agent or any person that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any tax, duty, charge, assessment, governmental charge, withholding or other payment imposed by or in any jurisdiction.

9. Events of Default

If any of the following events (each, an **"Event of Default"**) occurs, the Trustee at its absolute discretion may, and if so requested by holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided that in any such case the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued and unpaid interest:

- (a) **Non-Payment:** there is a failure to pay the principal of or any premium (if any) or interest on any of the Bonds when due; *provided* that, solely in the case of the payment of interest, such failure continues for a period of fifteen days; or
- (b) **Breach of Other Obligations:** the Issuer or MCS Holding, as the case may be, does not perform or comply with any one or more of its other obligations under the Bonds, the Trust Deed or the Deed of Covenant, which default is in the opinion of the Trustee incapable of remedy or, if such default is in the opinion of the Trustee capable of remedy, such default is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee requiring the same to be remedied; or
- (c) **Cross-Default:** (i) any other present or future Indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised (including, but not limited to, the IFC Loan) becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds

U.S.\$5,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Unsatisfied Judgment:** one or more judgment(s) or order(s) for the payment of any amount exceeding U.S.\$5,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(d) operates) is rendered against the Issuer or any of its Subsidiaries, such judgment(s) continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment and no further appeal or judicial review from such judgment is permissible under applicable law; or

(e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 45 days; or

(f) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries over the whole or a substantial part of the assets of the Issuer or its Subsidiaries, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 45 days; or

(g) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a substantial part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a substantial part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or commences a voluntary case or proceeding under any applicable bankruptcy law, consents to the entry of judgment, decree or order for relief against it in an involuntary case or proceeding under any applicable bankruptcy law, consents to the appointment of a receiver of it or for a substantial part of its property and assets, consents to or acquiesces in the institution of a bankruptcy or an insolvency proceeding against it, or takes any corporate action to authorise or effect any of the foregoing, or a moratorium is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer or any of its Subsidiaries, except, in the case of a bankruptcy or an insolvency proceeding only, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Subsidiary of the Issuer, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in (A) the Issuer, or another Subsidiary of the Issuer, or (B) any other person on an arms' length basis, where the proceeds resulting from such transfer are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer; or

(h) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger, consolidation or disposal (A) on terms approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or (B) in the case of a Subsidiary of the Issuer, (x) whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer or (y) any disposal or sale of a Subsidiary of the Issuer to any other person on arms' length terms for market consideration, where the proceeds resulting from such disposal or sale are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer; or (ii) a members' voluntary solvent winding-up of any Subsidiary of the Issuer; or

(i) **Illegality:** it is or will become unlawful for any of the Issuer to perform or comply with any one or more of its obligations under any of the Bonds, the Trust Deed and/or the Deed of Covenant; or

- (j) **Nationalisation:** any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or any material part of the assets or shares of the Issuer or any of its Subsidiaries without fair compensation, unless, and for so long as, the Trustee is satisfied that such compulsory purchase or expropriation is being contested in good faith and by appropriate proceedings; or
- (k) **Banking License:** the Issuer ceases to possess its license to establish a bank granted by the Central Bank of Mongolia, excluding any ordinary permissions for banking activities issued by the Central Bank of Mongolia from time to time; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(a) to 9(k) (both inclusive).

For the purposes of these Conditions, "**Business Day**" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in Mongolia are authorised by law or governmental regulations to close.

10. Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, destroyed or defaced or alleged to be lost, stolen or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders in accordance with Condition 16, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, pre-funding and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. Meetings of Bondholders, Modification and Waiver

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, the Agency Agreement or the Deed of Covenant. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee, if requested to do so by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and if it is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing holders of more than fifty per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest or premium (if any) is payable in respect of the Bonds or alter the method of calculating the amount of any payment in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to effect the exchange, conversion or substitution of the Bonds for other obligations or securities or (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing holders of not less than 66 2/3 per cent.,

or at any adjourned meeting not less than 33 1/3 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present or voted at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution (A) in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or (B) passed by Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. A resolution passed in writing as aforesaid and/or passed by Electronic Consent will be binding on all Bondholders whether or not they participated in such resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

For the purposes of these Conditions and the Trust Deed:

"Electronic Consent" means, where the terms of the proposed resolution have been notified to the Bondholders through the relevant clearing system(s), approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds outstanding;

"Extraordinary Resolution" means a resolution proposed and passed (a) at a meeting duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast; (b) by a Written Resolution; or (c) by an Electronic Consent; and

"Written Resolution" means a written resolution signed by the holders of not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding.

(b) ***Modification of Agreements and Deeds***

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Deed of Covenant, that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Deed of Covenant that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable.

(c) ***Entitlement of the Trustee***

In connection with the performance and exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13. Enforcement

At any time after the Bonds become due and payable, the Trustee may (but shall not be obliged to), at its absolute discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Agency Agreement, the Deed

of Covenant and/or the Bonds (as the case may be), but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking steps and/or actions and/or instituting proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction and for the Trustee to be paid or reimbursed for any fees, costs, expenses and indemnity payments and for liabilities incurred by it in priority to the claims of the Bondholders. The Trustee is entitled to enter into business transactions with the Issuer, any subsidiary of the Issuer and/or any entity related (directly or indirectly) to the Issuer without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible or liable for the performance (financial or otherwise) by the Issuer and any other person appointed by the Issuer in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with any instruction, direction, request or resolution of the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Deed of Covenant or these Conditions to exercise any discretion or power, take or refrain from taking any action, make any decision or give any direction or certification, the Trustee is entitled, prior to its exercising any such discretion or power, taking or refraining from taking any such action, making any such decision or certification, or giving any such direction or clarification of any direction, to seek directions or instructions from the Bondholders by way of an Extraordinary Resolution (as defined in the Trust Deed), and the Trustee shall not be responsible or liable for any loss or liability incurred by the Issuer, Bondholders, or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction as a result of seeking such directions or instructions from the Bondholders or in the event that no directions or instructions are given to the Trustee by the Bondholders.

The Trustee shall not be under any obligation to monitor or supervise compliance by the Issuer with the provisions of the Trust Deed, the Agency Agreement, the Deed of Covenant or these Conditions or to monitor or take any steps to ascertain whether an Event of Default, a Potential Event of Default or a Change of Control has occurred, and it shall not be responsible or liable to the Issuer, the Bondholders or any other person for not doing so.

The Trustee may rely conclusively without further enquiry and without liability to the Issuer, the Bondholders or any other person on any report, confirmation or certificate or information or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely conclusively without further enquiry on any such report, confirmation, certificate, information, advice or opinion, in which event such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer and the Bondholders. The Trustee and the Agents shall not be responsible or liable to the Issuer and the Bondholders or any other person for any loss occasioned by acting on or refraining from acting on any such report, information, confirmation, certificate, opinion or advice.

Each Bondholder shall be solely responsible for making and continuing to make its own independent

appraisal of and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer or any of its Subsidiaries, and the Trustee shall not at any time have any responsibility or liability for the same and no party (including any Bondholder) shall rely on the Trustee in respect thereof.

15. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further bonds either having the same terms and conditions as the Bonds in all respects or in all respects except for the issue date and the first payment of interest on them, and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other bonds issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further bonds consolidated into and forming a single series with the outstanding Bonds constituted by the Trust Deed or any deed supplemental to it shall, and any other bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

16. Notices

Notices to the holders of Bonds shall be in English and mailed to them at the Issuer's expense at their respective addresses in the Register and deemed to have been given on the fourth business day (being a day other than a Saturday, a Sunday or a public holiday) after the date of mailing and, so long as the Bonds are listed on a stock exchange and the rules of that exchange so require, published by the Issuer at the Issuer's expense in a manner that complies with the rules and regulations of that stock exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held in its entirety on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A., any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV and Clearstream Banking S.A. for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Agency Agreement, the Deed of Covenant, the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Arbitration

(i) The arbitration agreement set out in this Condition 18 is governed by the laws of England. Any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Bonds, the Trust Deed, the Agency Agreement and the Deed of Covenant, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a "Dispute"), shall be referred to and finally resolved by arbitration administered by the Singapore International

Arbitration Centre ("SIAC") in accordance with the Arbitration Rules of SIAC for the time being in force (the "Rules").

- (ii) The Rules are incorporated by reference into these Conditions and capitalised terms used in this Condition which are not otherwise defined in the Bonds, the Trust Deed, the Agency Agreement or the Deed of Covenant have the meaning given to them in the Rules.
- (iii) The number of arbitrators shall be three. The arbitrators shall be appointed in accordance with the Rules.
- (iv) The seat, or legal place of arbitration, shall be Singapore.
- (v) The language used in the arbitral proceedings shall be English. All documents submitted in connection with the proceedings shall be in the English language, or, if in another language, accompanied by a certified English translation

(c) ***Multiple parties and multiple contracts; joinder of parties; consolidation of Disputes***

- (i) Each party agrees that for the purposes of the Rules, the arbitration agreement set out in this Condition 18 and the arbitration agreement contained in each other Linked Agreement shall together be deemed to be an arbitration agreement that binds each party to the Bonds and each party to each other Linked Agreement.
- (ii) Any party to the Bonds or any other Linked Agreement may, in accordance with the Rules, be joined to any arbitration commenced under the Bonds or any Linked Agreement. Each party to the Bonds hereby consents, for the purposes of the Rules, to such joinder.
- (iii) Pursuant to the Rules:
 - (A) Disputes may be resolved in a single arbitration together with Disputes (as defined in any other Linked Agreement) arising out of any such Linked Agreement; and
 - (B) the parties agree to the consolidation of any two or more arbitrations commenced pursuant to this Condition 18 and/or the arbitration agreement contained in any other Linked Agreement into a single arbitration, as provided for in the Rules.
- (iv) Each party waives any objection, on the basis that a Dispute has been resolved in a manner contemplated at Condition 18(c)(ii) or Condition 18(c)(iii), to the validity and/or enforcement of any arbitral award made by an arbitral tribunal following the Dispute being resolved in that manner.
- (v) In this Condition 18(c), "**Linked Agreement**" means each of the Bonds, the Trust Deed, the Agency Agreement and the Deed of Covenant.
- (vi) The requirement in the Rules that a court or a tribunal considering whether to consolidate disputes should consider the views of all parties or give the parties an opportunity to be heard shall extend to all parties to each of the arbitrations in respect of which consolidation is sought.
- (vii) In respect of any court proceedings in Singapore commenced under the International Arbitration Act 1994 in relation to an arbitration commenced under this Condition 18, the parties agree (A) to commence such proceedings before the Singapore International Commercial Court ("SICC"); and (B) in any event, that such proceedings shall be heard and adjudicated by the SICC.
- (viii) By agreeing to arbitration, the parties do not intend to deprive any court of competent jurisdiction of its ability to issue any form of provisional remedy, including a preliminary injunction or attachment in aid of the arbitration, or order any interim or conservatory

measure. A request for such provisional remedy or interim or conservatory measure by a party to a court shall not be deemed a waiver of this agreement to arbitrate.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which a Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:

The Bonds will be evidenced by a Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

Promise to Pay

Under the Global Certificate, the Issuer promises to pay such principal, interest and such other sums and additional amounts (if any) as may be payable under the Terms and Conditions of the Bonds on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds.

Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means a Monday to Friday, inclusive except 25 December and 1 January.

Calculation of Interest

So long as the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from and including the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

Exchange of Bonds Represented by Global Certificate

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system selected by the Issuer and approved in writing by the Trustee, the Principal Paying Agent and the Registrar (an "**Alternative Clearing System**") through which the Bonds are held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. In such circumstances, the Issuer at its own expense will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to holders of the Bonds shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Bonds in substitution for notification as required by the Conditions.

Meetings

For the purposes of any meeting of Bondholders, each holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.\$ 1,000 in nominal amount of Bonds for which the Global Certificate is issued.

Bondholder's Redemption

The Bondholder's redemption option in Condition 6(c) may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent within the time limits specified in the Terms and Conditions of the Bonds, in accordance with the rules and procedures of Euroclear and Clearstream or any Alternative Clearing System, and stating the nominal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions of the Bonds.

Issuer's Redemption

The Issuer's redemption option provided for in Condition 6(b) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions of the Bonds.

Transfers

Transfers of beneficial interests in the Bonds represented by the Global Certificate will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation

Cancellation of any Bond represented by the Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by a reduction in the aggregate nominal amount of the Bonds in the register of Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the Schedule to the Global Certificate.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (i) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (ii) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

The Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

DESCRIPTION OF THE ISSUER

OVERVIEW

M Bank Closed JSC is a licensed commercial bank incorporated and domiciled in Mongolia in March 2022. Established in accordance with Mongolian banking regulations, the Bank provides a comprehensive suite of banking and financial services, including lending, payment and settlement services, foreign exchange trading, remittances, financial leasing, and safekeeping of valuables and Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia. The Bank's registered office is located at tower 15th floor, 8th khoro, Sukhbaatar District, Ulaanbaatar-14200, Mongolia. The Bank is wholly owned by MCS Holding LLC ("MCS Holding"), one of Mongolia's largest diversified conglomerates, with ultimate control held by MCS Mongolia LLC. The Bank is regulated by the Bank of Mongolia and prepares its financial statements in accordance with IFRS Accounting Standards.

The Bank made its entry into the market as Mongolia's first Neobank, with the aim of setting new standards in digital banking. We go beyond traditional banking by offering tech-driven financial products and services that are intended to faster, simpler, and more accessible to all. The Bank is a modern, customer-centric platform that supports financial well-being and offers innovative solutions tailored to today's lifestyles.

In 2024, the total number of customers reached 453,041, an increase of 93% compared to 234,510 in 2023, with the total number of customer transactions increasing fourfold compared to the previous year. Other notable highlights include the implementation of over 20 major campaigns in 2024 to support our customers' financial well-being, delivering over MNT2 billion in discounts and cashback. The Bank also launched the M business app, which improved access to financial services for business owners which is a significant step in our customer-centric strategy. As of the date of this Offering Circular, the Bank has raised funding various international institutions such as the IFC, Saison Investment Management Private Limited ("Saison"), Delphos Securities Sarl ("Delphos") and Mopane Securities Plc ("Mopane"). See "*Borrowings from central banks and access to International Funding*" below.

Our Values

The Bank's values are as follows:

1. **People first:** We strive to understand our client better, and our internal decisions are made with our employees in mind.
2. **'Why not?'** We differentiate ourselves by breaking the traditional mould.
3. **Technology at our core:** We are a combination between a techfin company and a traditional bank, aimed at easing everyone's lives with tech solutions.
4. **Accountability:** We believe in taking ownership of our work and focus on end-to-end accountability.
5. **More than what you're accustomed to:** We continually strive towards improvement and never focus on settling.
6. **Transparency and openness:** We remove any kind of doubt by being fully transparent and open with everyone.

Our Philosophy, Mission and Vision

The Bank's philosophy is to create a financially resilient and confident future. We aspire for people to meet their financial needs without difficulty and freely make life-enriching choices without worrying about their plans. We aim not only to offer financial services based on advanced technology but also to make a real contribution to building a healthy financial environment and creating a smarter, brighter, more inclusive economic future.

The Bank's mission is to reinvent the financial experience and create an open, inclusive environment for everyone and our vision is to establish a digital platform to support financial well-being.

COMPETITIVE STRENGTHS

The Bank believes it benefits from the following competitive advantages:

Strong and sustained growth in assets, loans, and customer deposits demonstrates the Bank's rapid expansion and increasing market presence

Since incorporation, the Bank has experienced sizeable growth in total assets, total loans and advances to customers and customer deposits. As of 30 September 2025, total assets increased to MNT1,941.41 billion compared to MNT1,676.77 billion in the fiscal year 2024 (2023: MNT700.45 billion; 2022: MNT235.55 billion). The Bank's total loan portfolio expanded to MNT1,213.36 billion as of 30 September 2025 compared to MNT830.65 billion in the fiscal year ended 31 December 2024 (2023: MNT172.65 billion; 2022: MNT92.68 billion). Customer deposits rose to MNT1,445.42 billion as of 30 September 2025 compared to MNT1,105.30 billion in the fiscal year 2024 (2023: MNT350.09 billion; 2022: MNT71.12 billion). Total interest and other similar income has reached MNT174.31 billion for the nine-month period ended 30 September 2025 in comparison to MNT116.27 billion, MNT49.67 billion and MNT12.35 billion for the fiscal years ended 2024, 2023 and 2022 respectively. Fee and commission income increased to MNT7.50 billion for the nine-month period ended 30 September 2025 as compared to MNT3.66 billion in fiscal year 2024, MNT0.79 billion in fiscal year 2023 and MNT0.038 billion in fiscal year 2022. For the nine-month period ended 30 September 2025, net loss amounted to MNT2.78 billion compared to MNT6.43 billion for the year ended 31 December 2024 (2023: MNT2.89 billion; 2022: net profit MNT4.68 billion), personnel expense for the nine-month period ended 30 September 2025 amounted to MNT13.16 billion compared to MNT15.76 billion for the year ended 31 December 2024 (2023: MNT12.17 billion; 2022: MNT5.75 billion) and other operating expenses for the nine-month period ended 30 September 2025 amounted to MNT14.07 billion compared to MNT16.82 billion for the year ended 31 December 2024 (2023: MNT10.24 billion; 2022: MNT6.20 billion) which were mainly due to investments in cybersecurity infrastructure, expansion of product and service offerings, and increased costs to grow the customer base.

Strong asset quality

Despite a recent uptick in the Bank's NPL rate, the Bank has historically maintained strong asset quality. A "Non-Performing Asset Reduction Strategy" is working toward the phased reduction of nonperforming loans within the framework of this strategy. In 2024, a dedicated unit responsible for loan collection and non-performing loans was established under our risk management function, introducing structural changes to strengthen oversight.

Sufficient capital buffer and sound liquidity with strong Shareholder support

We have built an efficient capital management system since incorporation by expanding lending size and continuous investment in digital transformation. Our capital adequacy ratio was 69.78%, 34.61%, 17.49% and 15.96% as of 31 December 2022, 2023, 2024 and 30 September 2025, respectively, substantially higher than the minimum capital to risk weighted assets ratio of 12% set by the Bank of Mongolia. We maintain a stable liquidity portfolio backed by our solid customer deposit base. Our liquidity ratio was 82.81%, 59.54%, 34.09% and 32.46% as of 31 December 2022, 2023, 2024 and 30 September 2025, respectively, substantially higher than the minimum liquidity ratio of 25% required by the Bank of Mongolia.

The Bank's immediate parent company is MCS Holding, one of Mongolia's largest diversified conglomerates with operations across multiple sectors such as energy, construction and real estate, mining, information and communications technology, consumer goods, health and hospitality services. In 2024, MCS Holding's subsidiaries and affiliated investment companies contributed a total of MNT1.3 trillion in taxes and social insurance payments to the state budget. MCS Holding contributes to Mongolia's ongoing economic development by spending over MNT3.6 billion in taxes and social insurance to the state budget daily, totalling more than MNT108 billion each month. The MCS Group also pays MNT60 billion in monthly salaries to its 14,000 employees and purchases goods, services, and works worth MNT258 billion each month from over 8,700 local businesses. Through these operations, MCS Group indirectly supports stable employment for an additional 20,000 people, enabling at least MNT20 billion in monthly salaries. As part of the MCS Group, the Bank benefits from financial backing and reputational support from one of Mongolia's most prominent corporate groups. The Bank also leverages the broader

MCS Group network - for example through its supplier and ecosystem connections, collaborating with its subsidiaries in sectors such as FMCG, telecommunications, and other industries to help merchants order goods, manage inventory, and access key supplier networks. Through its Merchant Line, the Bank leverages partnerships with MCS Group subsidiaries, third-party platforms, and advanced analytics, and through the continued development of Octagon, with aim of becoming a complete merchant banking platform and contributing to MBank's long-term growth.

Diversified Loan Portfolio

The Bank maintains a balanced exposure across consumer, SME, corporate, and mortgage lending, thereby reducing concentration risks. See "*Funding – Sector concentration*" below for a breakdown of the economic sector risk concentrations within our customer loan portfolio.

Borrowings from central banks and access to International Funding

The Bank obtains long-term financing from the Bank of Mongolia at interest rates at which they ordinarily lend, and which may be lower than the rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates.

In addition, the Bank has established borrowing relationships with leading international financial institutions, including the IFC and Saison, which enhance its credibility and funding flexibility.

- **IFC:** On 28 March 2024, the Bank entered into a total of USD 30 million loan agreement with IFC, becoming the third bank in Mongolia to receive long-term financing from the IFC. This milestone reflects the strength and credibility of our current and planned strategic direction. This achievement has elevated our profile among global investors and laid the foundation for attracting investments from major international financial institutions. The purpose of the loan is to support small and medium enterprises, of which at least 25% of the proceeds of the loan should be used to support women-owned small and medium enterprises. The loan has two tranches in which each tranche has tenor of 36 months after the disbursement. The Bank received a first tranche total of USD 20 million from IFC on 19 September 2024, and a second tranche of USD 10 million on 21 January 2025. The loan is guaranteed by MCS Mongolia LLC, an ultimate parent company, which MCS Mongolia LLC unconditionally and irrevocably agreed to guarantee and pay on-demand the obligations of the Bank until the full payment of the loan and payment of all amounts owing to IFC.
- **Saison:** On 27 May 2024, the Bank entered into USD 5 million Senior Unsecured Term Loan Facility Agreement and a USD 2 million Senior Secured Term Loan Facility Agreement with Saison. The purpose of these loans is to support women-owned and women-led micro, small, and medium business clients and to support green loan issuance. Both loans have tenor of 24 months following the first utilisation date. The Bank received USD 7 million from Saison on 31 May 2024. The senior secured loan is pledged by the Bank's corporate USD bank account with TDB as a security.
- **Delphos:** On 25 August 2025, the Bank entered into an USD denominated unsecured loan agreement with Delphos Securities Sarl for a total loan facility of USD 75.0 million. The Bank received first disbursement for USD 13.0 million on 4 September 2025. The purpose of the loan is to support SME customers. The loan has tenor of 36 months after the first closing date.
- **Mopane:** On 3 June 2025, the Bank entered into a MNT denominated secured loan agreement with Mopane Securities PLC for MNT71.4 billion, being the fixed MNT equivalent of USD 20 million under the contractually agreed exchange rate. The Bank received the full proceeds in MNT on 12 June 2025. The purpose of the loan is to support general corporate activities and lending to SME clients. The loan has tenor of 78 months following the agreement date. The loan is pledged by the Bank's debt securities amounting to MNT107,069 million (USD 29.7 million).

On 23 October 2025, the Bank entered into a USD 30 million loan facility agreement with Mopane and received the full proceeds in USD on 5 November 2025. The purpose of the loan is to support general corporate activities, and the loan matures on 14 July 2031.

Innovation-driven strategic focus

The Bank continuously increased investments in areas that support our customers, ensures system continuity and security, and enhances the professional growth of our employees. Our initiatives to deliver innovative, cost-efficient products tailored to our customers' financial and non-financial lifestyles have proven successful, as demonstrated by the sharp rise in active users. As a digital-first bank, we have strongly emphasised information security and consistently invested in cutting-edge solutions for our core banking and card systems, helping improve customer satisfaction.

Furthermore, we continue to invest in our employees, who embody the Bank's culture and serve as its driving force. In turn, our employees dedicate their skills and passion to thoughtfully developing innovative, inclusive products and services from the customer's perspective. In addition, continued investment in IT infrastructure underpins the Bank's digital-first strategy and supports customer acquisition and service efficiency.

STRATEGIES

The Bank's strategic priorities are designed to strengthen its market position and ensure sustainable growth. These include:

- Expanding retail and SME lending, with particular emphasis on women-owned enterprises and environmentally sustainable projects, supported by international credit lines.
- Accelerating digital transformation to enhance customer experience, broaden distribution channels, and reduce operating costs.
- Maintaining a conservative approach to risk management and capital adequacy, in line with Bank of Mongolia regulatory requirements.

PRODUCTS AND SERVICES

The Bank operates through retail, corporate and small-and-medium enterprises ("SME") business lines further to a change in their operating segmentation in 2023. Prior to 2023, the Bank previously operated through the segments of Consumer Banking, Corporate Banking and Others.

Retail products and services

In addition to offering core banking products and services, the Bank has been committed over the past two years to introducing lifestyle-oriented complementary solutions and aiming to make them faster, easier, and more flexible. We also actively implement projects, programs, and promotions that support our customers' financial well-being. In 2024, we invested MNT2 billion in customer-focused promotional campaigns and sponsorships.

Additionally, we signed the "General Agreement on Housing Mortgage Financing" with the Central Bank of Mongolia, Mongolian Mortgage Corporation HFC LLC, and other commercial banks. We began issuing mortgage loans in June 2024.

In 2024, the Bank introduced several significant improvements and initiatives to enhance its retail products and services including an enhanced customer onboarding process. We improved the onboarding process by enabling digital customer verification (e-KYC), allowing customers to open a bank account anytime and from anywhere.

Card

In 2024, the Bank elevated its card services by launching two new international payment solutions — the M Visa and M UnionPay cards. The M Visa card is Mongolia's first and only payment card made from recycled plastic, paired with ecofriendly packaging crafted entirely from recycled paper. Both cards are PCI-DSS compliant, ensuring the highest level of data protection. Customers benefit from 24/7 monitoring and real-time alerts,

safeguarding their information against threats. The total number of debit cards issued increased by 3 times from 19,361 in 2023 to 62,167 in 2024, with total card payment volumes increasing by 4 times from MNT31 billion in 2023 to MNT126 billion in 2024.

Private banking

The Bank officially launched its Private Banking department in April 2023, offering the following services for its clients:

1. Personalised financial services in secure and comfortable environment
2. Opportunity to choose preferred account numbers
3. Flexible terms and conditions
4. Financial advisory services

The Private Banking department has achieved sizeable growth in its client base and fund under management. In 2024, the Private Banking client base increased by 3.3 times, and the deposit portfolio grew by 2.3 times, compared to the previous year.

Corporate products and services

Since 2022, the Bank offered various corporate banking services online and offline to serve our clients better. Our goal is to provide a comprehensive suite of services, including current accounts, deposits, payments, and financing. In 2024, corporate clients gained access to the following services through internet banking.

In addition, the Corporate Gateway service, launched in 2023, integrates with internal systems to automate financial transactions. The Easy Onboarding service was also introduced, simplifying the registration process for new corporate clients by allowing them to view and download required documents in one place.

As of 30 September 2025, the business portfolio comprised a loan portfolio of MNT604.4 billion (as of 31 December 2024: MNT389.6 billion; as of 31 December 2023: MNT72.4 billion), current accounts due to customers from private sector of MNT191.0 billion (as of 31 December 2024: MNT190.3 billion; as of 31 December 2023: MNT138.8 billion) and term deposits due to customers from private sector of MNT430.01 billion (as of 31 December 2024: MNT303.0 billion; as of 31 December 2023: MNT104.8 billion).

Looking ahead to 2026, we aim to implement secure and user-friendly services for our corporate clients, including digital signatures, role-based settings, two-factor authentication, and simplified foreign payment solutions. This will mark a significant step toward fully digitalising our financial services.

Our main corporate banking products and services are as follows:

Business loans

Since 2022, the Bank has established a Business Loan Center to meet business loan needs quickly, reducing loan processing times to 3-7 days. Currently, we offer the following types of business loans:

- Working capital and investment loans
- Real estate, vehicle, and equipment loans
- Credit lines
- Government-supported project financing
- Loans for women entrepreneurs

In 2025, we plan to introduce flexible financing options in partnership with suppliers, including new green financing loans, and fully automate our loan services.

Employee Savings Program

In response to the evolving needs of modern companies, the Bank launched its Employee Savings Program in 2024. This solution enables employers to establish long-term incentive systems while helping employees build stable savings, simplifying financial planning.

Supply Chain Financing

In 2024, the Bank introduced Supply Chain Financing solutions designed to facilitate faster payment settlements and reliable access to financing within a three-party relationship between businesses, suppliers, and merchants. The Bank plans to launch a project to fully automate financing through the Supplier Portal, streamlining credit assessment and decision-making. These solutions accelerate businesses' payment cycles and enhance financial flexibility.

Online term deposit

The Bank introduced an online term deposit service in line with our goal to empower businesses to manage their finances remotely. This lets corporate clients digitally open, extend, and withdraw from term deposits. Currently, clients can open and extend standard term deposits online. We are working to expand the offering to include interest payout deposits and cashable deposits, which will provide enhanced control by allowing top-ups and withdrawals at any time through digital channels, further simplifying and accelerating financial management.

SME products and services

In the SME business line, the Bank offers comprehensive solutions, including the most straightforward loan process, income-based loan limit calculation models, supplier solutions, and employee card management tools.

In 2024, the Bank expanded its business segment by launching the M business app, a digital platform designed for small, medium, and self-employed entrepreneurs. The app offers the following services:

1. Register as a customer
2. Open and manage current accounts
3. Conduct intra-bank and inter-bank transfers
4. Calculate digital loan limits
5. Calculate loan limits for invoice payment
6. View loan account information and make drawdown
7. Access POS services
8. Participate in reward programs

To address key challenges faced by SMEs, the Bank is implementing the following strategies.

- Provide digital loans without any collateral requirements
- Simplify income and expense management for businesses
- Develop a credit scoring system for business loans
- Enable data-driven business reporting possibilities
- Offer supply chain financing products in collaboration with third parties

As of 31 December 2024, our SME business served 2,966 active customers with 817 active point of sale ("POS") users and the total outstanding principal balance of digital loan portfolio was MNT9.2 billion. In 2024, disbursed loan amounts under the Business Digital Loan have reached MNT10 billion. In 2024, the Invoice Financing Loan was launched in partnership with MCS Coca-Cola, financing 974 transactions for MNT4.3 billion.

In 2025, the Bank aims to simplify small business support by offering income-based automated loan offers, card management tailored to business needs, and partnership-driven supplementary services. The Bank also aims to

further support the SME segment by expanding financing opportunities in the trade, service, bar, restaurant, and beauty sectors.

FUNDING

Customer deposits

The Bank's principal sources of funding comprise customer deposits, which represented the core of its liabilities as of the period ended 30 September 2025 and the years ended 31 December 2024, 2023 and 2022. The following tables provides the composition of customer deposits between private sector, individuals and state and public organisations:

<i>In thousands of MNT</i>	30 September 2025
Private sector deposits:	621,054,225
- Current accounts.....	190,958,153
- Term deposits	430,096,072
Individuals:	686,846,958
- Current accounts.....	66,928,708
- Term deposits	564,156,914
- Demand deposits	55,761,336
State and public organisations:	137,516,065
- Current accounts.....	4,177,196
- Term deposits.....	133,338,869
Total customer accounts.....	<u>1,445,417,248</u>

<i>In thousands of MNT</i>	31 December 2024
Private sector deposits:	493,360,030
- Current accounts.....	190,316,496
- Term deposits	303,043,534
Individuals:	487,354,367
- Current accounts.....	39,031,350
- Term deposits	423,595,952
- Demand deposits	24,727,065
State and public organisations:	124,585,893
- Current accounts.....	90,897
- Term deposits	124,494,996
Total customer accounts.....	<u>1,105,300,290</u>

<i>In thousands of MNT</i>	31 December 2023
Private sector deposits:	243,645,965
- Current accounts	138,819,099
- Term deposits	104,826,866
Individuals:	102,760,688
- Current accounts	12,452,356
- Term deposits	90,308,332
State and public organisations:	3,686,453
- Current accounts	650,782
- Term deposits	3,035,671
Total customer accounts.....	<u>350,093,106</u>

<i>In thousands of MNT</i>	31 December 2022
Deposits from private sector:	61,619,140
- Current accounts	59,217,777
- Time deposits	2,401,363
Deposits from individuals:	9,502,453
- Current accounts	8,500,446
- Time deposits	1,002,007
Total customer accounts.....	<u>71,121,593</u>

Sector concentration

The tables below illustrate the economic sector risk concentrations within our customer loan portfolio for the years ended 31 December 2024, 2023 and 2022:

	31 December 2024	
	Amount	%
<i>In thousands of MNT</i>		
Individuals loan.....	416,837,761	50%
Services.....	204,450,396	25%
Trade and commerce.....	89,800,033	11%
Manufacturing	49,267,718	6%
Construction.....	24,794,091	3%
Mortgage loan.....	24,211,080	3%
Mining.....	13,598,567	2%
Transportation.....	4,768,127	0%
Agricultural.....	2,922,044	0%
Total loans and advances to customers carried at AC and at FVTPL	830,649,817	100%
	31 December 2023	
	Amount	%
<i>In thousands of MNT</i>		
Consumer loan.....	101,736,712	59%
Services	29,728,109	17%
Trading.....	10,702,948	6%
Manufacturing.....	7,218,795	4%
Construction.....	14,030,994	8%
Mortgage loan.....	3,712,100	2%
Mining.....	3,595,761	2%
Transportation.....	1,201,773	1%
Agricultural	722,440	1%
Total loans and advances to customers carried at AC and at FVTPL	172,649,632	100%
	31 December 2022	
	Amount	%
<i>In thousands of MNT</i>		
Financial institution	21,199,857	22.52%
Salary loan.....	19,263,487	20.46%
Property.....	19,236,737	20.43%
Trading	15,492,630	16.46%
Transportation and storage.....	7,294,321	7.75%
Others	11,660,072	12.38%
Total gross loan amount.....	94,147,104	100%
Allowances for loans and advances to customers ..	(1,315,226)	
Deferred loan origination fees	(234,427)	
Net loan amount.....	92,597,451	

Collateralisation

The table below provides a description of collateral held for loans (carried at amortised cost) as at 31 December 2024:

<i>In thousands of MNT</i>	Consumer Loans	Business loans	Mortgage loans	Total
Loans collateralised by:				
- cash deposit.....	24,831,932	36,500,438	-	61,332,370
- real estate properties.....	114,231	160,809,467	10,006,555	170,930,253
- vehicles	5,395	5,477,180	-	5,482,575
- machinery.....	-	2,679,212	-	2,679,212
- inventories.....	-	36,345,893	-	36,345,893
- credit enhancements	82,099	123,637,652	-	123,719,751
Total	25,033,657	365,449,842	10,006,555	400,490,054
Unsecured exposures	407,247,825	27,879,738	-	435,127,563
Total gross carrying value loans and advances to customers at AC	432,281,482	393,329,580	10,006,555	835,617,617

Maturity

As of 31 December 2024, 95.77 % of our total deposits from customers were due within one year or were payable on demand. The maturity analysis of financial instruments as at 31 December 2024 is as follows:

<i>In thousands of MNT</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents.....	551,298,303	122,218,708	-	-	-	673,517,011
Mandatory cash balances with Bank of Mongolia	48,854,122	-	-	-	-	48,854,122
Due from banks	-	-	-	6,797,069	-	6,797,069
Reverse sale and repurchase agreements	74,089,698	-	-	-	-	74,089,698
Derivative financial assets.....	(160,126)	(516,490)	-	5,024,996	-	4,348,380
Loans and advances to customers.....	43,556,311	162,356,286	223,624,163	377,544,139	23,568,918	830,649,817
Other financial assets	3,622,472	-	-	-	-	3,622,472
Total financial assets	721,260,780	284,058,504	223,624,163	389,366,204	23,568,918	1,641,878,569
Financial liabilities						
Due to other banks.....	188,369,230	120,465,750	-	-	-	308,834,980
Due to customers	349,855,972	377,929,048	330,761,959	46,753,311	-	1,105,300,290
Other borrowed funds	68,788,590	8,086,702	7,920,354	16,194,583	-	100,990,229
Lease liabilities	179,472	1,229,370	583,513	1,265,611	-	3,257,966
Other financial liabilities	3,547,600	457,498	38,791	-	-	4,043,889
Total financial liabilities	610,740,864	508,168,368	339,304,617	64,213,505	-	1,522,427,354
Liquidity gap arising from financial instruments	110,519,916	(224,109,864)	(115,680,454)	325,152,699	23,568,918	119,451,215
Accumulated Net Gap	110,519,916	(113,589,948)	(229,270,402)	95,882,297	119,451,215	-

Share capital

In April 2025, shareholders of the Bank approved the issue of 70,000 thousand ordinary shares at a price of MNT1,000 per share (2024: 70,000 thousand; 2023: nil; 2022: 99,999.9 thousand). The nominal registered amount of the Bank's issued share capital is MNT240,000,000 thousand (2024: MNT170,000,000 thousand; 2023: MNT100,000,000 thousand; 2022: MNT100,000,000 thousand). The total authorised number of ordinary shares is 240,000 thousand shares (2024: 170,000 thousand shares; 2023: 100,000 thousand shares; 2022: 100,000 thousand shares), with a par value of MNT1,000 per share (2024: MNT1,000 per share; 2023: MNT1,000 per share; 2022: MNT1,000 per share). All issued ordinary shares are fully paid.

<i>In thousands of MNT except for number of shares</i>	Number of outstanding shares	Ordinary shares	Total
At 31 December 2022	100,000,000	100,000,000	100,000,000
Issued for cash	-	-	-
At 31 December 2023	100,000,000	100,000,000	100,000,000
Issued for cash	70,000,000	70,000,000	70,000,000
At 31 December 2024	170,000,000	170,000,000	170,000,000
Issued for cash	70,000,000	70,000,000	70,000,000
At 30 September 2025	240,000,000	240,000,000	240,000,000

Supplementary funding

Supplementary funding sources include:

- **International Borrowings**, notably a USD 30 million facility from IFC, a USD 7 million loan from Saison, a USD 75 million facility from Delphos and a USD 20 million loan and a USD 30 million facility from Mopane.
- **Central Bank Programs**, including participation in the subsidised mortgage financing program of the Bank of Mongolia. Under the Mortgage funding program, the Bank receives funding at the interest rate of 2% per annum and the Bank then issues mortgage loans at the interest rate of 6% per annum.

Reverse sale and repurchase agreements

As of 30 September 2025, the Bank had no reverse sale and repurchase agreements with any local banks.

As of 31 December 2024, MNT74,089,698 thousand of reverse sale and repurchase agreements relate to short term agreement with local banks, bearing interest rate ranging from 10% to 12% per annum, with original maturity from

2 to 17 days. The reverse sale and repurchase agreements were fully collateralised by the Bank of Mongolia treasury bills in which the Bank had the right, by contract to sell pledge in case of non-repayment.

As of 31 December 2023, MNT34,867,161 thousand of the reverse sale and repurchase agreements relate to a short-term agreement with local bank, earning interest rate 13.6% and 14% per annum with original maturity from 5 days. The reverse sale and repurchase agreements are fully collateralised by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell or re-pledge in the case of non-repayment.

As of 31 December 2022, the Bank had no reverse sale and repurchase agreements with any local banks.

Repo arrangements

As of 31 December 2024, the Bank had no repo arrangements with any local banks.

As of 31 December 2023, MNT9,996,445 thousands of repurchase arrangements related to placement from local bank bearing interest rate ranging from 13.0% to 14.0% per annum with original maturities of 1 and 17 days. These placements were fully collateralised by the Bank of Mongolia treasury bills disclosed in Note 12 of the 2022 Audited Financial Statements.

As of 31 December 2022, the Bank had no repo arrangements with any local banks.

Derivative financial instruments

As of 30 September 2025, derivative financial instruments, including currency swaps, are carried at their fair value. The Bank entered into long-term cross currency interest rate swap agreements with the Bank of Mongolia with periods ranging from 2024 to 2028.

The table below sets out fair values, at the end of the reporting period 30 September 2025 and the year ended 31 December 2024, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

<i>In thousands of MNT</i>	30 September 2025
Foreign exchange swaps: fair values, at the end of the reporting period, of	
- USD receivable on settlement (+)	169,595,675
- MNT payable on settlement (-)	(157,429,355)
Net fair value of foreign exchange swaps.....	<u>12,166,320</u>
<i>In thousands of MNT</i>	31 December 2024
Foreign exchange swaps: fair values, at the end of the reporting period, of	
- USD receivable on settlement (+)	84,778,763
- MNT payable on settlement (-)	(80,430,383)
Net fair value of foreign exchange swaps.....	<u>4,348,380</u>

Contingencies and commitments

To meet financial needs of customers, the Bank enters in irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The tables below set out our contingent liabilities as of 30 September 2025, 31 December 2024, 2023 and 2022:

<i>In thousands of MNT</i>	At 30 September 2025		
	Gross carrying amount	Credit loss allowance	Carrying amount
Contingent liabilities			
Undrawn credit lines	41,178,065	(36,401)	41,141,664
Total	<u>41,178,065</u>	<u>(36,401)</u>	<u>41,141,664</u>

	At 31 December 2024			At 31 December 2023			At 31 December 2022		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
<i>In thousands of MNT</i>									
Contingent liabilities									
Undrawn credit lines	28,241,765	(90,559)	28,151,206	102,291	-	102,291	-	-	-
Total	28,241,765	(90,559)	28,151,206	102,291	-	102,291	-	-	-

Capital expenditure

As at 30 September 2025, the outstanding contractual capital commitments were USD 500 thousand (2024: USD 750 thousand; 2023: none; 2022: USD 200 thousand). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Recent developments

On 14 October 2025, Moody's Investor Services, Inc. ("Moody's") assigned first time B3 foreign currency and local currency long-term issuer ratings and bank deposit ratings to the Bank.

On 23 October 2025, the Bank entered into a USD 30 million repurchase agreement with Meru Ventures Limited and received the proceeds on 28 October 2025, with the repo settlement transaction involving USD-denominated bonds issued by the Government of Mongolia, and a repurchase date of 14 July 2031.

On 23 October 2025, the Bank entered into a USD 30 million loan facility agreement with Mopane and received the full proceeds in USD on 5 November 2025. The purpose of the loan is to support general corporate activities, and the loan matures on 14 July 2031.

RISK MANAGEMENT

The Bank has established a comprehensive risk management framework addressing credit, market, liquidity, and operational risks. The Bank applies IFRS 9-compliant expected credit loss ("ECL") methodologies to assess credit exposures and regularly incorporates forward-looking macroeconomic data into its models. A dedicated Risk Management Department is responsible for ongoing monitoring and governance, while capital adequacy and liquidity are maintained in compliance with Bank of Mongolia requirements.

In 2024, we focused primarily on strengthening the Bank's risk management framework. This included initiatives to improve the operational control system by engaging each Bank's units in self-assessment of potential risks in their activities, institutionalising risk management methodologies and processes, and promoting awareness of risk culture. We also enhanced our risk management methodologies to align with Basel standards related to capital adequacy and liquidity adequacy. We made efforts to ensure compliance with these recommendations and standards. Simultaneously, we continued to act to establish dedicated functional units necessary for effective risk management, improve their operational processes, and strengthen human capital by developing qualified and capable professionals.

Risk Management Framework

The Bank's Risk Management Framework aims to implement risk management practices, support risk-based decision-making, and maintain effective controls across all business processes. Key components of the framework include risk governance, acceptable risk appetite, risk scope, the three lines of defence principle, stress testing, and risk monitoring and reporting – all of which form integral parts of the Bank's overall risk management framework. In this regard, the Bank defines the types and scope of risks and applies the three lines of defence principle to allocate, manage, and monitor risks across the Bank's units. The Bank's risk management framework consists of the following components:

- **Board of Directors:** The Board of Directors approves the Bank's risk management policy and risk appetite and oversees their implementation and effectiveness through its Risk Management Committee
- **Board Risk Management Committee:** This committee ensures that the approved risk policy and appetite are effectively managed and monitored and aligned with the Bank's strategic objectives.
- **Executive Management:** The executive management is responsible for implementing the Bank's approved risk management framework and risk appetite through its key governance committees – the Risk Management Committee, Credit Management Committee, and Asset Liability Committee – and reporting on their implementation to the Board of Directors and Board Risk Management Committee.
- **Risk Appetite:** It defines the level and types of risk the Bank is willing to accept in pursuit of the Bank's business strategy and objectives.
- **Risk Universe:** The risk universe defines the types of potential risks the Bank may face. Guided by the Three Lines of Defence Principles, each unit within the Bank is mapped to the specific risk categories most relevant to its functions, ensuring comprehensive and consistent risk management across the Bank.
- **Three Lines of Defence Principle:** This principle promotes clear oversight and accountability for effective risk management and strengthens the Bank's overall control framework.
- **Governance Committees:** These bodies facilitate risk-based decision-making and oversee its implementation.

In 2024, the Bank updated its Risk Management Policy to align with the expanded scope of operations and international standards. The Board of Directors approved this revised policy, which is currently being implemented. Furthermore, the Bank's Risk Appetite Statement for 2025 was also reviewed and approved by the Board of Directors. The core objective of the risk policy is to identify potential risks that may interfere with achieving strategic goals, determine acceptable levels of risk, ensure effective risk management, and establish effective risk governance and internal control systems.

- **First line of defence** is responsible for implementing risk management, which includes identifying, assessing, and managing potential risks within the scope of relevant operations, organising adequate internal controls, and reporting on risks.
- **Second line of defence** is responsible for defining the Bank's risk management framework, developing and enforcing policies, procedures, and methodologies, setting risk appetite levels, assessing the adequacy of capital and liquidity, preparing the recovery and resolution plans, ensuring alignment with relevant regulatory requirements, and reporting implementation status to the appropriate committees. It also monitors the effectiveness of risk management in the First line of defence and provides recommendations for effective risk mitigation.
- **Third line of defence** is the internal audit function, which provides independent evaluations of the Bank's overall risk management effectiveness and reports directly to the Audit Committee of the Board of Directors.

The Bank considers the potential risks arising from its operations and establishes acceptable risk limits for each. These risk limits are set within the Bank's risk-bearing capacity for risk tolerance and in accordance with the limitations set by applicable laws and regulatory authorities.

Risk Function Responsibilities

The Bank's risk management function is structured across several specialized units, each responsible for distinct areas of risk oversight and control:

- **Risk Analytics and Reporting:** Responsible for conducting comprehensive risk analyses across all risk types and monitoring adherence to the Bank's approved risk appetite. The unit leads the implementation of the risk management framework incl. risk governance documents and provides regular risk reports to

Executive Management, the Board and its Risk Management Committees to support informed, risk-based decision-making.

- **Risk Modelling:** Develops, validates, and maintains scoring models, and monitors their performance to ensure reliability and predictive strength. The unit also oversees the credit approval strategy and ensures alignment with the Bank's risk appetite and portfolio objectives.
- **Operational Risk:** Performs process reviews and risk assessments to challenge the controls and ensure effective management of operational risks across all business units.
- **Credit Risk:** Reviews credit policies and procedures, assesses borrower- and portfolio-level credit risks, and monitors exposures before and after loan disbursement—ensuring the quality and soundness of credit decisions.
- **Loan Recovery:** Manages and optimizes the recovery process for overdue and non-performing loans, implementing strategies to maximize recoveries and minimize credit losses.
- **Risk Appetite Statement (RAS) and Review:** The RAS establishes measurable thresholds for major risk categories in the risk universe, including credit, market, liquidity, operational, and information security risks. It serves as a key element of the Bank's risk management framework, guiding business decisions and ensuring that risks are managed within acceptable boundaries. The Board of Directors approves the RAS and reviews it at least annually, in parallel with the Bank's budget approval process. This review ensures that the risk appetite remains aligned with the Bank's strategic priorities, market conditions, and capital position. The Executive Management is responsible for implementing the RAS and ensuring that business activities operate within its approved limits. It monitors adherence to the risk appetite through regular risk reporting and escalation mechanisms, supported by key risk indicators and metrics defined in the RAS.

Risk Analysis and Reporting

Risk reports are regularly prepared and presented to the Risk Management Committee and the Board Risk Management Committee, where necessary actions are discussed and decided upon. To implement effective risk management and control framework, the risk report is crucial part to monitor the Bank's risk landscape. The risk report is prepared and presented to Risk Management Committee monthly and to Board Risk Management Committee on a quarterly basis. It provides a detailed analysis of all the risks including credit risks, concentration risk, market risk, interest rate risk, liquidity risk and operational risk.

In 2024, the Bank conducted regular analyses on the quality of issued loan portfolios, movement across portfolio quality, and scoring model outputs. Regular assessments monitor financial risks, including expected credit loss calculations, interest rate risk, currency risk, liquidity risk assessments, and stress testing scenarios. The Bank performed ICAAP and ILAAP assessments according to Basel standards and developed a stabilisation plan in accordance with the Central Bank of Mongolia's requirements, ensuring complete alignment with its approved risk management policy and risk appetite statement.

Credit Risk

The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The Bank's credit risk management strategy aligns credit activities with the Bank's business plan and credit risk appetite to manage credit risk exposures while achieving targeted profitability and returns. The Bank monitors credit risk by setting acceptable risk appetites for a single borrower and their related parties, a single

affiliated party of the Bank, and all connected parties, as well as for sectoral concentrations. Within the framework of credit risk management, the Bank conducts analytical assessments of loan portfolio data and, based on these analyses, regularly implements activities such as revising borrower requirements and criteria, improving credit risk assessment, decision-making quality and processes, continuously updating loan operations and collateral policies and procedures, and enhancing employee knowledge and skills.

The Bank's Credit Committee is responsible for evaluating and monitoring the overall quality of the loan portfolio, managing concentration risk, ensuring the adequacy of credit loss provisions, implementing the early warning system, assessing internal limits, and monitoring compliance with borrower conditions and requirements, making relevant decisions accordingly.

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, and (d) financial instruments (including derivatives), all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

Currency risk arises when a bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank is fulfilling the limits of single foreign currencies exposure to total capital and aggregate foreign currencies to exposure to total capital limit established by the Bank of Mongolia's regulation.

Liquidity Risk

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank establishes liquidity risk appetite based on liquidity metrics that ensure the minimum ability to meet obligations in the event of unexpected large cash withdrawals by customers.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates. Management believes that despite a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Capital adequacy

The Bank of Mongolia monitors compliance with the capital requirements of all Mongolian banks, including us. The Bank of Mongolia has established a minimum capital adequacy ratio for Mongolian banks, which currently exceeds guidelines recommended under Basel Capital Accord Standards.

On 5 March 2007, the Bank of Mongolia adopted, as amended from time to time, the Regulation on Calculating and Controlling Reserve Requirements, pursuant to which commercial banks must deposit at least 50.0% of their required Tugrik and foreign currency reserves with the Bank of Mongolia on a daily basis. Under the regulation, the Bank of Mongolia may pay interest on such deposits at a rate equal to 50.0% of the Bank of Mongolia's overnight deposit rate for Tugriks. In addition, commercial banks were allowed to offset up to 50.0% of their foreign currency reserve requirements with surpluses of Tugrik reserves. These requirements came in force on 30

December 2014. On 6 December 2019, the Bank of Mongolia adopted the revised Regulation on Setting, Calculating, and Controlling Reserve Requirements. On 11 March 2020, the Monetary Policy Committee of the Bank of Mongolia set the reserve requirements for Tugrik and foreign currency deposits at 8.5% and 15%, respectively. As of 9 February 2022, the reserve requirements for Tugrik and foreign currency deposits are at 8% and 18%, respectively.

The Bank of Mongolia amended its "Regulation on Setting and Monitoring Prudential Ratios of Bank Operations" in 2015. According to the amendment, effective 1 January 2015, a new asset class, "other foreign currency loans issued to unhedged borrowers," was added to risk-weighted assets, which carry a risk weight of 120.0%.

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Bank of Mongolia and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Bank of Mongolia is monitored daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chairman of the Board of Directors and Chief Accountant of the Bank. Under the current capital requirements set by the Bank of Mongolia, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level (Tier 1 ratio and Total capital ratio). The table below reflects the Bank of Mongolia requirements and our corresponding ratios for the periods ended 30 September 2025, 31 December 2024, 2023 and 2022.

<u>Prudential ratios</u>	<u>Bank of Mongolia requirement</u>	<u>M Bank</u>			
		<u>30 Sep 2025</u>	<u>31 Dec 2024</u>	<u>31 Dec 2023</u>	<u>31 Dec 2022</u>
Tier-1 capital to risk-weighted assets ratio	>9%	15.96%	17.49%	34.61%	69.78%
Capital to risk-weighted assets ratio	>12%	15.96%	17.49%	34.61%	69.78%
Liquidity ratio	>25%	32.46%	34.09%	59.54%	82.81%
Foreign currency exposure ratio (single currency)	<+/-15%	7.43%	11.88%	8.69%	12.89%
Foreign currency exposure ratio (total)	<+/-30%	8.46%	11.96%	11.53%	12.89%

We comply and have at all times complied with the prevailing mandatory capital adequacy ratios set by the Bank of Mongolia. In addition to the ratios required by the Bank of Mongolia to determine capital adequacy, the Internal Capital adequacy Assessment Methodology (ICAAP) is used as a model for the recommendations of the Basel Committee on Banking Supervision.

On 1 December 2025, the Bank of Mongolia issued the Letter of Support to the Bank in connection with the issuance of the Bonds the form of which is appended as the Annex to this Offering Circular. The Letter of Support confirms that the Bank is fully compliant with all prudential requirements set by the Bank of Mongolia as at the date of the Letter of Support. The Letter of Support does not constitute any guarantee by or create any legally binding obligations or responsibilities of the Bank of Mongolia in relation to the Bonds, nor does it confer any right to claim against the Bank of Mongolia. See "*The Letter of Support does not constitute a guarantee and does not contain any legally binding obligations of the Bank of Mongolia in relation to the Bonds*".

Operational Risk

In 2024, the Bank continuously developed its operational risk management framework, methodologies, and relevant regulations based on international best practices to establish appropriate and effective risk management and internal control systems. An external audit was conducted using COBIT's APO12-Managed Risk and EDM03-Ensured Risk Realisation processes; the Bank was evaluated as "Aligned with International Best Practices." The Board of Directors revised and defined the risk appetites and key performance indicators for measuring other potential operational risks, regularly monitoring them, and effectively implementing preventive measures. The Bank updated the Risk Control Self-assessment methodology, which covers all processes and units' activities, and evaluated internal controls accordingly.

Significant risk management measures have also been implemented to ensure business continuity, optimise access control mechanisms, and maintain appropriate internal and external risk awareness.

In 2024, the Bank implemented full coverage on Cyber liability, and Executive liability double insurance to protect customers' and investors' assets and prevent potential risks.

Compliance, Anti-money laundering and terrorist financing procedures

M Bank operates under a risk-based compliance management system, adhering to the Law on Combating Money Laundering and Terrorism Financing, the 40 Recommendations of the Financial Action Task Force ("FATF"), and regulations from international and domestic regulatory authorities. The Compliance Department is implementing global best practices to effectively manage money laundering and terrorism financing risks by ensuring robust KYC practices, conducting real-time transaction monitoring, screening all customers and transactions against international sanctions lists, adverse media, Politically Exposed Persons databases, and automated customer risk ratings calculation.

In 2024, the Bank focused on implementing key measures including but not limited to following to enhance and strengthen its anti-money laundering and terrorist financing programs and controls:

- **Fully automated the customer risk assessment process** – the Bank renewed the Customer risk assessment methodology and implemented the customer risk assessment calculation into the core banking solution.
- **Enhancement of sanction screening process and framework** – the Bank implemented new sub-module "Watchlist" in the Compliance module which includes international sanction lists (UN, EU, OFAC, HMT, DFAT, Dutch, Canada, Japan, France & MAS) and adverse media lists.
- **Continuous improvement on Politically Exposed Person screening module** - Improvement on the list information and screening process (fuzzy logic & algorithm).
- **Improvement on the real time transaction monitoring and transaction monitoring rules** – the transaction monitoring policy has been updated to include keyword, benchmark and sanction and transaction monitoring rules & parameter has been updated to fully comply with international and domestic regulatory requirements.
- **Implementation of Transaction Screening Service ("TSS") provided by SWIFT** – the Bank successfully implemented the SWIFT's TSS.
- **Enhancement of employee training and awareness framework** – ensuring all training modules are updated and training provided to all employees.
- **Performed an annual review of the compliance policy and procedures**

Information Security Risk

As Mongolia's first fully digital neobank, M Bank ensures customer and internal banking system data security at all levels. In the first quarter of 2024, M Bank successfully obtained and implemented the Payment Card Industry Data Security Standard (PCI-DSS). With the introduction of this standard, the Bank now protects not only card

data but also all customer information at the human, technology, and process levels, preventing unauthorised alteration, deletion, and exposure.

A centralised database of macroeconomic and banking sector data has been developed and put into use

In addition to initiatives aimed at improving the operational processes of the Bank's IT functions, M Bank has effectively finalised and launched the development of a data repository and dashboard designed to compare its performance against key macroeconomic indicators and banking sector data of Mongolia.

The implementation of a Graph database

As part of its transaction monitoring and anti-money laundering efforts, M Bank has implemented a graph database solution, which enables comprehensive and detailed analysis of suspicious transactions.

Initiation of data submission to the Central Bank of Mongolia's big data platform

M Bank has completed and successfully launched the development required to supply designated datasets to the Central Bank of Mongolia's big data platform – an initiative to improve the quality and processing of regulatory reporting.

IT infrastructure upgrades

Infrastructure modernisation efforts are planned and assembled to ensure reliable banking operations, including migration to container technology. The Bank is also working to upgrade primary and backup data centres by 2025.

Internal Audit function

In accordance with sound corporate governance principles, M Bank's Internal Audit function operates independently from Executive Management and reports its activities to the Board of Directors.

The primary objective of Internal Audit is to provide risk-based, independent assurance and advisory services that assess the effectiveness of the Bank's internal controls, risk management, and governance processes at all levels, thereby supporting operational improvement and value addition.

To achieve this objective, Internal Audit adheres to the International Professional Practices Framework (IPPF), the Code of Ethics, and best practices issued by the Institute of Internal Auditors (IIA). The Chief Auditor is responsible for developing Internal Audit policies and strategic plans and finalising the annual audit plan and budget, which are then approved by the Board of Directors.

LOAN COVENANTS AND WAIVERS

In 2024, the Bank entered into a total of USD 30 million loan agreement with the IFC. The loan from IFC contained a covenant such as single foreign currency exposure ratio should not be more than 10%. The Bank has breached the above financial ratio covenant as at 31 December 2024. Although the Bank is in constant communication with IFC on loan covenant compliance, waiver from IFC was not received at the reporting date. As the waiver from IFC was not received at the reporting date, the loan was classified and disclosed as on demand in the financial statements in accordance with IAS 1. However, the Bank subsequently obtained a waiver from IFC on 27 March 2025. The management expects the Bank will meet the required covenant for the next 12 months after the reporting period.

As of 30 June 2025, the Bank was in breach of the economic group exposure ratio set by the IFC. As soon as the Bank became aware of the breach, it notified IFC and has taken necessary remedial action. Following discussions with the IFC, the Bank applied for a waiver of the breach. The Bank subsequently obtained the waiver on 30 October 2025.

As of 30 September 2025, the Bank was in breach of two financial covenants relating to interest rate risk and aggregate interest rate risk. As soon as the Bank became aware of the breach, it notified IFC and has initiated necessary remedial action to remedy the breach within the applicable grace period, such that no event of default will be triggered. Following discussions with the IFC, the Bank has applied for a waiver of the breach. The Bank subsequently obtained the waiver on 2 December 2025.

COMPETITION

The Mongolian banking sector is competitive, with market participants competing primarily in retail deposits, SME lending, and digital services. The Bank competes with larger incumbents by leveraging its innovative product offerings, customer-focused service model, and the financial support of its shareholder group.

INFORMATION TECHNOLOGY

Technology investment is central to the Bank's strategy. In 2024, the Bank invested over MNT4.1 billion in servers, digital platforms, and IT systems to enhance operational efficiency and strengthen customer engagement. Information technology also supports risk management, cybersecurity, and compliance functions.

INSURANCE

The Bank participates in Mongolia's deposit insurance scheme, administered by the Deposit Insurance Corporation, with annual contributions of MNT1.5 billion in 2024. In addition, the Bank maintains customary operational and property insurance coverage.

CORPORATE GOVERNANCE

Board Composition

In 2024, M Bank's Board of Directors underwent significant changes. Member Soronzonbold Lkhagvasuren resigned, and Myagmarjav Ganbyamba was appointed in his place. Furthermore, the Board Risk Management Committee expanded its scope and has since operated as the Board Risk Management and Sustainability Committee.

Set out below is a list of the directors of the Bank as of 30 September 2025:

<u>Name</u>	<u>Position</u>
Ulemj Baskhuu	Chair of the Board of Directors
Odjargal Jambaljamts	Board Member
Chimgee Ochirvaani	Board Member
Myagmarjav Ganbyamba	Board Member, Chair of Governance and Nomination Committee
Tsengel Sandag	Board Member
Naranbaatar Urtnasan	Independent Board Member
Delgerjargal Bayanjargal	Independent Board Member, Chair of Audit Committee
Bat-Ochir Dugersuren	Independent Board Member, Chair of Risk Management and Sustainability Committee
Khaidar Zorig	Independent Board Member

The corporate secretary of the Bank is Tugsjargal Tumen.

Board Committees

The Board of Directors has three committees: Audit, Risk Management and Sustainability, and Governance and Nomination. Each operates according to the procedures approved by the Board.

<u>Board Committee</u>	<u>Chair</u>	<u>Members</u>
Audit Committee	Delgerjargal Bayanjargal (Independent Board Director)	Ulemj Baskhuu Chimgee Ochirvaani Bat-Ochir Dugersuren Naranbaatar Urtnasan

Risk Management and Sustainability Committee	Bat-Ochir Dugersuren (Independent Board Director)	Myagmarjav Ganbyamba Tsengel Sandag Delgerjargal Bayanjargal Khaidar Zorig
Governance and Nomination Committee	Myagmarjav Ganbyamba (Board Director)	Bat-Ochir Dugersuren Naranbaatar Urtnasan

RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As of 30 September 2025, the main related parties to the Bank are as follows:

<u>Name of party</u>	<u>Relationship</u>
Ultimate shareholders	Odjargal.J and Od.J
Ultimate parent company	MCS Mongolia LLC
Immediate parent company	MCS Holding LLC
Entities under common control	Subsidiaries of parent company
Key management personnel	Executive management and Board of Directors

See note 32 (*Related party disclosures*) of the 3Q2025 Reviewed Condensed Interim Financial Statements for further information on the outstanding balances of related parties.

EMPLOYEES

As at 30 September 2025, the Bank employed 474 employees (2024: 378; 2023: 275). The increase reflects the expansion of lending activities and digital operations. Personnel expenses amounted to MNT13.2 billion for the nine-month period ended 30 September 2025 (2024: MNT15.8 billion; 2023: MNT12.2 billion), reflecting competitive compensation, training, and employee development programs.

LEGAL PROCEEDINGS

From time to time and in the normal course of business, claims against the Bank may be received. The Bank has an established protocol for dealing with such legal claims. The Bank does not have any significant legal claims as of 30 September 2025.

DESCRIPTION OF DEED OF COVENANT

The following contains a summary of certain key provisions of the Deed of Covenant. Such statements do not purport to be complete and are qualified in their entirety by reference to the Deed of Covenant. Defined terms used in this section shall have the meanings given to them in the Deed of Covenant.

MCS Holding will enter into a Deed of Covenant with the Issuer and The Bank of New York Mellon, London Branch, as the Trustee under the Trust Deed.

Opinion on the Issuer

Pursuant to the Deed of Covenant, MCS Holding confirms (i) the financial viability of the Issuer; and (ii) that the Issuer is, as at the date of the Deed of Covenant, fully compliant with all prudential requirements set by the Bank of Mongolia.

Maintenance of certain ratios

For so long as the Bonds are outstanding, MCS Holding undertakes not to permit:

- (a) the Tier-1 Capital Ratio of the Issuer to fall below 13.0% at any time; and
- (b) the Liquidity Ratio of the Issuer to fall below 30.0% at any time.

"Capital Regulation" means Article 17 of the Banking Law of Mongolia and *"Regulation on setting and monitoring prudential ratios to banking operation"* approved by Governor's Decree A-138 of 2019, as may be amended, supplemented, restated or superseded from time to time.

"Liquidity Ratio" means such term as defined in and calculated in accordance with the Capital Regulation.

"Tier-1 Capital Ratio" means the Tier-1 capital with specified adjustments divided by the risk-weighted assets as defined in and calculated in accordance with the Capital Regulation.

Term

The Deed of Covenant shall remain in full force and effect for so long as any Bonds are outstanding.

Modification, Amendment or Termination

The Deed of Covenant may be modified, amended or terminated by the written agreement of the parties hereto and subject to the provisions of the Trust Deed; provided, however, such modification, amendment or termination shall not have any adverse effect upon the ability of the Issuer to meet its obligations under the Bonds and the Trust Deed. The Issuer undertakes to as soon as practicable notify the holders of the Bonds of any modification, amendment or termination of the Deed of Covenant. None of the Issuer or MCS Holding may assign its rights or transfer its obligations under the Deed of Covenant, in whole or in part, without the prior written consent of the Trustee.

Delivery of the Deed of Covenant

The Issuer shall, and MCS Holding shall procure the Issuer to, deposit an executed copy of the Deed of Covenant with the Trustee, to be held by the Trustee until the earlier of (i) the Deed of Covenant ceasing to be in full force and effect and (ii) the termination of the Deed of Covenant. Each of the Issuer and MCS Holding acknowledges the right of the Trustee and each holder from time to time of the Bonds to the production of, and to obtain a copy of, the Deed of Covenant.

Not a Guarantee

The Deed of Covenant is not, and nothing therein contained and nothing done pursuant thereto by MCS Holding shall be deemed to constitute, or shall be construed as, or shall be deemed evidence of, a guarantee by MCS Holding of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer under the laws of any jurisdiction, including Mongolia.

Governing Law

The Deed of Covenant and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of the purchase, ownership and disposition of the Bonds under the laws of their country of citizenship, residence or domicile.

Interest Payments

The revised "Corporate Income Tax Law" and the revised "Personal Income Tax Law of Mongolia," both dated 22 March 2019, became effective on 1 January 2020. Interest payable to holders of the Bonds will be subject to Mongolian income tax in accordance with Mongolian law. Both the Corporate Income Tax Law and the Personal Income Tax Law provide for an income tax rate of 5 percent in respect of interest paid on bonds issued by commercial banks to be publicly traded in local or foreign markets, applicable to both Mongolian resident and non-resident taxpayers.

The Mongolian income tax payable on the interest paid in respect of the Bonds is to be withheld by the Issuer from the interest payment at the rate indicated above or, if the beneficiary of the interest payment is resident in a country with which Mongolia has entered into a double taxation treaty, at a potentially lower rate of tax if so provided in the applicable treaty. Certain of Mongolia's bilateral tax conventions provide two rates of income tax which Mongolia may assess on interest paid by the Issuer to a tax resident of the relevant country, provided such recipient of the interest is also the beneficiary of the interest. One rate is applicable to some, but not necessarily all, interest payments made to banks or similar financial institutions, while the second rate is applicable to all other recipients of interest (other than banks or similar financial institutions). In each convention, the rate applicable to payments made to banks or other similar financial institutions is lower than the rate applicable to payments of interest made to non-banks. However, in respect of banks and similar financial institutions, the relevant convention must be examined to determine the availability of such special rate and its applicability to payments of interest under the Bonds, as certain of the conventions do not contain a special rate for payments made to banks or similar financial institutions. In other cases, where a special rate is provided for, the convention restricts the applicability of the rate to certain specified types of interest payments. Interested parties should consult their own tax advisors to determine the potential applicability of any relevant tax convention.

To the extent that the Bonds are subject to Mongolian income tax, then subject to the limitations set forth under Condition 8 (*Taxation*), holders of the Bonds will generally be entitled to receive Additional Tax Amounts with respect to such tax. See Condition 8 (*Taxation*).

In respect of the Bonds issued with original discount, under Mongolian law the definition of interest may be interpreted to include original issue discount, which is the excess of the redemption price at maturity of the Bonds over its issue price. Mongolian law does not, however, provide any guidance as to how original issue discount is to be recognised and the relevant tax is to be paid.

Capital Gains

Pursuant to the Corporate Income Tax Law and the Personal Income Tax Law, payments obtained in connection with the sale of the Bonds by Mongolian tax residents will be subject to Mongolian income tax in respect of any capital gains realised on the sale of the Bonds.

The Corporate Income Tax Law and the Personal Income Tax Law provide that Mongolian "source income" is generally subject to income tax in Mongolia when received by non-residents. Mongolian law remains vague as to what is to be considered Mongolian source income. The Corporate Income Tax Law or the Personal Income Tax Law do not specifically impose Mongolian income tax on non-resident taxpayers in respect of capital gains realised outside Mongolia on the sale of securities issued by a Mongolian resident but held outside of Mongolia. In the absence of such a specific statutory provision, it appears that any capital gains realised outside Mongolia by non-resident taxpayers with respect to the Bonds will not be taxable in Mongolia. This position may change in the future depending on Mongolia's tax policies and changes in the relevant laws. Further, as discussed above, relief from Mongolian tax obligations in this regard may be available to non-resident taxpayers covered by one of Mongolia's bilateral tax conventions. Interested parties should consult their own tax advisors to determine potential applicability.

Other

No stamp duties or similar taxes or charges are payable under the laws of Mongolia in respect of the execution, issue, sale or transfer of the Bonds.

MONGOLIAN REGULATIONS

This section summarises the principal Mongolian laws and regulations which are relevant to the Issuer's business and operations. As this is a summary, it does not contain a detailed analysis of the Mongolian laws and regulations which are relevant to the Issuer's business and operations.

THE MONGOLIAN LEGAL SYSTEM

The Mongolian legal system established on the basis of the constitution adopted in 1992 (the "**Constitution**") is a civil law system primarily based on the Romano-Germanic tradition, although it retains some typical aspects of the Soviet legal system. The Civil Code itself is modeled on major continental European codifications, in particular the German Civil Code. Several multilateral and development agencies and academics from various countries were involved in the drafting of the Civil Code.

The main sources of law in Mongolia are: (i) the Constitution; (ii) international treaties to which Mongolia is a party; (iii) laws known as statutes in common law jurisdictions; and (iv) other types of legislative acts.

The Constitution is the supreme source of law in Mongolia. All laws, decrees and other decisions of State bodies, as well as the activities of other organizations and citizens, must fully conform to the Constitution. Under the Constitution, the international treaties to which Mongolia is a party become effective as domestic legislation upon Mongolia's ratification or accession. Mongolia must fulfill in good faith its obligations under international treaties to which it is a party, but it shall not abide by any international treaty or other instruments incompatible with the Constitution. According to the Ministry of Foreign Affairs, Mongolia is currently a party to over 300 international treaties and conventions.

The Constitution has been subject to several amendments in recent years. The amendments introduced on 14 November 2019, (i) provided for the dissolution of parliament in case of failure to elect the prime minister, (ii) raised the threshold for establishing political parties, (iii) increased age for presidential candidacy and extended the presidential term of office, and (iv) established the Judicial Disciplinary Committee.

Amendment to the Constitution on 25 August 2022 removed the restriction allowing only up to four cabinet members (as well as the prime minister) to also be members of parliament.

A notable amendment on 31 May 2023, it increased the number of parliamentary seats from 76 to 126 and introduced a mixed electoral system. 78 members are elected by majority representation, and 48 members are elected by proportional representation. The amendments came into effect on 1 January 2024 and were adopted in the 2024 parliamentary election.

In connection with the amendments to the Constitution, major laws such as the Law on the State Great Khural/Parliament, the Law on the Rules of Procedure of the State Great Khural, the Law on Presidential Elections, the Law on Parliamentary Elections, the Law on Administrative Territorial Units and the Law on Courts were also amended.

BANKING RELATED LAWS

Law of Mongolia on Central Bank (Bank of Mongolia) (1996)

The Law of Mongolia on Central Bank (Bank of Mongolia) (the "**Central Bank Law**") was enacted on 3 September 1996 (and came into effect on 1 October 1996) and it establishes the legal framework for the operations of the Mongolian Central Bank, which is also referred to as the Bank of Mongolia. The Bank of Mongolia was established in 1924, and its main objective is to ensure the stability of the national currency and balanced development of the national economy. The Bank of Mongolia's primary activities are: (i) issuing and regulating the circulation of banknotes; (ii) formulating and implementing monetary policy; (iii) acting as the financial intermediary for the Government; (iv) supervising and regulating the activities of banks and other entities specified by the law; (v)

managing, regulating and monitoring the national payment system and its operations; (vi) holding and managing the state reserves of foreign currency; (vii) protecting the right and legitimate interests of bank customers and depositors; and (viii) implementing macroprudential policies.

The Central Bank Law was amended from time to time, and the latest amendment was on April 19, 2024. The amendment to the Central Bank Law adopted on 29 January 2021 seeks to secure the Bank of Mongolia's independence from the Government and bring the decision-making process of the Bank of Mongolia in line with the international best practices.

The Bank of Mongolia may employ the following methods in implementing the state monetary policy:

- setting mandatory reserve requirements and prudential ratio indicators for banks;
- providing loans to banks and utilizing financial instruments;
- implementing the unified interest rate policy;
- carrying out open market operations; and
- imposing limits on the outstanding balance of loans issued by banks.

The Bank of Mongolia carries out the open market operations by means of the issuance, purchase and sale of Central Bank bills, and sale and purchase of government securities, asset-backed securities and such other securities approved by the Bank of Mongolia on the monetary market. Further, the Bank of Mongolia may provide loans to the Government or purchase short-term government-issued securities with a condition that such are payable by the end of the relevant fiscal year to cover seasonal discrepancies between budget revenues and expenditures. The Central Bank Law prohibits the Government from providing directions to the Bank of Mongolia or entering into agreements on matters that are not specified in laws.

The board of directors of the Bank of Mongolia consists of the Governor, the First Deputy Governor, the Deputy Governor and a number of departmental directors. The Monetary Policy Committee consist of seven members including the Governor, the First Deputy Governor, the Deputy Governor and four non-executive members nominated by the Standing Committee on Economics of the Parliament of Mongolia and appointed by the Parliament for a term of six years. The Governor may also attend parliamentary sessions, standing committee meetings and meetings of cabinet ministers and be consulted on issues related to the Mongolian banking sector.

The Bank of Mongolia uses Central Bank bills, repurchase/reverse repurchase transactions and overnight facilities to achieve policy targets. The Governor decides the amount of liquidity absorbed from or injected into the interbank market on a weekly basis.

The Bank of Mongolia also issues regulations on prudential ratios, minimum share capital requirements and other matters applicable to commercial banks.

Banking Law of Mongolia (2010)

Commercial banks and their activities are governed by the Banking Law of Mongolia (the "**Banking Law**") enacted on 28 January 2010. Within the context of implementing state policies for the protection and stability of the banking sector, the Parliament of Mongolia enacted a new Banking Law of Mongolia on 28 January 2010, as a revision and restatement of the previous banking law of 1996. The revisions to this law were aimed at tightening banking sector requirements through increased transparency, adequate monitoring and other preventative measures.

On 29 January 2021, the Parliament of Mongolia enacted the Law of Mongolia on Amendments to the Banking Law of Mongolia along with its implementation guidelines (including the Law of Mongolia on Implementation Procedure for the Amendments to the Banking Law of Mongolia dated 29 January 2021) with effect from 25 February 2021 (together the "**2021 Banking Law Amendment**"). Pursuant to the 2021 Amendment Law, commercial banks are

defined as being state, privately or jointly owned, depending on the ownership of their paid-in capital; systemically important banks as open joint-stock companies and other banks as closed joint stock companies; and as general or specialized banks, depending on the type of banking services that are provided.

The other key features of the 2021 Banking Law Amendment include: (i) introduction of the definition of a "systemically important bank" whereby the Bank of Mongolia is authorized to determine it considering the bank's assets, debt ratio, total transaction flow holding in the payment system, banking activities and the state of relevancy in the financial system as a whole; (ii) new limitation on the shareholders of banks, including the amount of shares and securities owned by any person alone or in conjunction with its affiliated person in the bank (except for special purpose banks and the state-owned shares in the re-capitalized banks) must not exceed 20% of the total issued shares of the bank (under Articles 36.1 and 36.2 of the Banking Law), which banks must comply with it by 31 December 2023 (which was later changed to 31 December 2026 by the amendment to the law adopted on 5 June 2024); (iii) restriction on banks' shareholders from creating security interest over their shares and securities holding in the bank; and (iv) new requirements for the corporate form of banks that are named as a systemically important bank by the Bank of Mongolia are to trade its common shares by way of organizing initial public offering on the securities market and to operate in the form of an open joint stock company and other banks are required to operate in the form of a closed joint stock company.

In accordance with the provisions of the 2021 Banking Law Amendment, commercial banks will each have to adopt a reorganization plan to become a joint stock company and comply with the 20% ceiling limit per shareholder. The plan must be submitted to the Bank of Mongolia and the Financial Regulatory Commission of Mongolia (FRC) within 1 July 2021 for review and approval. Moreover, the Bank of Mongolia now has a wider range of regulatory powers over commercial banks, especially in respect of measures for preventing bank failures and providing solutions to troubled banks.

The amendments also changed the priorities in payments of claims upon an insolvency event of banks. For instance, (i) the compensations for bank's employees now rank higher than those of Bank of Mongolia receiver and his/her operational expenses; (ii) the uninsured savings and current bank account funds of individuals and legal entities now rank higher than those insured by the insurer; and (iii) Government's claims now rank higher than those owed to the Bank of Mongolia and other creditors. Accordingly, the Bank of Mongolia and the FRC jointly adopted the Provisional Regulation on Procedures for the Re-Organization and Changes in the Share Capital and Shareholding Structure of Banks in accordance with the amendment.

The Banking Law permits these institutions, upon authorization by the Bank of Mongolia, to conduct the following activities:

- accept deposits;
- provide loans;
- provide payment and settlement services;
- provide payment guarantees and sureties to third parties in its own name;
- purchase, sell, store and deposit foreign currencies;
- purchase, sell, store and deposit precious metals and gem stones;
- receive valuables into custody;
- conduct foreign settlement/payment services;
- issue, buy and sell securities;

- purchase and sell loans and other financial instruments;
- financial leasing activity; and
- buy and sell loans and other financial instruments.

Further, subject to the permission of the FRC and the Bank of Mongolia's confirmation that it does not object, the Banking Law allows commercial banks and their controlled entities and subsidiaries to engage in the following additional activities:

- investment, financial consulting and information services;
- trustee services;
- insurance brokerage;
- underwriting;
- custodial services; and
- factoring.

Below is a summary of the main provisions of the Banking Law, as amended:

- ***Mandatory corporate form of banks***

As noted above, pursuant to the 2021 Amendment Law, any and all commercial banks are required to operate as joint stock companies with effect from 30 June 2023. Particularly, those banks that are designated as a systemically important bank by the Bank of Mongolia are to trade its common shares by way of organizing initial public offering in the securities market and to operate in the form of an open joint stock company.

- ***The transfer of a bank's shares***

Banks are required to notify in advance the Bank of Mongolia in writing if changes occur in the size or structure of their share capital. Further, in the event that a party attempts to become an "influential shareholder" (defined as "a person, alone or in conjunction with a related party, owns 5% or more of a bank's shares; the ultimate owner individual of such person; or a shareholder whose ownership enables influence over the bank's policies, decisions or management, and the ultimate owner individual of such shareholder") in a bank, or an existing "influential shareholder" changes the size or structure of his ownership interest in the bank, then the bank must inform the Bank of Mongolia in writing in advance and obtain permission prior to making any such change.

An "influential shareholder" in one bank, along with parties that are related to such shareholder, are prohibited from becoming "influential shareholder" in another bank. If such a situation arises, or if a party alone or with others becomes an "influential shareholder" without the permission of the Bank of Mongolia, and this situation is discovered following an inspection, then the Bank of Mongolia will suspend all dividend issues and the voting rights related to the shares in question. In order to satisfy the law, the Bank of Mongolia will require the sale of said shares within 30 days following the last date of possession of the shares.

- ***Influential shareholder***

Article 36.19 of the Banking Law outlines that an influential shareholder of a bank must meet the following criteria:

1. the person in question shall not be a respondent or a competent official of a respondent legal entity of a bankruptcy case;
2. if an influential shareholder is a legal entity, the banking conglomerate should have a structure that allows examination by the Bank of Mongolia;

3. shall prove ultimate beneficial owner of the shares;
4. neither the influential shareholder nor the ultimate beneficial owner shall hold high public office;
5. having no history of committing crimes against the economy, property rights, public safety, interests, corruption, national and mankind security, or peace; and
6. having a financial capacity.

Further, under the Banking Law, the "banking conglomerate" refers to separate entities which are related parties to each other and one of which is a bank.

- ***Subsidiaries and controlled entities***

On 18 January 2018, the Parliament of Mongolia enacted the Law on Implementation of the Amendments to the Banking Law of Mongolia (the "**2018 Amendments Implementation Law**") which became effective on 1 April 2018. The 2018 Amendments Implementation Law provides that any capital contributions or shareholding rights of banks in their subsidiaries or affiliated companies must be terminated effectively as of 1 January 2019, and that banks will be permitted to purchase only up to 10.0% of the shares of a single legal entity.

- ***Capital requirements***

The Banking Law provides that the minimum amount of paid-in capital for a bank is determined by the Bank of Mongolia, after taking into consideration factors such as the state of the national economy, the local inflation rate, the solvency of banks, and the specific types of operations to be undertaken by a bank. Pursuant to Decree No. 200 dated 8 April 2004 of the Governor of the Bank of Mongolia has set the minimum required amount of paid-in capital for banks to MNT8.0 billion. On 8 July 2011, the Governor of the Bank of Mongolia issued Order No. 404 pursuant to which the minimum required paid-in capital for commercial banks was increased to MNT16 billion effective from 1 May 2013. On 1 April 2015, the Governor of the Bank of Mongolia issued Order No. A-58 increasing the minimum required paid-in capital for commercial banks to MNT50.0 billion. Commercial banks were required to increase their capital accordingly by 31 December 2017. On 30 October 2017, the Bank of Mongolia further increased the minimum required paid-in capital for commercial banks to MNT100.0 billion. Commercial banks are required to increase their capital accordingly by 31 December 2021.

A bank may only distribute dividends if, after said distribution, it will continue to meet the mandatory prudential ratios set by the Bank of Mongolia. A bank must determine the amounts of any decrease or increase in its capital in accordance with profits earned or losses accrued from banking activities and fluctuations in the amount of its provisions.

The Bank of Mongolia, together with the Ministry of Finance of Mongolia, issues procedures for the establishment and allocation of funds from provisions created to cover losses that may accrue from defaults on loan repayments.

According to Article 53 of the Banking Law, the Bank of Mongolia has the authority to decide on resolution measures for systemically important banks, following legal grounds and procedures. When implementing these measures, the Bank of Mongolia must prioritize financial stability, act quickly and effectively, minimize public costs, and protect depositors and customers. Resolution and preventive measures must be analysed and supervised separately from the Bank of Mongolia's normal supervisory duties. The Bank of Mongolia may resolve a bank by transferring assets and liabilities, creating a special purpose bank, changing the bank's equity structure and amount, or converting debt into shares in accordance with Article 55 of the Banking Law.

These measures do not require approval from shareholders or creditors. Priority should be given to adjusting the equity structure during resolution. The Bank of Mongolia must also establish procedures for how resolution measures are taken and implemented. The Bank of Mongolia appoints an external administrator to carry out bank resolution measures. The Government may provide funding to support bank resolution measures to maintain financial stability

under Article 61 of the Banking Law. This funding can take various forms such as refinancing the bank, capitalizing special purpose banks, buying bank debt instruments, issuing loans or guarantees, or investing in a stabilization fund. Loans granted under this article must meet specific conditions, including special interest terms, a maximum 90-day term (renewable once), adequate collateral, and a government guarantee.

- ***Single borrower and related party limits***

The total value of loans, loan equivalent assets and guarantees provided to a single borrower, or related and/or affiliated parties of the said borrower by a bank must not exceed 20% of the capital of the bank.

- ***Guarantee limits***

The total value of guarantees and sureties to be provided by a bank may not exceed the total amount of the bank's capital.

- ***Conflicts of interests***

If loans, loan equivalent assets, sureties and guarantees to a related party of a bank are past due by more than six months, or if the total value of loans, loan equivalent assets, sureties and guarantees provided to a related party exceed 5% of the capital of the bank, such related party shall be prohibited from participating in the bank's management in any way.

- ***Exposure limits***

The total amount of securities that may be purchased by a bank must not exceed 20% of the capital of a bank, or, in respect of any specific issuer, 10% of the total amount of the shares issued by it. This does not apply to securities issued by the Government, the Bank of Mongolia, capital city, or shares issued by a credit information bureau. In respect of the asset-backed securities, the total amount to be purchased by the bank shall not exceed 50% of its capital.

- ***Disclosure requirements***

In addition to publishing the requisite financial statements, a bank is required to publicly disclose information on (i) the identities of influential shareholders, executive officers, their deputies, the chief accounting officer, senior executives of the branches, and the names of the supervisory committee's members; (ii) information on loans, credit facilities, obligations, services and transactions provided to related parties; (iii) the form, timeline and implementation approach for re-organization, legal status and location of the proposed new entity, nature of operation that will be carried out by the bank, principal documents with respect to financial activities; and (iv) other information considered necessary by the Bank of Mongolia to assess bank's exposure to risks.

With the adoption of the Accounting Law (as defined below), the Banking Law was also amended. The amendment now requires banks to prepare their financial statements in accordance with the new accounting standards provided in the Accounting Law.

In addition, the banks may release and disclose any information which may be deemed confidential by the banks, their customers, and/or third parties, to the law enforcement authorities specified in the Banking Law.

Law of Mongolia on Ensuring Banking Sector Stability (2018)

The Parliament of Mongolia enacted the Law of Mongolia on Ensuring Banking Sector Stability (the "**Banking Sector Stability Law**") on 22 June 2018. This law aims to address capital adequacy issues concerning Mongolian commercial banks following the AQR conducted under the IMF program and conditions under which government bailout of commercial banks may take place. The law applies to those systemically important bank as determined by the Bank of Mongolia and do not meet applicable capital adequacy requirements. The law provides for main requirements and eligibility criteria for systemically important banks to obtain government-funded bailout. The Bank

of Mongolia plays a central role in implementing this law and reviewing the eligibility criteria following the receipt of application for government bailout by commercial banks.

The Banking Sector Stability Law mainly focuses on recapitalization of eligible commercial banks by way of injecting public funds into the Tier 1 and Tier 2 capital of the banks in the form of cash or government bonds. The public-funded recapitalization mechanism offered under the Banking Sector Stability Law is available to the banks that are (i) considered having systemic impact under the Banking Sector Stability Law; (ii) viable in the medium 5-year term; and (iii) unable to recapitalize itself through raising capital from private sources. According to the Banking Sector Stability Law, the public funds invested in a bank capital must be repaid to the state budget in accordance with a plan that is to be approved by the Minister of Finance on consultation with the Governor of the Bank of Mongolia within five years from the enactment of the law.

Law of Mongolia on Deposits, Transfer of Funds and Lending Activities of the Banks and Authorized Legal Persons (2021)

This law was enacted on 1 May 2021, and it regulates relations with respect to deposits, loans or transfer of funds provided by banks and other authorized legal entities. Under this law, the Bank of Mongolia and the FRC are to jointly adopt the methodology for calculating interest rates for loans.

Law of Mongolia on Deposit Insurance (2013)

This law was enacted on 10 January 2013, as amended from time to time including the latest amendment on 12 January 2024 (the "**Deposit Insurance Law**"). The Deposit Insurance Law establishes a mandatory scheme to protect bank deposits.

According to the Deposit Insurance Law, Mongolian banks that are licensed to accept deposits and or provide payment settlement services are required to be covered by a proposed deposit insurance scheme and pay applicable deposit insurance fees. In the event of an insurance event, the Deposit Insurance Corporation shall compensate the depositor for their total deposits in MNT and foreign currency at the respective bank, up to a maximum of MNT20 million.

The Deposit Insurance Corporation was established in June 2013 with an aim to operate the deposit insurance scheme and carry out the overall management of the deposit insurance fund under the Deposit Insurance Law. A deposit insurance fund was established from sources including, *among others*, initial contributions from the state budget and the Bank of Mongolia, deposit insurance fees, income from sale of assets of banks under insurance event, and bonds issued by the Deposit Insurance Corporation. The assets of the deposit insurance fund can only be used for compensation to depositors, financial assistance to banks receiving assets and liabilities from resolved banks, covering operating expenses of the Deposit Insurance Corporation and payments of the Deposit Insurance Corporation's principal and interest on loans borrowed or bonds issued. The National Committee for Deposit Insurance is the highest authority governing the deposit insurance corporation and the deposit insurance fund.

The Deposit Insurance Corporation is established by law as a state-owned legal entity with a specialized mandate to carry out deposit insurance activities, operating on a non-profit basis. The National Committee for Deposit Insurance consists of seven (7) members whose positions are as follows:

1. Deputy Governor of the Bank of Mongolia, serving as a member and the Chairman;
2. State Secretary of the Ministry of Finance of Mongolia;
3. Vice-chairman of the FRC;
4. Head of Supervision Department of the Bank of Mongolia;
5. President of the Mongolian Bankers Association;

6. Head of the Financial Policy Department of the Ministry of Finance; and
7. Chief Executive Officer of the Deposit Insurance Corporation.

According to the Deposit Insurance Law, the Governor of the Bank of Mongolia and the Minister of Finance shall jointly approve a quarterly deposit insurance fee to be contributed by Mongolian banks.

Law of Mongolia on National Payment System (2017)

This law was enacted on 31 May 2017 and came into effect from 1 January 2018. This law regulates matters related to management, organization, regulation and supervision of the national payment system of Mongolia by the Bank of Mongolia. The law also sets out permission requirements for certain payment-related services.

Specifically, the Bank of Mongolia issues permissions for authorizing the following activities, among others: providing payment services, providing services related to payment services, issuing payment instruments, acting as payment agent, issuing electronic money and conducting money transfer services.

Law of Mongolia on Executing Payment Transactions by National Currency (2009)

This law was enacted on 9 July 2009 to control fluctuations as a response to depreciation of the Togrog. According to the law, payments and settlements within the territory of Mongolia must be expressed and conducted in national currency of Togrogs – i.e., prohibits the use of foreign currencies for domestic transactions. This law also prohibits indexing Mongolian Togrog contracts to any foreign exchange index. However, the law allows deposits in banks, loans from banks and non-banking financial entities, other equivalent services, and derivative financial agreements and their obligations to be expressed and executed in foreign currencies.

Law of Mongolia on Combating Money Laundering and Terrorism Financing (2013)

The Law of Mongolia on Combating Money Laundering and Terrorism Financing (the "AML Law") was enacted on 31 May 2013, replacing similar legislation adopted in 2006. The purpose of the AML Law is to combat and prevent money laundering and terrorist financing by requiring Mongolian banks and certain other entities, including investment funds, real estate agencies and public notaries, to report "suspicious transactions" to the Financial Information Unit (an affiliate organization of the Bank of Mongolia with the specific responsibility of combating money laundering and terrorist financing activities). Although not defined explicitly, a transaction that is suspected or is known to have any connection to money laundering, terrorist financing or income gained through a crime is considered a "suspicious transaction" and permits the Financial Information Unit to suspend and investigate such transactions. The AML Law clarified definitions of politically exposed persons, ultimate beneficial owners and specially controlled transactions.

The AML Law imposes obligations on such financial institutions to have their customers verified with "know your customer" procedures. The AML Law introduced new concepts including "politically exposed persons (PEPs)," "ultimate (beneficial) owner," and "shell banks." It also broadens the scope of the anti-money laundering activities by subjecting more institutions, such as public notaries, investment funds and real estate agencies, to the reporting obligations ("Reporting Entities"). By the amendments to the AML Law in 2020, 2021 and 2022, the Association of Mongolian Advocates, the Chamber of Notaries of Mongolia, financial advisory services, virtual asset service providers and legal entities engaged in money lending activities were added to the "Reporting Entities."

The AML Law created the Financial Information Unit, a financial intelligence unit, at the Bank of Mongolia, which is mandated to collect and analyze information received from Reporting Entities and monitor implementation of the AML Law. Under the AML Law, Reporting Entities have an obligation to (i) verify customer information in certain circumstances, including prior to entering into monetary transactions, (ii) regularly report those transactions that exceed MNT20,000,000.0 (approximately US\$5,597), (iii) strictly and closely monitor those transactions that require increased scrutiny, such as transactions made by or on behalf of PEP, and (iv) develop and implement internal monitoring programs to ensure compliance with the AML Law.

Further, Mongolian banks are prohibited from opening accounts at so-called "shell banks" defined as banks whose executive management and operations are not physically present in the jurisdiction where it was licensed or registered, or banks that do not belong to financial institutions that are subject to specially regulated or central inspection, and are obliged to verify foreign banks prior to opening bank accounts.

On 26 April 2018 and 17 January 2020, Mongolian Parliament approved comprehensive amendments to the AML Law for the purpose of improving the regulatory framework for combating money laundering and terrorism financing, respectively. Prior to the amendments, only banks, financial institutions, insurance companies, investment funds, licensed securities market entities, and savings and credit cooperatives were designated as "Reporting Entities" to report on transactions above MNT20.0 million to the Financial Information Unit within five (5) days after occurrence of such transaction. The amendments broadened the scope of Reporting Entities, to legal and business consulting service providers, investment funds, real estate agents, dealers in precious metals and stones, which now must undertake a "know your customer" procedure and report the following transactions exceeding MNT20.0 million to the Financial Information Unit:

- sales and purchase of immovable properties;
- management of client assets;
- establishment of legal entities, management of operation, transactions of the client or sale of legal entities;
- organization of a fund-raising or establishment of a company and its operations; and
- management of bank accounts, deposit or securities of the client.

The key features of these amendments include: (i) expanding the scope of combating and preventing terrorism financing to include combating and preventing weapon of mass destruction proliferation, (ii) clarifying definitions used in the law, (iii) expanding the scope of Reporting Entities by including investment management companies, law firms and accounting and financial advisory firms if such entities conduct certain transactions on behalf of clients, (iv) providing clear guidelines on determining beneficial owners, the know your customer procedure and internal monitoring procedure employed by Reporting Entities, (v) imposing additional obligations in respect of high-risk customers, and (vi) implementing sanctions lists issued by the United Nations Security Council and other relevant authorities.

The amendments also establish the National Council with a mandate to formulate national programs on combating money laundering and terrorism financing and submit such programs to the Government for approval and take measures to implement the approved programs. Further, the Governor of the Bank of Mongolia is tasked to approve regulations concerning specific matters related to combating money laundering and terrorism financing, which include procedure for determining beneficial owners, know your customer procedures and internal monitoring programs. The amendments aim to strengthen the existing regulatory and institutional framework for combating money laundering and terrorism financing and bring the AML Law in line with international best practices.

In compliance with the 40 Recommendations of the Financial Action Task Force, which is responsible for anti-money laundering measures and combating terrorism financing, Mongolia amended its Criminal Code to hold legal entities accountable thereunder. Accordingly, both individuals and legal entities may be subject to criminal prosecution under the Criminal Code, which was enacted on 13 December 2015 and took effect from 1 July 2017.

Furthermore, the Criminal Code defines money laundering as a criminal act of receipt, possession or use of assets, funds and cash sourced from criminal activities with the knowledge of its source or intention to change, transfer or hide the connection, source, location, or disposition method of assets, funds and cash sourced from criminal activities.

Law on Accounting (2015)

On 19 June 2015, Mongolian Parliament enacted a restated version of the Law on Accounting (the "**Accounting Law**") which came into effect from 1 January 2016, replacing the previous Accounting Law of Mongolia (2001). The Accounting Law requires all business entities to adopt and adhere to international accounting standards and electronically submit semi-annual and annual financial statements and reports to the relevant financial department. A legal entity with one or more subsidiaries must submit a consolidated financial statement with its subsidiaries. Any legal entities and organizations must follow (i) IFRS, (ii) IFRS for SMEs, or (iii) International Public Sectors Account Standards. Under this law, all types and forms of legal entities and organizations must prepare their accounting records and financial statements in Mongolian language and use Togrogs, unless it has agreed with the Ministry of Finance to record transactions in a foreign currency.

Mongolia has three accounting associations: the Accounting Council, the National Association of Certified Public Accountants and the Union of Finance Specialists Association.

Under the Accounting Law, the National Association of Certified Public Accountants is responsible for enacting accounting code of conduct, translating international accounting standards and amendments, formulating national accounting standards and its interpretation, providing guidance to auditors, developing reporting methodology for legal entities, organizing training and revoking license of auditors and accountants for any breach of the code of conduct.

Law on Audit (2015)

On 19 June 2015, the restated version of the Law on Audit (the **Audit Law**) was enacted, replacing the previous Audit Law of Mongolia (1997). The law came into effect from 1 January 2016. The purpose of the law is to establish the principles of audit activities, clarify the scope of services that an auditor may offer to clients and amend the types of business entities that are required to have their financial reports audited. The law further regulates matters in relation to granting licenses to conduct auditing activities. The law aims to strengthen the independence and impartiality of auditors by prohibiting them from engaging with clients under certain circumstances. In addition, the Audit Law stipulates certain person (including, among others, shareholders of a closed joint stock or limited liability company)'s right to demand reports from auditors in relation to financial reports, financial status and operational efficiency of the audited entity concerned.

Law of Mongolia on Mortgages (2009)

The Law of Mongolia on Mortgages, enacted by the Parliament of Mongolia on 9 July 2009, regulates pledges of immovable property and property rights to secure performance of obligations, conclusion of immovable property pledge agreements, and performance of the obligations thereto. Under this law, pledgors and pledgees may agree upon non-judicial foreclosure of immovable properties in writing. However, a proceeding relating to the foreclosure of a pledged land is required to be brought before the courts of Mongolia, unless the parties agree to settle the dispute and a court issues a decree accepting the settlement. Furthermore, pledged land or immovable property of historical or cultural value registered with the state registry may only be foreclosed through judicial proceedings.

The Law of Mongolia on Mortgages introduced the concept of "pledge certificates" whereby the pledgor prepares a pledge certificate, which certifies the rights of the pledgee, to be submitted to the state registry along with the pledge agreement. On 2 July 2015, Parliament of Mongolia enacted the Amendment Law to the Law of Mongolia on Mortgages, which requires immovable property foreclosed through judicial proceedings to be sold by auction in accordance with the procedures provided in the Civil Code of Mongolia and the Law of Mongolia on Enforcement of Court Decisions.

On 9 December 2015, the Constitutional Court of Mongolia held that certain provisions of the Law of Mongolia on Mortgages and the Civil Code of Mongolia conflicted with the immovable property ownership rights of citizens under the Constitution. Consequently, the Constitutional Court invalidated the requirement for a pledgor to obtain

consent from the pledgee for the disposition, second mortgage or lease of pledged property. After this decision was issued, Mongolian commercial banks suspended the issuance of new mortgage loans.

In response to the Constitutional Court ruling in December 2015, and in order to protect the interests of secured lenders, Mongolian Parliament amended the Civil Code of Mongolia and the Law of Mongolia on Mortgages on 19 January 2016, re-instanting the requirement for an owner or a pledgor to obtain the obligee's or pledgee's consent before transferring ownership of pledged immovable property. Commercial banks have since resumed their issuance of mortgage loans.

On 7 December 2017, the Constitutional Court invalidated the reinstated provisions and held that the amendments to the Law of Mongolia on Mortgages and the Civil Code of Mongolia had effectively re-instanted the provision which had been invalidated previously and was against the ownership rights of citizens over their immovable property under the Constitution.

Furthermore, the law stipulates separate regulations on pledge of land and apartments.

Law of Mongolia on Pledge of Movable and Intangible Property (2015)

On 2 July 2015, Parliament of Mongolia enacted the Law of Mongolia on Pledge of Movable Asset and Intangible Property (the "**Movables Pledge Law**") to regulate the rights and legal interests of the parties, increase economic efficiency and to ease access to new financial resources.

Key provisions of the Movables Pledge Law provide as follows:

- security interests must be created by written contract;
- pledged property may either be transferred to the pledgee's possession or may be retained by the pledgor;
- pledge or security interests are perfected upon control of the property or through the filing of the pledge interest with the relevant electronic registration site run by the state registration authority;
- perfected security interests will have priority over non-perfected security interests regardless of the date when the security interest was first created;
- merchants who sell equipment or vehicles on a loan basis will have priority over any other perfected security interests on the sold equipment or vehicle if the merchant perfects its security interest within 10 days of the sale;
- if bankruptcy proceedings are initiated against the pledgor, the pledgee with the perfected security interest is entitled to payment from the proceeds of the perfected security interest on a first priority basis. Amounts remaining from the proceeds after such payment will be placed into a general pool of funds for debtors;
- if bankruptcy proceedings are initiated against the pledgor and the perfected security interest's proceeds are insufficient to satisfy the payments due to the pledgee, the remaining amount due must be claimed through bankruptcy procedures under the applicable bankruptcy legislation;
- the General Authority for State Registration will be responsible for implementing the electronic filing system of pledges on movable and intangible property;
- any filing of pledges will be effective when it becomes viewable by the general public;
- a filing will be valid for three years unless extended;
- if the pledgor defaults on its obligations under the pledge agreement, the pledgee must first notify the pledgor or any other obligor regarding its intent to enforce the pledge, and unless otherwise stated in the pledge agreement, the pledgee must wait 14 days for the pledgor to remedy the default;

- the pledgee must use cost efficient, fair and reasonable methods in enforcing its pledge interest;
- the pledgor has the right to repurchase the pledged property or fulfill its obligations under the pledge agreement at any given time except for the final sale of the property by the pledgee; and
- the purchaser of pledged property becomes an owner free of any encumbrances.

The Movables Pledge Law came into effect on 1 March 2017. The law introduces the perfection mechanism for the movables pledge by way of (i) possessory security, or (ii) registration of the pledge with the online database maintained by the General Authority for State Registration. The online database, which can be accessed at <http://mpr.gov.mn/>, aims to notify the public of the existence of pledges over both movable and intangible properties and to establish priority among security interests.

Under the Movables Pledge Law, it is the pledgee or its designated person's obligation to register the security interest. Such registration takes place through filing a "pledge notice" with the online database. The registration of pledge notice remains valid for three (3) years unless extended. If the pledge notice has not been extended by the pledgee at the end of the third year, such security interest would not be considered as perfected.

The ranking of the claims of multiple creditors relating to the collateral will be determined by the date of perfection. A perfected pledge will rank senior to a non-perfected pledge over the same collateral. The ranking among non-perfected pledges will be determined on the basis of the date of the relevant pledge agreements.

Law of Mongolia on Credit Information (2011)

This law was enacted on 20 October 2011 and came into effect on 1 January 2012. The Law of Mongolia on Credit Information governs private credit information agencies and the credit information database managed by the Bank of Mongolia. Any legal entity may apply to the Bank of Mongolia for a license and become an authorized credit information agency. Such agencies are authorized to provide up to five years of credit score information with respect to a borrower. This law was amended on 16 May 2025, which includes the introduction of a borrower's credit scoring system and the use of information for assessing and rating the borrower's creditworthiness.

The law governs the maintenance of credit information databases and disclosure of credit information and regulates private credit information bureaus. It also governs method of collection of credit information; the manner in which credit histories are prepared, distributed, protected and used; made accessible to consumers. Transmission of credit information outside of Mongolia without prior authorization of the Bank of Mongolia is prohibited.

Law of Mongolia on Electronic Signature (2021)

This law was enacted on 17 December 2021, and its purpose is to regulate the use of electronic signatures for information that was transferred in electronic form using the information system or created, sent, received, stored, or accessible in the electronic environment. An electronic signature has been broadly defined as electronic data that has been attached to or combined with electronic information or documents to identify a person who signed on them or used an electronic seal. Electronic signatures can be in any form, including digital signatures.

Generally, under the law, any person who reached the age of 16 years can use a digital signature based on the certificate issued by the authorized and licensed entity. Subject to further extension, the certificate is valid for five (5) years for Mongolian citizens and legal entities, and up to three (3) years for foreign citizens and stateless persons. The digital signature to be issued to legal entities is in the form of an electronic seal.

Law of Mongolia on Credit Guarantee Fund (2012)

This law was enacted on 10 February 2012 and regulates matters relating to increasing financial possibilities for the operations of SME and supporting the employment market; establishing legal foundations of the Credit Guarantee Fund with the purpose of securing sustainable income generation for the citizens; and providing credit guarantee

services for the entrepreneurs of small and medium enterprises. Activities of such statutory credit guarantee institution, among other things, will include providing credit guarantee up to 60% of the total loan of those small and medium enterprises which do not have adequate assets for the loan security. This law was last amended on 19 April 2024 and pursuant to which an addition was made allowing cooperatives engaged in livestock production to provide guarantees to member herders for advances and up to 100% of collateral assets.

Governor's Orders of the Bank of Mongolia

Pursuant to Article 19.1 of the Central Bank Law, the Bank of Mongolia has the authority to issue regulations, rules, guidelines, methodologies, and other relevant decisions related to ensuring the capital adequacy and solvency of commercial banks, regulating their operations, and imposing enforcement measures, with the aim of protecting the rights and interests of depositors and clients and strengthening the stability of the banking system. It also oversees the implementation of these decisions.

Within this framework, the "Regulation on Prudential Ratios of Banks" was revised and enriched with supervisory principles and regulatory tools applied internationally and was approved by Order No. A-138 of the Governor of the Bank of Mongolia dated 23 May 2019 and enforced across all banks. This regulation incorporates key elements such as the definition of Tier 1 and total capital under the Basel III standards, leverage ratio, capital conservation buffer to safeguard the bank's resilience, and optimized risk-weighted asset adjustments, providing significant advantages. Additionally, by Order No. A-276 of the Governor of the Bank of Mongolia dated 30 October 2017, the minimum charter capital requirement for commercial banks was set at MNT100 billion, which will be effective from 31 December 2021.

The minimum capital adequacy ratio is in the following manner:

Effective Date:	As of 1 January 2023
Tier 1 capital to risk weighted asset adequacy ratio	9%
The base component of the capital conservation buffer for Tier 1 ratio (mandatory for all commercial banks)	2%
The additional component of the capital conservation buffer for Tier 1 ratio (applicable only systemically important banks)	1-2%
The capital conservation buffer added to the Tier 1 ratio	3-4%
Capital to risk weighted asset adequacy ratio	12%
Leverage Ratio	5%

Pursuant to Article 11.1 of the Central Bank Law, the Required Reserve ("RR") is one of the instruments used by the Bank of Mongolia to implement the state monetary policy. The reserve requirement obliges banks to maintain a certain percentage of funds mobilized from others in their correspondent account with the central bank, and this instrument is used for: (i) maintaining the stability of banks' short-term liquidity; (ii) managing money supply in the economy; (iii) applying within the framework of macroprudential policy.

The setting and supervision of the required reserve is regulated by Article 12 of the Central Bank Law and the "Regulation on Establishing, Calculating, and Supervising the Required Reserve of Banks," as revised and approved by the Governor of the Bank of Mongolia under Order No. A-295 in 2019. At its meeting in January 2025, the Monetary Policy Committee of the Bank of Mongolia set the required reserve ratio at 13.0 percent for MNT and 18.0 percent for foreign currency, and these ratios have remained unchanged since then.

On 23 May 2023, the Bank of Mongolia and the FRC have jointly approved a revised version of the "Regulation on Methodology for Calculating Bank and Authorized Entity Interest Rates of Deposit and Loan and Transparency of Information on Interest Rates, Fees and Charges" for the purpose of increasing the level of information transparency and protecting the interest of depositors and customers.

- **Regulations relating to the Licensing Procedures for Establishing a Bank**

Following the comprehensive amendment made to the Banking Law in 2018, the Bank of Mongolia adopted the "Procedures for Permission to Change the Size and Structure of a Bank's Share Capital" under Order No. A-82 dated 22 March 2019 which was later replaced by Order No. A-146 dated 20 July 2023 of the Governor of the Bank of Mongolia, which adopted the "Regulation on Setting and Implementing the Conditions and Requirements for Establishing a Bank." These regulate the relations with respect to requirements for obtaining a bank establishment permit and any changes in the shareholding structures and share capital of the bank, issuance of shares or securities related to shares of the bank and invalidating the banking licenses. The Banking Law was amended on 6 January 2023, and such amendment stipulates that banking license is to be granted for an indefinite period. Regulations related to the requirements for the establishment of a bank branch, the approval stage, grounds for refusing to grant a bank operation license, changes in the structure of the bank, influential shareholders, and changes in the amount of share capital have also been added.

- **Regulation on Setting and Monitoring Prudential Ratios for Banking Operations**

On 23 May 2019, the Bank of Mongolia adopted the revised version of the "Regulation on Setting and Monitoring Prudential Ratios for Banking Operations" under Order No. A-138 of the Governor of the Bank of Mongolia. Under this regulation, the banks must maintain the prudential ratios for the banking operations, including (i) capital adequacy ratio, (ii) liquidity ratio, (iii) foreign currency risk ratio, and (iv) ratio for fund concentration risk.

- **Methodology for Identifying the Systemically Important Banks**

On 19 April 2021, the Bank of Mongolia adopted the "Methodology for Identifying the Systemically Important Banks" under Order No. A-104 of the Governor of the Bank of Mongolia as per the 2021 Amendment Law. This methodology provides that when determining the systemic importance of the bank, the Bank of Mongolia must consider the bank's total assets and debt ratio, amount of net contingent liability, receivables from the other financial institutions, debts to the other financial institutions, main banking activities and total transaction flow holding in the payment system. Moreover, to identify the systemically important banks, the Bank of Mongolia is to follow the principle of assessing the extent of the potential impact of the bank's liquidation within the domestic economy, banking and financial sector of Mongolia.

- **Procedures for Implementing the Principles of Banking Corporate Governance**

On 9 May 2022, the Bank of Mongolia adopted the Regulation on Supervision of Implementation of the Principles of Corporate Governance for Banks under Order No. A-143 of the Governor of the Bank of Mongolia. The regulation was adopted in order to improve corporate governance in the banking sector by complying with the operations of the shareholders' meeting, the board of directors and executive managements with the legitimate interests of shareholders, customers, depositors and affiliated persons of the bank.

- **Provisional Regulation for Preparing, Implementing, Reporting and Supervising a Plan for the Re-Organization and Changes in the Share Capital and Shareholding Structure of Banks**

Following the 2021 Amendment Law, the Bank of Mongolia and the FRC have jointly adopted the "Provisional Regulation for Preparing, Implementing, Reporting and Supervising a Plan for the Re-Organization and Changes in the Share Capital and Shareholding Structure of Banks" under their joint Order. No. A-90/85 dated 26 March 2021. This Regulation provides the types of information (including the general and financial information, number, amount and timeframe for the re-organization of the bank by way of initially offering its shares to the public and information

of the potential institutional investors for the bank) that are necessary to be included in the bank's re-organization plan. Each of the Bank of Mongolia and the FRC is to examine the re-organization plan and notify the applicant bank within 60 days. If the Bank of Mongolia and the FRC deem that the bank's re-organization plan does not meet the requirements, they shall require the bank to revise the re-organization plan based on the proposal from the Bank of Mongolia and the FRC. Upon approval of the re-organization plan, the bank must submit quarterly implementation report of its re-organization plan within the 15th day of the following month.

- **Strategy to Reduce Loan Interest Rates**

On 28 August 2020, the Parliament of Mongolia passed Resolution No. 21 on "The Strategy to Reduce Loan Interest Rates" to be implemented between 2020 and 2024. Under the Strategy to Reduce Loan Interest Rates, Parliament approved the following strategic directions for the reduction of loan interest rates:

- create macro stable environment to reduce expenses for loan resources;
- reduce costs of loan risk;
- reduce operating costs of banks; and
- develop stock market, create competition and reduce costs of financing.

The Government, the Bank of Mongolia and the FRC are obliged to implement the approved strategic directions.

LAWS RELATING TO FINANCIAL SECTOR OF MONGOLIA

Securities Market Law of Mongolia (2013)

On 24 May 2013, the Parliament of Mongolia enacted a restated version of the Law on Securities Market (the "**Securities Market Law**") with effect from 1 January 2014, which replaced the securities markets law of 1994. The purpose of the Securities Market Law was to introduce effective and clear guidance with respect to initial public offerings of shares and define the distinction between primary and secondary securities market activities while providing measures preventing insider dealings and market abuses.

According to the Securities Market Law, the total value of debt instruments issued by a company must not be greater than its net assets value. The total value of debt instruments issued with a third-party guarantee must not be greater than the total sum of the amount of the relevant company's net asset value and the total guarantees issued by the third party. In addition, it imposes higher standards and registration requirements for securities markets participants as well as advisory service providers, including law firms and audit firms. The Securities Market Law defines securities broadly to include derivatives, depositary receipts and warrants, and expressly permits over-the-counter trading of securities.

According to Article 17.3 of the Securities Market Law and Article 3.3 of the "Debt Instruments Registration Regulation" adopted by the FRC Resolution No. 226 dated 11 June 2021, as amended, legal entities registered in Mongolia are required to notify the FRC of their issuance of bonds in a foreign country by way of submitting certain documents. The FRC is required to confirm receipt of the notification within three (3) business days of such notification. Under the Debt Instruments Registration Regulation, the Issuer is required to deliver a copy of a decision issued by the foreign stock exchange confirming listing of the Bonds on such foreign stock exchange, to the FRC within five (5) business days of receipt of such decision.

Law of Mongolia on Investment Funds (2013)

This law was enacted on 3 October 2013, and it regulates granting licenses to investment funds, fiduciary management of fund assets, conducting activities using fund assets, safekeeping and registering fund assets, providing information to investors and conducting activities of regulated entities in the securities market that are providing services to investment funds. The Law of Mongolia on Investment Funds categorizes investment funds into (i) mutual/collective funds (including open-ended, close-ended or exchange-traded funds) and (ii) private funds.

The investment funds can only be established by a legal entity that is licensed by the FRC to conduct investment management services or other entities authorized by the FRC.

Law of Mongolia on Non-Banking Financial Activities (2002)

The Law of Mongolia on Non-Banking Financial Activities, enacted on 12 December 2002, allows non-bank financial institutions to engage in lending, foreign currency exchanges, electronic payments, remittance services, issuing of guarantees and payment instruments, investments in short-term financial instruments, trust services and financial and investment consultancy services. These activities must be licensed separately and are subject to prudential regulations adopted by the FRC. Non-banking financial institutions are not permitted to accept deposits.

Law of Mongolia on Asset-Backed Securities (2010)

The Law of Mongolia on Asset-Backed Securities was enacted on 23 April 2010, which regulates the issuance of asset-backed securities, supervision thereof, and protects the interests of the investors. The law provides that only special purpose vehicles (**SPVs**), banks and housing finance companies may issue asset-backed securities that are classified as (i) "collateralized bonds" issued by SPVs, and (ii) "securitized bonds" issued by banks and housing financing companies. The issuance of asset-backed securities requires a specific license granted by the FRC and the asset-backed securities must be registered with the FRC prior to issuance.

OTHER IMPORTANT LEGISLATION

Law of Mongolia on Courts

Following the 2019 amendment to the Constitution, the Parliament of Mongolia enacted a restated version of the Law of Mongolia on Courts (the "**Law on Courts**") along with the implementation guidelines on 15 January 2021 with effect from 1 March 2021. The purpose of the Law on Courts is to regulate relations with respect to the structure, organization, operation of Mongolian courts, determining criteria and requirements for judges, their authority, legal status, ensuring impartiality of the judges, independency of the court, defining the legal status of court jury and setting out procedures for the authority, organization and functions of the Judicial General Council and Judicial Disciplinary Committee of Mongolia.

The procedures and requirements for the organization, composition and appointment of the Judicial General Council, which is responsible for the selection of judges and ensuring independence of courts have been clarified upon adoption of the Law on Courts. The Law on Courts expressly provided 40 types of prohibited activities for judges in the exercise of their judicial functions and disciplinary measures against the judges including the statute of limitations, among others.

Law of Mongolia on Arbitration

On 26 January 2017, Parliament of Mongolia enacted the restated version of the Law on Arbitration (the "**Restated Arbitration Law**"). The Restated Arbitration Law is based on the UNCITRAL Model Law on International Commercial Arbitration including all 2006 amendments, for both international and domestic arbitration. The Restated Arbitration Law enacts the UNCITRAL Model Law fully, departing from its text only where necessary to do so in view of the particularities of the Mongolian legal system, and also seeks to implement certain innovations.

The major provisions introduced by the Restated Arbitration Law include the following:

- almost all civil disputes may be adjudicated by arbitration, subject to (i) certain disputes which fall within the exclusive jurisdiction of the Mongolian courts, and (ii) certain consumer protection mechanisms;
- the scope of intervention by the court is narrowed, and designed to promote and support the arbitral process;
- for international arbitration, many court functions, including all applications to set aside arbitral awards, fall under the exclusive competency of the appellate court of the capital city;

- the Restated Arbitration Law does not establish or advocate the use of any particular arbitration institution and the parties remain free to choose;
- in accordance with the 2006 amendments to the UNCITRAL Model Law, an arbitration agreement must be in writing to be valid, but this requirement will be satisfied if the arbitration agreement is recorded in any form such as electronic communication;
- the Restated Arbitration Law cements the impartiality and independence of arbitrators, and an arbitrator may be challenged only if circumstances exist which give rise to justifiable doubts as to impartiality or independence;
- the arbitral tribunal can rule on its own jurisdiction in consistency with the internationally accepted principle of kompetenz-kompetenz;
- a party may seek recourse to the designated appellate court in relation to an arbitral tribunal's decision to uphold or decline its jurisdiction. The court decision will not be subject to appeal;
- the arbitral tribunal is vested with broad power to grant interim measures and preliminary orders; and
- unless otherwise agreed by the parties, the arbitral tribunal has discretion to decide and allocate costs.

Law of Mongolia on Enforcement of Court Decisions (2017)

The restated version of the Law on Enforcement of Court Decisions was enacted by the Parliament of Mongolia on 9 June 2017 and came into force on 1 July 2017 replacing the previous law of 2002 on the same subject matter. The law regulates matters related to the grounds for and regulations of court enforcement activities as well as the structure and legal status of the bailiff's office. The law aims to improve the efficiency of court enforcement and restoring those rights of citizens that were breached as well as to strengthen the operational efficiency of bailiff's office.

SUBSCRIPTION AND SALE

The Issuer has entered into a purchase agreement dated 17 December 2025 with certain purchasers of the Bonds (the "Purchasers"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, and the Purchasers have agreed to, purchase the aggregate principal amount of the Bonds.

In connection with the offering of the Bonds, the Issuer will purchase for and own a significant principal amount of the Bonds being offered. The existence of the Issuer as a significant holder may adversely affect the price of the Bonds and reduce the liquidity of the Bonds in the secondary trading market. See "*Risk Factors – We will subscribe for and hold a portion of the Bonds, which may adversely affect the price and liquidity of the Bonds in the secondary market*". Additionally, affiliates of the Issuer may place orders, receive allocations and purchase the Bonds for their own account (without a view to distributing such Bonds) and such orders and/or allocations of the Bonds may be material. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering. Accordingly, references herein to the Bonds being "offered" should be read as including any offering of the Bonds to affiliates of the Issuer, for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so.

GENERAL

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds are subject to restrictions and may not be made except pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer that would, or is intended to permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer. Persons into whose hands this Offering Circular comes are required by the Issuer to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Bonds or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Bonds, in all cases at their own expense.

UNITED STATES

The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Issuer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

- (i) the expression "retail investor" means a person who is one (or more) of the following:
 - (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
 - (b) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Issuer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the United Kingdom. For the purposes of this provision:

- (i) the expression "retail investor" means a person who is one (or more) of the following:
 - (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA") not a professional client as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (c) not a qualified investor as defined in the UK Prospectus Regulation.

UNITED KINGDOM

The Issuer has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

MONGOLIA

The Issuer has represented and agreed that neither it nor any of its affiliates will make a public offering or sale of the Bonds, as such concept is defined under the laws of Mongolia, within the territory of Mongolia.

HONG KONG

The Issuer has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than:
 - (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or
 - (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (i) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

SINGAPORE

The Issuer has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Issuer has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

THE PRC

The Issuer has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

JAPAN

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, the Issuer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

CLEARING SYSTEM AND SETTLEMENT

The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 325854332 and the ISIN for the Bonds is XS3258543324.

LISTING OF BONDS

Application has been made to the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular. The listing or quotation of the Bonds on the SGX-ST or the admission of the Bonds to the Official List of the SGX-ST are not to be taken as an indication of the merits of the Issuers, its subsidiaries and/or associated companies, or the Bonds.

The Bonds will be traded on the SGX-ST in a minimum board lot size of S\$200,000 for so long as any of the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, we shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that a Global Certificate is exchanged for Bonds in definitive form. In addition, in the event that a Global Certificate is exchanged for Bonds in definitive form, announcement of such exchange shall be made by us or on our behalf through the SGX-ST and such announcement will include all material information with respect to the delivery of the Bonds in definitive form, including details of the paying agent in Singapore, for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.

AUTHORISATIONS

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Bonds, the Trust Deed, the Agency Agreement and the Deed of Covenant. The issue of the Bonds was authorised by written resolutions of the Board of Directors of the Issuer dated 10 December 2025. The Trustee has obtained all necessary consents, approvals and authorisations in connection with the performance of its obligations under the Bonds, the Trust Deed, the Agency Agreement and the Deed of Covenant.

LITIGATION

None of the Issuer or the Trustee is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Issuer or the Trustee aware that any such proceedings are pending or threatened. The Issuer or the Trustee may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.

NO MATERIAL ADVERSE CHANGE

There has been no material adverse change in the financial or trading position, prospects or results of operations of the Issuer and the Trustee since 30 September 2025.

DOCUMENTS AVAILABLE

For so long as any of the Bonds is outstanding, copies of the Trust Deed, the Agency Agreement and the Deed of Covenant will be available (i) at all times during usual business hours (being between 9:00 a.m. and 3:00 p.m.,

London time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Trustee, being at the date of this Offering Circular, at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom, and at the specified office for the time being of the Principal Paying Agent, and (ii) electronically to a requesting Bondholder, in each case following prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent.

LEGAL ENTITY IDENTIFIER

The Issuer's Legal Entity Identifier number is 254900PXGFS3ZX1I0W49.

ANNEX
LETTER OF SUPPORT



M Bank

**BANK OF MONGOLIA
(THE CENTRAL BANK)**

Baga toiruu 3, Chingeltei District,
Ulaanbaatar 15160, MONGOLIA
Tel: (976-11) 32 21 69, Fax: (976-11) 31 14 71,
Tix: 79333 BOMCB MN, SWIFT: BOMUMNUB,
<http://www.mongolbank.mn>

Date 01 December 2025

Ref. 11164

To the esteemed investors,

We hereby notify you of our support in connection with the Issuer's proposed issue of up to US\$150 million senior notes repayable within 3 years.

We confirm that M Bank is fully compliant with all prudential requirements set by the Bank of Mongolia.

This letter shall not be construed or be deemed to constitute any guarantee by or obligations or responsibilities of the Bank of Mongolia for any liabilities to any other person in connection with the Notes to be issued by the Issuer and shall not create any right to claim.

Sincerely,

A handwritten signature in black ink, appearing to read "LKHAGVASUREN BYADRAN".

LKHAGVASUREN BYADRAN
Governor

1525041126

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**Financial Statements
(With Independent Auditors' Report)**

M Bank Closed JSC

31 December 2024

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General Information

Registered address	MBank Closed JSC Central Tower, 15 th Floor, 8 th Khoroo, Sukhbaatar District, Ulaanbaatar 14200, Mongolia	
Shareholders as at 31 December 2024	MCS Holding LLC	
Board of Director	Ulemj.B Odjargal.J Chimgee.O Myagmarjav.G Tsengel.S Naranbaatar.U Delgerjargal.B Bat-Ochir.D Khaidar.Z	Chairwoman Member Member Member Member Independent Member Independent Member Independent Member Independent Member
Corporate Secretary	Tugsjargal.T	
Acting Chief Executive Officer Chief IT Officer Chief Financial Officer Chief Risk Officer Chief Audit Executive	Temuulen.B Batjargal.N Turbold.E Sansar.B Baasanbat.E	
Auditor	KPMG Audit LLC #602, Blue Sky tower, Peace Avenue 17, 1 st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia	

Management's Responsibility Statement

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

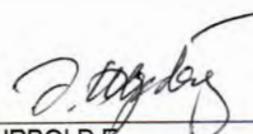
The financial statements of MBank Closed JSC ("the Bank") have been prepared to comply with IFRS Accounting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2024 and the financial performance and cash flows for the year then ended on that date.

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

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

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

The financial statements of the Bank for the year ended 31 December 2024 were authorized for issuance by the Bank's management.



TURBOLD.E

Chief Financial Officer



TUNGALAG.N

Head of Financial Reporting and Accounting Department

Ulaanbaatar,
Mongolia

Date: 30 March 2025



KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax : +976 7011 8102
www.kpmg.com/mn

Independent Auditors' Report

To: The Shareholder and Board of Directors of MBank Closed JSC

Opinion

We have audited the financial statements of MBank Closed JSC ("the Bank"), which comprise the statement of financial position as at 31 December 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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



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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements, Continued

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.



Signed by:

Soyolmaa Gungaanyambuu
General Director

Approved by:

Pyung-Sik Kong
Partner

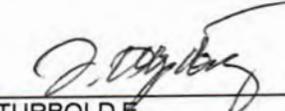
This report is effective as at 30 March 2025, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the Shareholder and Board of Directors of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

M Bank Closed JSC
Statement of Financial Position

<i>In thousands of MNT</i>	<i>Notes</i>	31 December 2024	31 December 2023
ASSETS			
Cash and cash equivalents	7	673,517,011	382,773,890
Mandatory cash balances with Bank of Mongolia	7	48,854,122	14,291,395
Due from other banks	8	6,797,069	-
Reverse sale and repurchase agreements	11	74,089,698	34,867,161
Investments in debt securities	9	-	65,632,054
Derivative financial assets	33	4,348,380	-
Loans and advances to customers	10	830,649,817	172,649,632
Property and equipment	13	7,527,892	5,274,539
Intangible assets	14	17,466,195	13,378,422
Right-of-use-assets	15	3,878,305	880,041
Deferred tax assets	28	1,159,531	3,643
Income tax receivables	28	-	9
Other assets	12	8,477,115	10,700,120
TOTAL ASSETS		1,676,765,135	700,450,906
LIABILITIES			
Due to other banks	16	308,834,980	242,629,221
Due to customers	17	1,105,300,290	350,093,106
Other borrowed funds	18	100,990,229	-
Repo arrangements	19	-	9,996,445
Lease liabilities	15	3,257,966	915,612
Current income tax liabilities	28	446,265	-
Other liabilities	20	7,055,260	9,505,417
TOTAL LIABILITIES		1,525,884,990	613,139,801
EQUITY			
Share capital	21	170,000,000	100,000,000
Accumulated losses		(19,119,855)	(12,688,895)
TOTAL EQUITY		150,880,145	87,311,105
TOTAL LIABILITIES AND EQUITY		1,676,765,135	700,450,906

Approved for issue and signed on behalf of Management Board on 30 March 2025.


TEMUULEN B.
Acting Chief Executive Officer
ХААНДУУЛАН АЛ.
ATA13958 6207618
8024511219


TURBOLD E.
Chief Financial Officer


TUNGALAG.N
Head of Financial Reporting and Accounting Department

M Bank Closed JSC
Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of MNT</i>	<i>Notes</i>	2024	2023
Interest income calculated using the effective interest method	22	116,083,109	49,618,784
Other similar interest income	22	191,443	46,568
Interest expense	22	(72,997,241)	(23,780,934)
Other similar interest expense	22	(1,293,513)	(98,895)
Net margin on interest and similar income		41,983,798	25,785,523
Impairment losses on financial instruments	27	(16,915,977)	(2,824,134)
Net margin on interest and similar income after credit loss allowance		25,067,821	22,961,389
Fee and commission income	23	3,664,762	787,371
Fee and commission expense	23	(1,529,492)	(102,995)
Gains less losses from financial derivatives		5,024,996	-
Gains less losses from trading in foreign currencies		242,579	12,352
Foreign exchange translation losses less gains		(329,347)	(214,825)
Personnel expenses	24	(15,760,694)	(12,168,448)
Depreciation and amortization	13,14,15	(6,144,170)	(3,975,528)
Other operating expenses	25	(16,817,212)	(10,239,567)
Net non-operating (expenses)/income	26	(98,229)	54,931
Loss before tax		(6,678,986)	(2,885,320)
Income tax benefit/(expense)	28	248,026	(2,114)
LOSS FOR THE YEAR		(6,430,960)	(2,887,434)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(6,430,960)	(2,887,434)

M Bank Closed JSC
Statement of Changes in Equity

<i>In thousands of MNT</i>	Notes	Share capital	Accumulated losses	Total equity
Balance at 1 January 2023	21	100,000,000	(9,801,461)	90,198,539
<i>Total comprehensive loss for the year</i>				
Loss for the year		-	(2,887,434)	(2,887,434)
Balance at 31 December 2023				
	21	100,000,000	(12,688,895)	87,311,105
<i>Total comprehensive loss for the year</i>				
Loss for the year		-	(6,430,960)	(6,430,960)
<i>Transactions with owners of the Bank</i>				
Issue of ordinary shares	21	70,000,000	-	70,000,000
Balance at 31 December 2024				
		170,000,000	(19,119,855)	150,880,145

M Bank Closed JSC
Statement of Cash Flows

<i>In thousands of MNT</i>	<i>Note</i>	2024	2023
Cash flows from operating activities			
Loss before tax		(6,678,986)	(2,885,320)
Adjustments to reconcile profit before tax to net cash flow:			
Impairment losses on financial instruments	27	16,915,977	2,824,134
Depreciation of property and equipment	13	1,752,024	1,119,176
Depreciation of rights-of-use assets	15	2,341,020	1,151,293
Amortisation of intangible assets	14	2,051,126	1,705,059
Loss on written-off of property and equipment	26	13,537	-
Loss/(gain) on disposal of property and equipment	26	2,075	(27,605)
Loss on disposal of intangible assets	26	1,926	-
Foreign exchange translation losses		329,347	-
Interest and similar income	22	(116,274,552)	(49,665,352)
Interest and similar expense	22	74,290,754	23,879,829
Cash flows used in operating activities before changes in operating assets and liabilities		(25,255,752)	(21,898,786)
Increase in mandatory reserves with the BoM		(34,562,727)	(12,812,570)
Increase in reverse sale and repurchase agreements		(39,234,052)	(34,867,161)
Increase in due from banks		(5,825,895)	-
Increase in loans and advances to customers		(665,492,927)	(80,991,495)
Decrease/(Increase) in other assets		2,304,694	(9,428,631)
Increase in due to other banks		66,406,671	211,156,637
Increase in due to customers		734,805,192	250,149,881
(Decrease)/Increase in other liabilities		(2,450,157)	7,691,796
Net cash generated from operating activities before tax and interest		30,695,047	308,999,671
Interest received		102,940,029	47,495,256
Interest paid		(55,879,271)	(15,804,449)
Interest on lease liabilities paid	15	(458,595)	(98,895)
Income tax paid	28	(461,588)	(1,152)
Net cash generated from operating activities		76,835,622	340,590,431
Acquisition of debt securities at AC		-	(114,332,054)
Proceeds from redemption of debt securities at AC		69,532,786	48,700,000
Acquisition of property and equipment		(4,151,360)	(2,618,489)
Acquisition of right-of-use assets		(925,651)	(13,119)
Acquisition of intangible assets		(6,260,920)	(3,015,005)
Proceeds from disposal of property and equipment		130,371	65,458
Proceeds from right-of-use assets		209,938	12,956
Proceeds from disposal of intangible assets		34,462	-
Net cash generated from/(used in) investing activities		58,569,626	(71,200,253)
Cash flows from financing activities			
Proceeds from repurchase arrangements	29	3,366,771,248	878,290,081
Repayment of repurchase arrangements	29	(3,376,753,471)	(868,307,858)
Repayment of lease liabilities	29	(2,281,217)	(1,073,879)
Proceeds from borrowed funds	29	97,809,872	-
Repayment of borrowed funds	29	-	(20,000,000)
Issue of ordinary shares	21	70,000,000	-
Net cash generated from/(used in) financing activities		155,546,432	(11,091,656)
Credit loss allowance charge on cash and cash equivalent	7	(208,559)	(61,705)
Net increase in cash and cash equivalents		290,743,121	258,236,817
Cash and cash equivalents at the beginning of the year	7	382,773,890	124,537,073
Cash and cash equivalents at the end of the year	7	673,517,011	382,773,890

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

1 Introduction

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the IASB ("IFRS Accounting Standards") for the year ended 31 December 2024 for M Bank Closed JSC (the "Bank").

The Bank was incorporated and is domiciled in Mongolia. The Bank is a closed joint stock company limited by shares and was set up in accordance with Mongolia's regulations. As of 31 December 2024, and 2023, the Bank's immediate parent company is MCS Holding LLC which has a twenty percent of voting rights, and the ultimate controlling party is MCS Mongolia LLC.

Principal activity. In accordance with the effective Charter of the Bank, the Bank's principal business activities include:

- Loan services;
- Payment and settlement services;
- Sale, purchase, deposit and placing of foreign currencies;
- Safekeeping of valuables;
- Conducting foreign remittance services;
- Financial leasing services;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia.

The Bank had 378 employees at 31 December 2024 (2023: 275 employees).

Registered address and place of business. The Bank's registered address is: Central tower 15th floor, 8th khoroo, Sukhbaatar District, Ulaanbaatar-14200, Mongolia.

Presentation currency. These financial statements are presented in Mongolian tugrik ("MNT"), unless otherwise stated.

Abbreviations. A glossary of various abbreviations used in this document is included in Note 40.

2 Operating environment of the Bank

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The export of raw materials from the mining sector is the mainstay of the economy due to its mineral resources, including coal and copper, and its low level of industrialization. After growing close to 6 percent on average between 2017 and 2019, the Mongolian economy contracted amid the adverse impact of the COVID-19 pandemic, posting 4.6% economic decline in 2020 and then has experienced slight recovery since 2021. The GDP growth in 2024 was 4.9% (2023 was 6.5%), which was driven by increased exports of the mining sector caused by lifted border restrictions from China and growing non-mining sector.

On 4 October 2024, the Standard & Poor's credit rating upgraded Mongolia's credit rating from "B" with stable outlook to "B+" with a positive outlook. Following this, Fitch and Moody's credit rating for Mongolia elevated to B+ with a positive outlook. The Mongolian economic growth is expected to continue to recover with forecast GDP growth of 6.5% for 2025. The growth is expected to be driven by mining and exports expansion and transportation services. The inflation rate decreased from 12.9% as at the end of the year 2023 to 7% as of the end of the year 2024. However, domestic demand pressures are expected to keep inflation elevated due to easing external supply related pressure. Also, with the Russian-Ukrainian conflict continuing the Bank has taken necessary measures to minimize its exposure at Russian banks and the Russian economy and regularly updates its sanctions list and screening system. The long-term effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from the actual results.

The Bank of Mongolia has reduced the policy rate from 13% in 2023 to 10% by the end of 2024. In March 2025, the Bank of Mongolia has increased the policy rate to 12%. The Mongolian national currency, the tugrik, has slightly depreciated against the US Dollar by 0.3% as of 31 December 2024 (MNT 3,420.46) compared to the exchange rate on 31 December 2023 (MNT 3,410.69).

2 Operating environment of the Bank (Continued)

For the measurement of Expected Credit Losses (ECL), the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. However, as with any economic forecast, the projections and their likelihoods are subject to a high degree of inherent uncertainty, and actual outcomes may significantly differ from those projected. Notes 4 and 30 provide further information on how the Bank incorporates forward-looking information in the ECL models.

3 Basis of preparation

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements are directed to primary users, being investors who lend or provide equity capital to the reporting entity. These financial statements assume that the primary users have a reasonable knowledge of business and economic activities and review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena reported in these financial statements.

These financial statements aim disclosing only information that management considers is material for the primary users. Management seeks not to reduce the understandability of these financial statements by obscuring material information with immaterial information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

Certain corresponding figures have been reclassified to conform to the current year's presentation.

Going concern. The financial statements are prepared on a going concern basis, as a management is satisfied that the Bank has adequate resources to continue as a going concern for the foreseeable future. In making this assessment, management has considered a wide range of information including projections of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Bank.

Since engaging in the business of providing banking and financial services pursuant to a license to operate as a bank and beginning its operations, the growth of accumulated losses is related to the implementation of step-by-step incentive programs aimed at attracting customers, as well as efforts to deliver customer-friendly products and services. The net annual growth in the number of the Bank's customers is between 150-180%.

In a short period, Bank has made significant changes in the banking sector, established its position, and created a distinctive image that has not been experienced before. Moving forward, Bank will not be limited to just banking products and services, it will continue to introduce innovative, flexible, and easy-to-use products and services that support the financial well-being of our customers, tailored to people's lifestyles and financial situations.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 36 for analysis of financial instruments by their maturity and for the information on amounts expected to be recovered or settled before and after twelve amounts after the reporting period for items that are not analysed in Note 36.

Amendments of the financial statements after issue. The Bank's shareholder and management have the power to amend the financial statements after issue.

4 Sources of estimation uncertainty and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are explained below.

(a) Estimates with significant risk of a material adjustment within the next financial year

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 30. The following components have a major impact on credit loss allowance:

- Business model and segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis;
- definition of default applied by the Bank;
- probability of default ("PD");
- assessment of loss given default ("LGD"), including the judgements made in valuation of collaterals;
- criteria for assessing if there has been a significant increase in credit risk; and
- selection of forward-looking macroeconomic scenarios and their probability weightings.

The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

Fair value of derivatives. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 34. The Bank entered into a long-term cross currency interest rate Swap arrangements with the Bank of Mongolia.

Borrowings from central bank, and international financial institutions. The Bank obtains long-term financing from the Bank of Mongolia at interest rates at which they ordinarily lend, and which may be lower than the rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at market rates and no initial recognition gains or losses should arise.

4 Sources of estimation uncertainty and judgements in applying accounting policies (Continued)

(b) Judgements in applying accounting policies with the most significant effect on the recognised amounts

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Bank.

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Bank concludes that all type of loans, except for mortgage loan portfolio to be sold to Mongolian Mortgage Corporation LLC with non-recourse meet the criteria for "hold to collect" business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. In making this judgement, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to the cash flows from specified assets; and
- Features that modify consideration of the time value of money element (e.g. periodical reset of interest rates).

4 Sources of estimation uncertainty and judgements in applying accounting policies (Continued)

(b) Judgements in applying accounting policies with the most significant effect on the recognised amounts (Continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgement. In particular, the Bank applies judgement in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Financial assets that are written-off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 38.

5 Critical accounting adoption of new or revised standards and interpretations

The following amendments became effective from 1 January 2024:

Effective date	New accounting standards or amendments
1 January 2024	IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
	Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).
	Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).

The application of the above amendments had no significant impact on the Bank's financial statements.

6 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2025 or later, and which the Bank has not early adopted.

Effective date	New accounting standards or amendments
1 January 2025	Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023 and effective for annual periods beginning on or after 1 January 2025).
1 January 2026	Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 (issued on 30 May 2024 and effective for annual periods beginning on or after 1 January 2026).
1 January 2027	IFRS 18 Presentation and Disclosure in Financial Statements (Issued on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027).
1 January 2027	IFRS 19 Subsidiaries without Public Accountability: Disclosures (Issued on 18 May 2024 and effective for annual periods beginning on or after 1 January 2027).
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
1 January 2026	Annual Improvements to IFRS Accounting Standards (Issued in July 2024 and effective from 1 January 2026).

The above new and amended accounting standards are not expected to have a significant impact on the Bank's financial statements, except for IFRS 18 *Presentation and Disclosure in Financial Statements*.

6 New accounting pronouncements (Continued)

IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements applies for annual reporting periods beginning on or after 1 January 2027. The new standard introduces the following key new requirements.

- Entities are required to classify all income and expenses into five categories in the statements of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly-defined operating profit sub-total. Entities' net profit will not change.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.
- Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Bank is in the process of assessing the impact of the new standard, particularly with respect to the structure of the Bank's statement of profit or loss, statement of cash flows and the additional disclosure required MPMs. The Bank is also assessing the impact on how information is grouped in the financial statements, including for items currently labelled as 'other'.

7 Cash and cash equivalents

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Cash and balances with the Bank of Mongolia (other than mandatory reserve)	40,570,268	53,700,498
Due from banks - less than three months	321,539,567	229,680,329
BoM treasury bills - less than three months	311,689,887	99,467,215
Total cash and cash equivalents	673,799,722	382,848,042
Less: Credit loss allowance	(282,711)	(74,152)
Net cash and cash equivalents	673,517,011	382,773,890

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

a) Cash and balances with the Bank of Mongolia (other than mandatory reserve)

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Current accounts at BOM (MNT)	10,643,511	8,877,045
Current accounts at BOM (Foreign currency)	29,926,757	1,266,247
Overnight deposit accounts at BOM (MNT)	-	43,557,206
BoM treasury bills-less than three months	311,689,887	99,467,215
Less: Credit loss allowance	(252,241)	(4,766)
Total cash and cash equivalents	352,007,914	153,162,947

The Bank of Mongolia ("BOM") treasury bills with original maturities of less than three months are classified as cash equivalents. For the purpose of ECL measurement, BOM treasury bills are included in Stage 1 as at 31 December 2024.

7 Cash and cash equivalents (Continued)

b) Mandatory cash balances with Bank of Mongolia

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Mandatory cash balance with BOM (MNT)	36,737,005	8,947,146
Mandatory cash balance with BOM (Foreign currency)	12,117,117	5,344,249
Total mandatory reserve with the Bank of Mongolia	48,854,122	14,291,395

Mandatory cash balances with the Bank of Mongolia are carried at AC and represent non-interest-bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 11% in MNT and 16% in foreign currency (2023: not less than 8% in MNT and 18% in foreign currency) of customer deposits for a period of 2 weeks. According to the Bank of Mongolia resolution dated 29 March 2018, the Bank maintains 50% of the mandatory reserve balance as at the reporting date.

Credit quality of current account with the Bank of Mongolia based on credit risk is "good" as at 31 December 2024 and "satisfactory" 31 December 2023. For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2024 and 31 December 2023. The ECL balances for these cash balances represent an insignificant amount, therefore the Bank did not recognise any impairment loss allowance for mandatory cash balances with the Bank of Mongolia. Amounts of cash and cash equivalents are not collateralised.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2024. Refer to Note 30 for the description of the Bank's credit risk grading system.

<i>In thousands of MNT</i>	Cash and cash equivalents with BoM	Due from banks	Total
- Excellent	-	2,831,870	2,831,870
- Good	352,260,155	-	352,260,155
- Satisfactory	-	313,361,156	313,361,156
- Special monitoring	-	5,346,541	5,346,541
Less: credit loss allowance	(252,241)	(30,470)	(282,711)
Total cash and cash equivalents	352,007,914	321,509,097	673,517,011

7 Cash and cash equivalents (Continued)

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023 is as follows.

<i>In thousands of MNT</i>	Cash and cash equivalents with BoM	Due from banks	Total
- Excellent	-	37,898	37,898
- Good	-	-	-
- Satisfactory	153,167,713	229,642,431	382,810,144
- Special monitoring	-	-	-
Less: credit loss allowance	(4,766)	(69,386)	(74,152)
Total cash and cash equivalents	153,162,947	229,610,943	382,773,890

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 30 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 30. Information on related party balances is disclosed in Note 38.

8 Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Due from other banks more than three months represent local currency deposits maintained with a Trade and Development Bank. The placements held as of 31 December 2024 are denominated in USD with original maturity greater than 1 year and annual interest rate of 3.5%. Due from other banks is pledged under Senior Secured Term Loan Facility Agreement with SIMPL (Refer to Note 18).

For the purpose of ECL measurement, due from other banks are included in Stage 1 as of 31 December 2024.

9 Investments in debt securities

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Debt securities at AC – BOM treasury bills	-	65,632,054
Less: Credit loss allowance	-	-
Total investments in debt securities	-	65,632,054

9 Investments in debt securities (Continued)

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

As of 31 December 2024, the Bank has no balance of investments in debt securities. As of 31 December 2023, the Bank had classified BOM treasury bills with maturity exceeding three months as investment securities held for satisfying liquidity and business model needs under a “held to collect” classification. For purpose of ECL measurement, BOM treasury bills were included in Stage 1 and considered as low credit risk. Therefore, no impairment losses had been recognised on the financial statements related to BOM treasury bills.

Refer to Note 30 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC.

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2023.

<i>In thousands of MNT</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
BOM treasury bills				
- Satisfactory	65,632,054	-	-	65,632,054
Total investments in debt securities measured at AC (gross carrying amount)	65,632,054	-	-	65,632,054
Less: Credit loss allowance	-	-	-	-
Total investments in debt securities measured at AC (net carrying amount)	65,632,054	-	-	65,632,054

The debt securities at AC as at 31 December 2023 are not collateralised.

10 Loans and advances to customers

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Gross carrying amount of loans and advances to customers at AC	835,617,617	175,937,223
Less: Credit loss allowance	(19,176,918)	(4,077,584)
Total carrying amount of loans and advances to customers at AC	816,440,699	171,859,639
Loans and advances to employees at FVTPL	1,266,999	789,993
MIK mortgage loan to customers at FVTPL	12,942,119	-
Total loans and advances to customers	830,649,817	172,649,632

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories:

- (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
- (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 30 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Amortised cost (“AC”) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

10 Loans and advances to customers (Continued)

Credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

Refer to Note 30 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 30. Note 30 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

The Bank holds a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

10 Loans and advances to customers (Continued)

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2024 and 31 December 2023 are disclosed in the table below:

<i>In thousands of MNT</i>	31 December 2024			31 December 2023		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Consumer loans (individuals)	432,281,482	(15,443,721)	416,837,761	100,363,874	(3,782,377)	96,581,497
Business loans (corporate)	393,329,580	(3,728,604)	389,600,976	72,648,758	(292,724)	72,356,034
Mortgage loans (individuals)	10,006,555	(4,593)	10,001,962	2,924,591	(2,483)	2,922,108
Total loans and advances to customers at AC	835,617,617	(19,176,918)	816,440,699	175,937,223	(4,077,584)	171,859,639

More detailed explanation of classes of loans to legal entities is provided below:

- Consumer loans – loans issued to individuals through the Bank's own application;
- Mortgage loans; and
- Business loans – loans issued to commercial entities under standard terms.

The loans and advances to customers at FVTPL analysed by classes are as follows at 31 December 2024 and 31 December 2023:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Mortgage loans issued to employees MIK mortgage loans issued to customers	1,266,999 12,942,119	789,993 -
Total loans and advances to customers at FVTPL	14,209,118	789,993

10 Loans and advances to customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods:

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Consumer loans								
At 1 January 2024	1,619,094	625,437	1,537,846	3,782,377	95,569,313	2,758,022	2,036,539	100,363,874
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(82,484)	82,484	-	-	(2,642,785)	2,642,785	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(116,552)	(356,264)	472,816	-	(3,567,720)	(1,508,661)	5,076,381	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	169,901	(111,868)	(58,033)	-	583,034	(499,587)	(83,447)	-
- from Stage 3 to Stage 2	-	44,741	(44,741)	-	-	71,506	(71,506)	-
New originated or purchased	3,743,099	3,141,399	5,104,380	11,988,878	446,388,273	24,863,650	9,943,680	481,195,603
Derecognised during the period	(1,589,958)	(284,531)	(1,057,757)	(2,932,246)	(144,161,279)	(3,097,301)	(683,036)	(147,941,616)
Impact of changes in exposure, inputs and models	169,848	172,488	4,417,255	4,759,591	-	-	-	-
Write-off	-	-	(850,130)	(850,130)	-	-	(1,336,379)	(1,336,379)
Total movements with impact on credit loss allowance charge for the period	2,293,854	2,688,449	7,983,790	12,966,093	296,599,523	22,472,392	12,845,693	331,917,608
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1,304,749)	(1,304,749)	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2024	3,912,948	3,313,886	8,216,887	15,443,721	392,168,836	25,230,414	14,882,232	432,281,482

10 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Consumer loans								
At 1 January 2023	88,149	11,535	-	99,684	18,885,456	214,527	-	19,099,983
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7,948)	7,948	-	-	(476,388)	476,388	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(22,407)	(26,741)	49,148	-	(677,139)	(107,655)	784,794	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	10,146	(10,146)	-	-	45,035	(45,035)	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	1,558,959	572,089	999,090	3,130,138	111,434,596	2,757,060	1,567,080	115,758,736
Derecognised during the period	(259,042)	(21,512)	(49,148)	(329,702)	(33,642,247)	(537,263)	(315,335)	(34,494,845)
Impact of changes in exposure, inputs and models	251,237	92,264	538,756	882,257	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	1,530,945	613,902	1,537,846	3,682,693	76,683,857	2,543,495	2,036,539	81,263,891
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2023	1,619,094	625,437	1,537,846	3,782,377	95,569,313	2,758,022	2,036,539	100,363,874

10 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
<i>Business loans</i>								
At 1 January 2024	208,224	84,500	-	292,724	65,942,691	2,646,818	4,059,249	72,648,758
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	(104,634)	104,634	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,339)	(84,500)	86,839	-	(685,964)	(2,192,000)	2,877,964	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	2,602,147	11,614	39,617	2,653,378	421,344,419	1,058,493	167,219	422,570,131
Derecognised during the period	(186,588)	-	-	(186,588)	(102,117,268)	(486,128)	714,087	(101,889,309)
Impact of changes in exposure, inputs and models	(19,606)	-	988,311	968,705	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	2,393,614	(72,886)	1,114,767	3,435,495	318,436,553	(1,515,001)	3,759,270	320,680,822
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	385	-	-	385	-	-	-	-
At 31 December 2024	2,602,223	11,614	1,114,767	3,728,604	384,379,244	1,131,817	7,818,519	393,329,580

10 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Business loans								
At 1 January 2023	1,211,685		-	1,211,685	74,181,424		-	74,181,424
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(151)	151	-	-	(388,708)	388,708	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(12,959)	-	12,959	-	(4,386,987)	-	4,386,987	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	147,454	84,500	-	231,954	37,047,713	2,600,000	-	39,647,713
Derecognised during the period	(276,269)	(151)	(12,959)	(289,379)	(40,510,751)	(341,890)	(327,738)	(41,180,379)
Impact of changes in exposure, inputs and models	(861,536)	-	-	(861,536)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	(1,003,461)	84,500	-	(918,961)	(8,238,733)	2,646,818	4,059,249	(1,532,666)
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2023	208,224	84,500	-	292,724	65,942,691	2,646,818	4,059,249	72,648,758

10 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance			Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Mortgage loans								
At 1 January 2024	2,483	-	-	2,483	2,924,591	-	-	2,924,591
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	1,335	-	-	1,335	7,765,480	-	-	7,765,480
Derecognised during the period	(1,044)	-	-	(1,044)	(683,516)	-	-	(683,516)
Impact of changes in exposure, inputs and models	1,819	-	-	1,819	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	2,110	-	-	2,110	7,081,964	-	-	7,081,964
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2024	4,593	-	-	4,593	10,006,555	-	-	10,006,555

10 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance			Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Mortgage loans								
At 1 January 2023	3,857	-	-	3,857	631,270	-	-	631,270
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	1,761	-	-	1,761	3,483,004	-	-	3,483,004
Derecognised during the period	(2,025)	-	-	(2,025)	(1,189,683)	-	-	(1,189,683)
Impact of changes in exposure, inputs and models	(1,110)	-	-	(1,110)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	(1,374)	-	-	(1,374)	2,293,321	-	-	2,293,321
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2023	2,483	-	-	2,483	2,924,591	-	-	2,924,591

10 Loans and advances to customers (Continued)

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 30. The main movements in the table are described below:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Write-offs of allowances related to assets that were written-off during the period.

The following tables contain analyses of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

10 Loans and advances to customers (Continued)

The credit quality of loans carried at amortised cost is as follows at 31 December 2024:

<i>In thousands of MNT</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Consumer loans</i>				
- Excellent	354,948,892	-	-	354,948,892
- Good	37,219,944	-	-	37,219,944
- Satisfactory	-	15,846,516	-	15,846,516
- Special monitoring	-	9,383,898	-	9,383,898
- Default	-	-	14,882,232	14,882,232
Gross carrying amount	392,168,836	25,230,414	14,882,232	432,281,482
Credit loss allowance	(3,912,948)	(3,313,886)	(8,216,887)	(15,443,721)
Carrying amount	388,255,888	21,916,528	6,665,345	416,837,761
<i>Business loans</i>				
- Excellent	361,606,289	-	-	361,606,289
- Good	22,772,955	-	-	22,772,955
- Satisfactory	-	111,580	-	111,580
- Special monitoring	-	1,019,940	-	1,019,940
- Default	-	297	7,818,519	7,818,816
Gross carrying amount	384,379,244	1,131,817	7,818,519	393,329,580
Credit loss allowance	(2,602,223)	(11,614)	(1,114,767)	(3,728,604)
Carrying amount	381,777,021	1,120,203	6,703,752	389,600,976
<i>Mortgage loans</i>				
- Excellent	10,004,886	-	-	10,004,886
- Good	1,669	-	-	1,669
Gross carrying amount	10,006,555	-	-	10,006,555
Credit loss allowance	(4,593)	-	-	(4,593)
Carrying amount	10,001,962	-	-	10,001,962

10 Loans and advances to customers (Continued)

The credit quality of loans to carried at amortised cost is as follows at 31 December 2023:

<i>In thousands of MNT</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Consumer loans</i>				
- Excellent	88,291,158	-	-	88,291,158
- Good	7,278,155	-	-	7,278,155
- Satisfactory	-	1,698,339	-	1,698,339
- Special monitoring	-	1,059,683	-	1,059,683
- Default	-	-	2,036,539	2,036,539
Gross carrying amount	95,569,313	2,758,022	2,036,539	100,363,874
Credit loss allowance	(1,619,094)	(625,437)	(1,537,846)	(3,782,377)
Carrying amount	93,950,219	2,132,585	498,693	96,581,497
<i>Business loans</i>				
- Excellent	64,795,463	-	-	64,795,463
- Good	1,147,228	-	-	1,147,228
- Satisfactory	-	2,438,843	-	2,438,843
- Special monitoring	-	207,975	-	207,975
- Default	-	-	4,059,249	4,059,249
Gross carrying amount	65,942,691	2,646,818	4,059,249	72,648,758
Credit loss allowance	(208,224)	(84,500)	-	(292,724)
Carrying amount	65,734,467	2,562,318	4,059,249	72,356,034
<i>Mortgage loans</i>				
- Excellent	2,785,430	-	-	2,785,430
- Good	139,161	-	-	139,161
Gross carrying amount	2,924,591	-	-	2,924,591
Credit loss allowance	(2,483)	-	-	(2,483)
Carrying amount	2,922,108	-	-	2,922,108

10 Loans and advances to customers (Continued)

For description of the credit risk grading used in the tables above refer to Note 30.

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of MNT	2024		2023	
	Amount	%	Amount	%
Individuals loan	416,837,761	50%	101,736,712	59%
Services	204,450,396	25%	29,728,109	17%
Trade and commerce	89,800,033	11%	10,702,948	6%
Manufacturing	49,267,718	6%	7,218,795	4%
Construction	24,794,091	3%	14,030,994	8%
Mortgage loan	24,211,080	3%	3,712,100	2%
Mining	13,598,567	2%	3,595,761	2%
Transportation	4,768,127	0%	1,201,773	1%
Agricultural	2,922,044	0%	722,440	1%
Total loans and advances to customers carried at AC and at FVTPL	830,649,817	100%	172,649,632	100%

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans carried at amortised cost is as follows at 31 December 2024:

In thousands of MNT	Consumer loans	Business loans	Mortgage loans	Total
Loans collateralized by:				
- cash deposit	24,831,932	36,500,438	-	61,332,370
- real estate properties	114,231	160,809,467	10,006,555	170,930,253
- vehicles	5,395	5,477,180	-	5,482,575
- machinery	-	2,679,212	-	2,679,212
- inventories	-	36,345,893	-	36,345,893
- credit enhancements	82,099	123,637,652	-	123,719,751
Total	25,033,657	365,449,842	10,006,555	400,490,054
Unsecured exposures	407,247,825	27,879,738	-	435,127,563
Total gross carrying value loans and advances to customers at AC	432,281,482	393,329,580	10,006,555	835,617,617

10 Loans and advances to customers (Continued)

Information about collateral for loans to corporate customers is as follows at 31 December 2023:

<i>In thousands of MNT</i>	Consumer loans	Business loans	Mortgage loans	Total
Loans collateralized by:				
- cash deposit	-	5,155,278	-	5,155,278
- real estate properties	-	44,634,455	1,940,065	46,574,520
- vehicles	-	1,009,446	-	1,009,446
- machinery	-	1,207,833	-	1,207,833
- inventories	-	8,499,082	-	8,499,082
- credit enhancements	-	10,242,742	294,361	10,537,103
Total	-	70,748,836	2,234,426	72,983,262
Unsecured exposures	100,363,874	1,899,922	690,165	102,953,961
Total gross carrying value loans and advances to customers at AC	100,363,874	72,648,758	2,924,591	175,937,223

Credit enhancements consist of the receivables, future revenues and other assets. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Consumer loans	25,413,192	-
Business loans	87,758,421	32,653,329
Mortgage loans	4,759,408	1,432,951
Total significantly over-collateralised loans and advances to customers carried at AC	117,931,021	34,086,280

10 Loans and advances to customers (Continued)

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit impaired assets at 31 December 2024 is as follows.

In thousands of MNT	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Consumer loans	-	-	14,882,232	-
Business loans	7,799,361	10,575,097	19,158	-
Mortgage loans	-	-	-	-

The effect of collateral on credit impaired assets at 31 December 2023 is as follows.

In thousands of MNT	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Business loans	4,059,249	13,424,557	-	-

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to two years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are market value of the pledged assets.

Description of collateral held for loans carried at FVTPL is as follows at 31 December 2024:

In thousands of MNT	Mortgage loans issued to employees		MIK mortgage loans
	Total carrying value loans and advances to customers at FVTPL	1,266,999	12,942,119
Total carrying value loans and advances to customers at FVTPL			
Loans collateralized by:			
- residential real estate	1,266,999	12,942,119	
Unsecured exposures		-	-

Description of collateral held for loans carried at FVTPL is as follows at 31 December 2023:

In thousands of MNT	Mortgage loans issued to employees		MIK mortgage loans
	Total carrying value loans and advances to customers at FVTPL	789,993	-
Total carrying value loans and advances to customers at FVTPL			
Loans collateralized by:			
- residential real estate	789,993	-	-
Unsecured exposures		-	-

11 Reverse sale and repurchase agreements

As of 31 December 2024, MNT 74,089,698 thousand (31 December 2023: MNT 34,867,161 thousand) of the reverse sale and repurchase agreements relate to short-term agreement with local banks, bearing interest rate ranging from 10% to 12% per annum (2023: from 13.6% to 14%), with original maturity 2 to 17 days (2023: 5 days). The reverse sale and repurchase agreements are fully collateralized by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell pledge in the case of non-repayment. For the purpose of ECL measurement, reverse sale and repurchase agreements are included in Stage 1 as of 2024 and 2023.

12 Other assets

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
<i>Other financial assets at AC</i>		
Receivable on settlement service	3,383,359	7,704,527
Receivable from entities	239,598	15,977
Receivable from individuals	3,530	5,582
Less: Credit loss allowance	(4,015)	(71)
Total other financial assets at AC	3,622,472	7,726,015
<i>Other non-financial assets</i>		
Prepaid expenses	1,901,751	1,776,006
Supply materials	2,199,144	736,348
Deferred employee benefits	541,797	356,190
Prepayments for non-current assets	202,485	74,600
Other tax receivables	9,466	30,961
Total other non-financial assets	4,854,643	2,974,105
Total other assets	8,477,115	10,700,120

Receivables on settlement services mainly consists of transaction bank settlement receivables. Related balances are settled on the next working day.

Deferred employee benefits. The Bank issues loans to its employees at preferential rates. Fair value adjustments at initial recognition were recognized as deferred employee benefits and are amortized according to the terms of the loans.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. As of 31 December 2024, and 31 December 2023, the recognised credit loss allowance of other asset was MNT 4,015 thousand (2023: MNT 71 thousand) which mainly related to receivables from individuals and classified in Stage 3. The remaining other financial asset balances are classified in Stage 1.

13 Property and equipment

<i>In thousands of MNT</i>	Equipment	Fixtures and fittings	Office equipment	Vehicles	Other	Total
Cost						
At 1 January 2023	3,345,526	685,554	1,290,647	159,300	365,729	5,846,756
Additions	1,444,755	266,583	893,463	-	239,775	2,844,576
Disposals	-	(6,403)	(270,022)	-	-	(276,425)
At 31 December 2023	4,790,281	945,734	1,914,088	159,300	605,504	8,414,907
Additions	1,867,713	850,059	881,045	268,400	284,143	4,151,360
Disposals	(1,709)	(1,247)	(23,724)	(159,300)	-	(185,980)
Written-off	-	(27,249)	(63,671)	-	-	(90,920)
At 31 December 2024	6,656,285	1,767,297	2,707,738	268,400	889,647	12,289,367
Accumulated depreciation						
At 1 January 2023	1,243,886	144,383	696,425	3,751	151,999	2,240,444
Additions	395,630	81,530	549,062	15,919	77,035	1,119,176
Disposals	-	(76)	(219,176)	-	-	(219,252)
At 31 December 2023	1,639,516	225,837	1,026,311	19,670	229,034	3,140,368
Additions	563,528	128,336	804,508	24,387	231,265	1,752,024
Disposals	(888)	(741)	(19,980)	(31,925)	-	(53,534)
Written-off	-	(14,577)	(62,806)	-	-	(77,383)
At 31 December 2024	2,202,156	338,855	1,748,033	12,132	460,299	4,761,475
Net book value						
At 31 December 2023	3,150,765	719,897	887,777	139,630	376,470	5,274,539
At 31 December 2024	4,454,129	1,428,442	959,705	256,268	429,348	7,527,892

Equipment mainly consists of IT equipment such as server, storages and its related computer equipment.

Premises and equipment are stated at less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other non-operating income/loss).

13 Property and equipment (continued)

Depreciation. Depreciation of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Equipment	10
Fixtures and fittings	2-10
Office equipment	2-10
Vehicles	10
Others	5
Right-of-use assets	1-4

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

14 Intangible assets

The Bank's intangible assets have definite useful life and primarily include capitalised computer software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the asset's estimated useful lives.

	Useful lives in years
License	2-10
Software	3-10
Trademark	10
Others	10

14 Intangible assets (Continued)

<i>In thousands of MNT</i>	Software	Trademarks and License	Mobile application	System	Other	Total
Cost						
At 1 January 2023	717,571	1,018,120	1,123,021	11,845,059	-	14,703,771
Additions	182,199	29,066	468,595	3,594,302	-	4,274,162
Disposals	(657,381)	-	-	-	-	(657,381)
At 31 December 2023	242,389	1,047,186	1,591,616	15,439,361	-	18,320,552
Additions	900,761	-	2,963,336	2,382,856	13,967	6,260,920
Disposals	(123,542)	-	-	-	-	(123,542)
At 31 December 2024	1,019,608	1,047,186	4,554,952	17,822,217	13,967	24,457,930
Accumulated amortisation						
At 1 January 2023	661,050	59,980	68,735	3,104,687	-	3,894,452
Amortisation	45,602	102,395	118,820	1,438,242	-	1,705,059
Disposals	(657,381)	-	-	-	-	(657,381)
At 31 December 2023	49,271	162,375	187,555	4,542,929	-	4,942,130
Amortisation	142,598	104,934	167,115	1,636,244	235	2,051,126
Disposals	(1,521)	-	-	-	-	(1,521)
At 31 December 2024	190,348	267,309	354,670	6,179,173	235	6,991,735
Net book value						
As at 31 December 2023	193,118	884,811	1,404,061	10,896,432	-	13,378,422
As at 31 December 2024	829,260	779,877	4,200,282	11,643,044	13,732	17,466,195

15 Right-of-use assets and lease liability

The Bank leases offices for its operations. Rental contracts are typically made for fixed periods of 1 year to 4 years. The Bank does not have lease arrangements with option to purchase the right-of-use assets at the end of the lease term.

All leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Carrying amount at 1 January	880,041	128,880
Additions	5,549,222	1,915,410
Disposals	(930,388)	(1,005,299)
Depreciation charge for the year	(2,341,020)	(1,151,293)
Depreciation related to disposals	720,450	992,343
Carrying amount	3,878,305	880,041

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases by recognising the lease payments as an operating expense on a straight-line basis.

15 Right-of-use assets and lease liability (Continued)

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Expenses relating to short-term leases included in other operating expenses:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Expense relating to short-term leases (Note 25)	486,740	253,785
Depreciation on right-of-use assets	2,341,020	1,151,293
Interest expense on lease liabilities (Note 22)	458,595	98,895

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Amounts recognised in statement of cash flow:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Interest expense on lease liabilities	458,595	98,895
Payment of lease liabilities	2,281,217	1,073,879
Total cash outflow for leases	2,739,812	1,172,774

Maturity analysis of lease liabilities:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Within one year	2,299,896	550,786
More than one year but less than two years	781,232	323,727
More than two years but less than five years	665,701	161,864
Less: unearned interest	(488,863)	(120,765)
Total lease liabilities	3,257,966	915,612

16 Due to other banks

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Current accounts from other banks	27,162	1,275
Deposit accounts from other banks	308,807,818	242,627,946
Total due to other banks	308,834,980	242,629,221

Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC.

As at 31 December 2024, due to other banks included deposit from other local banks with original maturities from 60 to 91 days (2023: from 7 to 14 days). Interest rate analysis of due to other banks is disclosed in Note 30.

17 Due to customers

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Private sector deposits:	493,360,030	243,645,965
- Current accounts	190,316,496	138,819,099
- Term deposits	303,043,534	104,826,866
Individuals:	487,354,367	102,760,688
- Current accounts	39,031,350	12,452,356
- Term deposits	423,595,952	90,308,332
- Demand deposits	24,727,065	-
State and public organisations:	124,585,893	3,686,453
- Current accounts	90,897	650,782
- Term deposits	124,494,996	3,035,671
Total customer accounts	1,105,300,290	350,093,106

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC. Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 30. Information on related party balances is disclosed in Note 38.

18 Other borrowed funds

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Borrowed funds from foreign financial institutions		
International Finance Corporation	68,788,137	-
Saison Investment Management Private Limited	23,951,240	-
Borrowed funds from government organization		
Bank of Mongolia	8,250,852	-
Total other borrowed funds	100,990,229	-

a) Borrowed funds from foreign financial institutions

International Finance Corporation (“IFC”): On 28 March 2024, the Bank entered into a total of USD 30 million loan agreement with International Finance Corporation in its capacity as Implementing Entity for the Managed Co-Lending Portfolio Program in respect of the Trust Loan. The purpose of the loan is to support small and medium enterprises, of which at least 25% of the proceeds of the loan should be used to support women-owned small and medium enterprises. The loan has two tranches which each tranche has tenor of 36 months after the disbursement. The Bank received a first tranche total of USD 20 million from IFC on 19 September 2024, and a second tranche of USD 10 million on 21 January 2025. The loan is guaranteed by MCS Mongolia LLC, an ultimate parent company, which MCS Mongolia LLC unconditionally and irrevocably agreed to guarantee and pay on-demand the obligations of the Bank until the full payment of the loan and payment of all amounts owing to IFC.

Saison Investment Management Private Limited (“SIMPL”): On 27 May 2024, the Bank entered into a total of USD 5 million Senior Unsecured Term Loan Facility Agreement and a total of USD 2 million Senior Secured Term Loan Facility Agreement with SIMPL. The purpose of the loans is to support women-owned and women-led micro, small, and medium business clients and to support green loan issuance. Both loans have tenor of 24 months following the first utilization date. The Bank received USD 7 million from SIMPL on 31 May 2024. The senior secured loan is pledged by the Bank’s corporate USD bank account with TDB as a security (Refer to Note 8).

18 Other borrowed funds (Continued)

b) Borrowed funds from Bank of Mongolia

Mortgage funding program: Under the Mortgage funding program, the Bank receives funding from BoM, which bears interest rate of 2% per annum and the Bank then issues mortgage loans at the interest rate of 6% per annum.

Refer to Note 34 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 30.

c) Loan covenants and waivers

International Finance Corporation (“IFC”): The loan from IFC contained covenant such as single foreign currency exposure ratio should not be more than 10%. The Bank has breached the above financial ratio covenant as at 31 December 2024. Although the Bank is in constant communication with IFC on loan covenant compliance, waiver from IFC was not received at the reporting date. As the waiver from IFC was not received at the reporting date, the loan was classified and disclosed as on demand in the financial statements in accordance with IAS 1. However, the Bank subsequently obtained a waiver from IFC on 27 March 2025. The management expects the Bank will meet the required covenant for the next 12 months after the reporting period.

19 Repo arrangements

As of 31 December 2024, the Bank does not have repo arrangements with any local banks. As of 31 December 2023, MNT 9,996,445 thousand of repo arrangements relate to placement from local bank bearing interest rate ranging from 13.0% to 14.0% per annum with original maturities of 1 and 17 days. These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 7.

20 Other liabilities

Other liabilities comprise the following:

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
<i>Other financial liabilities at AC</i>		
Liabilities for settlements of transactions	3,355,405	7,975,656
Payables and accrued expenses	688,484	744,032
Total other financial liabilities	4,043,889	8,719,688
<i>Other non-financial liabilities</i>		
Salary payables	877,507	655,643
Tax payables other than income tax	2,043,305	130,086
Provision for commitments (Note 32)	90,559	-
Total non- financial liabilities	3,011,371	785,729
Total other liabilities	7,055,260	9,505,417

Liabilities for settlements of transactions mainly related to the amount of payables in cash and bank settlement services. Related balances are settled on the next working day.

Payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

21 Share capital

<i>In thousands of MNT except for number of shares</i>	Number of outstanding shares	Ordinary shares	Total
At 1 January 2023	100,000,000	100,000,000	100,000,000
Issued for cash	-	-	-
At 31 December 2023	100,000,000	100,000,000	100,000,000
Issued for cash	70,000,000	70,000,000	70,000,000
At 31 December 2024	170,000,000	170,000,000	170,000,000

On 27 June 2024, shareholders approved the issue of 70,000 thousand ordinary shares at a price of MNT 1,000 per share (2023: nil).

The nominal registered amount of the Bank's issued share capital is MNT 170,000,000 thousand (2023: MNT 100,000,000 thousand). The total authorised number of ordinary shares is 170,000 thousand shares (2023: 100,000 thousand shares), with a par value of MNT 1,000 per share (2023: MNT 1,000 per share). All issued ordinary shares are fully paid.

22 Interest income and expense

<i>In thousands of MNT</i>	2024	2023
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	86,838,792	31,131,449
Debt securities at AC	17,635,725	9,002,319
Due from other banks at AC	6,546,787	5,883,646
Cash balances with Bank of Mongolia at AC	4,315,651	3,349,934
Repurchase sale and repurchase agreements at AC	746,154	251,436
Total interest income calculated using the effective interest method	116,083,109	49,618,784
Other similar income		
Loans and advances to customers at FVTPL	191,443	46,568
Total other similar income	191,443	46,568
Total interest income	116,274,552	49,665,352
Interest and other similar expense		
Due to customers	57,065,080	12,058,072
Due to other banks	10,016,912	8,374,358
Other borrowed funds	3,447,683	2,589,845
Repurchase agreements	2,467,566	758,659
Total interest expense	72,997,241	23,780,934
Other similar expense		
Interest expense on swaps	834,918	-
Lease liabilities	458,595	98,895
Total other similar expense	1,293,513	98,895
Total interest expense	74,290,754	23,879,829
Net margin on interest and similar income	41,983,798	25,785,523

Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

22 Interest income and expense (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (i.e. the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in profit or loss due to the asset being in stage 3, but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

23 Net fees and commission income

<i>In thousands of MNT</i>	2024	2023
Fee and commission income		
Card related fee and commissions	1,494,708	398,432
Credit related fee and commissions	750,457	236,971
Account service fee and commissions	1,419,597	151,968
Total fee and commission income	3,664,762	787,371
Fee and commission expense		
Card related fee and commissions	494,498	85,733
Account service charges	797,002	16,932
Card transaction charges	183,037	330
Other	54,955	-
Total fee and commission expense	1,529,492	102,995
Net fee and commission income	2,135,270	684,376

Fee and commission income is recognised when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. Such income includes fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

24 Personnel expenses

<i>In thousands of MNT</i>	2024	2023
Salaries, wages and bonuses	14,024,758	10,787,210
Contribution to social and health insurance fund	1,735,936	1,381,238
Total personnel expenses	15,760,694	12,168,448

The growth in salaries, wages, and bonuses in 2024 has resulted mainly from an increase in the number of employees.

25 Other operating expenses

<i>In thousands of MNT</i>	2024	2023
Marketing and advertisement expenses	5,531,247	3,273,268
IT and communications	4,058,399	2,734,268
Deposit insurance fee	1,456,035	488,358
Professional service fee	1,150,298	898,711
Events expense	1,123,140	841,576
Taxes other than income tax	755,711	374,637
Stationery	533,940	327,201
Low value and short-term expense (Note 15)	486,740	253,785
Business trip expense	331,498	257,764
Training expense	274,786	161,633
Supply materials	217,213	166,650
Security expense	195,183	139,175
Sanitation and cleaning	183,663	117,856
Occupational safety	173,929	14,938
Repairs and maintenance expense	115,893	133,120
Insurance	107,358	6,457
Transportation expense	70,563	28,424
Utility expense	51,616	21,746
Total other operating expenses	16,817,212	10,239,567

26 Net non-operating (expenses) / income

<i>In thousands of MNT</i>	2024	2023
Other income	16,096	57,409
Gains on disposal of property and equipment	-	27,605
Penalty income	-	230
Total non-operating income	16,096	85,244
Other expense	60,011	29,591
Donation	33,535	-
Losses on write-off of property and equipment	13,537	-
Losses on disposal of property and equipment	2,075	-
Losses on disposal of intangible assets	1,926	-
Penalty expense	3,241	722
Total non-operating expense	114,325	30,313
Net non-operating (expense)/income	(98,229)	54,931

27 Impairment losses on financial instruments

<i>In thousands of MNT</i>	<i>Note</i>	2024	2023
Loans and advances to customers	10	16,403,698	2,762,358
Off balance sheet commitments	32	90,559	-
Cash and cash equivalents	7	208,559	61,705
Due from other banks		184,457	-
Reverse sale and repurchase agreements		24,760	-
Other assets	12	3,944	71
Total impairment losses on financial instruments		16,915,977	2,824,134

28 Income tax

(a) Components of income tax (benefit) / expense

Income tax expense recorded in profit or loss for the year comprises the following:

<i>In thousands of MNT</i>	2024	2023
Current tax:		
Current income tax	907,862	1,152
Deferred tax:		
Deferred tax arising from temporary differences	(1,155,888)	962
Income tax (benefit)/expense for the year	(248,026)	2,114

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

28 Income tax (Continued)

(a) Components of income tax (benefit) / expense (Continued)

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 6,000,000 thousands of taxable income and 25% on the excess of taxable income over MNT 6,000,000 thousand. Impairment losses for non-performing loans and advances are deductible for income tax purposes.

A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of MNT</i>	2024	2023
Loss before tax	(6,678,986)	(2,885,320)
Theoretical tax charge at statutory rate (2024: 10%; 2023: 10%)	(667,899)	(288,532)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempted from taxation	(158,218)	-
- Non-deductible expenses	602,237	195,857
- Income which is taxed at different rates	113,572	1,152
- Current year tax losses for which no deferred tax asset is recognised	-	92,675
- Change in estimate related to prior year	(137,718)	962
Income tax (benefit) / expense for the year	(248,026)	2,114

28 Income tax (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

<i>In thousands of MNT</i>	1 January 2024	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2024
Tax effect of deductible/(taxable) temporary differences				
Lease liabilities	-	15,616	-	15,616
Borrowed funds - Unrealised foreign exchange difference	-	8,823	-	8,823
Due to customer - Unrealised foreign exchange difference	-	2,708,960	-	2,708,960
Other	3,643	(1,022)	-	2,621
Deferred tax assets	3,643	2,732,377	-	2,736,020
Loans and advances to customers - interest income on loans overdue more than 90 days	-	245,088	-	245,088
Loans and advances to customers - accrued interest receivable	-	828,901	-	828,901
Fair value changes of derivative financial instruments	-	502,500	-	502,500
Deferred tax liabilities	-	1,576,489	-	1,576,489
Net deferred tax assets/(liabilities)	3,643	1,155,888	-	1,159,531

<i>In thousands of MNT</i>	1 January 2023	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2023
Tax effect of deductible/(taxable) temporary differences				
Other	4,605	(962)	-	3,643
Net deferred tax assets/(liabilities)	4,605	(962)	-	3,643

(d) Current tax (receivables) / liabilities

<i>In thousands of MNT</i>	2024	2023
Balance at beginning of the year	(9)	(9)
Current tax expense for the year	907,862	1,152
Payments for income tax	(461,588)	(1,152)
Corporate income tax payable / (receivables)	446,265	(9)

29 Reconciliation of liabilities arising from financing activities

The table below sets out movements in the Bank's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

<i>In thousands of MNT</i>	Repurchase arrangements	Other borrowed funds	Lease liabilities	Total
Liabilities from financing activities at 1 January 2024	9,996,445	-	915,612	10,912,057
<i>Cash transactions</i>				
Cash inflows	3,366,771,248	97,809,872	-	3,464,581,120
Cash outflows	(3,376,753,471)	-	(2,281,217)	(3,379,034,688)
Interest paid	(2,481,788)	(1,333,271)	(458,595)	(4,273,654)
<i>Non - cash transactions</i>				
New leases	-	-	4,623,571	4,623,571
Interest accrued	2,467,566	3,447,683	458,595	6,373,844
Foreign exchange adjustments	-	1,065,945	-	1,065,945
Liabilities from financing activities at 31 December 2024	-	100,990,229	3,257,966	104,248,195

<i>In thousands of MNT</i>	Repurchase arrangements	Other borrowed funds	Lease liabilities	Total
Liabilities from financing activities at 1 January 2023	-	20,101,918	87,200	20,189,118
<i>Cash transactions</i>				
Cash inflows	878,290,081	-	-	878,290,081
Cash outflows	(868,307,858)	(20,000,000)	(1,073,879)	(889,381,737)
Interest paid	(744,437)	(2,691,763)	(98,895)	(3,535,095)
<i>Non - cash transactions</i>				
New leases	-	-	1,902,291	1,902,291
Interest accrued	758,659	2,589,845	98,895	3,447,399
Liabilities from financing activities at 31 December 2023	9,996,445	-	915,612	10,912,057

30 Financial risk management

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

A. Risk management structure

Risk management framework. The Bank's risk management framework aims to establish an effective risk management and control function that facilitates informed, risk-based decision making. Integral components to the Bank's risk management framework are the risk governance, risk appetite, risk universe, three lines of defence, stress testing, as well as risk reporting and monitoring.

Risk Governance: It involves defining roles and responsibilities for managing and overseeing risks, establishing reporting lines, and ensuring accountability. The Bank's risk governance is executed through different risk governing bodies, as follows:

- **The Board of Directors** holds the ultimate responsibility for approving and reviewing the Bank's risk management framework and risk appetite statement.
- **The Board Risk Management Committee** oversees the implementation and execution of the approved risk management framework and challenges its effectiveness.
- **The Risk Management Committee** is responsible for the execution of the Bank's risk management framework at the management level and ensures the adherence to approved risk appetite.
- **The Credit Committee** is tasked with resolving the loans that carry significant risk or exposure, ensuring a focused approach to managing such loans.

Risk Universe: It encompasses all the potential types of risks that the Bank may encounter during its operation. The Bank conducts a periodic review of its risk universe at least annually as part of the process for reviewing and recalibrating the risk appetite.

Risk appetite: It is the level of risk that the Bank is willing to accept in pursuit of the Bank's business strategy and goals. The Bank performs a periodic assessment of its risk appetite at least once a year, considering revision of the Bank's business plan and/or change in applicable regulatory constraints or lender covenants.

Three lines of defence: It represents distinct roles and responsibilities to ensure effective risk management and controls within the Bank.

- First Line of Defence owns and manages the risk. It has the responsibility for identifying, assessing and reporting the potential risks, as well as designing and implementing the controls to mitigate these risks.
- Second Line of Defence oversees the risk, taking responsibility for reviewing and recalibrating risk universe and risk appetite. It ensures adherence to approved risk appetite and reports the performance of the risk appetite to the relevant risk committees. Furthermore, it monitors the implementation and execution of the controls established in the First Line of Defence, providing guidance and advice to enhance their effectiveness.
- Third Line of Defence provides independent assurance on the effectiveness of both the First Line and Second Line Defence in managing and controlling risks within the Bank through internal audit function to the Board of Directors.

Stress testing: It serves to assess the Bank's financial capacity within predefined scenarios, evaluates potential losses, and formulates action plans for mitigating the losses. Two recession scenarios are applied in stress testing to assess the Bank's performance under adverse conditions. Stress testing is an integral part of the Bank's risk management framework and must be conducted at least once a year, aligned with the Bank's financial budget planning. The results and outcomes of stress testing inform the risk governing bodies.

30 Financial risk management (Continued)

A. Risk management structure (Continued)

Risk analytic and reporting: To implement effective risk management and control framework, the risk report is crucial part to monitor the Bank's risk landscape. The risk report is prepared and presented to Risk Management Committee monthly and to Board Risk Management Committee on a quarterly basis. It provides a detailed analysis of all the risks including credit risks, concentration risk, market risk, interest rate risk, liquidity risk and operational risk.

B. Credit risk

The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Credit risk grading system. For measuring risk and grading financial instruments by the amount of credit risk, the Bank applies days past due to Stages as of year ends and risk grades. These intervals disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings/Days past due
Excellent	0
Good	1-30
Satisfactory	31-60
Special monitoring	61-90
Default	90+

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, cash and cash equivalents and investments in debt securities.

30 Financial risk management (Continued)

B. Credit risk (Continued)

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period.

Expected credit losses are modelled over instrument's *lifetime period*. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models *Lifetime ECL*, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL*, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information*, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

Default definition. For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments; or
- the borrower is deceased.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 6 months.

The assessment whether there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. The criteria used to identify an SICR (Refer to Note 4) are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

30 Financial risk management (Continued)

B. Credit risk (Continued)

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the Bank ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio.

The Bank performs individual assessment for the following types of loans: Loans that are individual exposures above MNT 1,000,000 thousand and are downgraded according to Asset classification and provisioning regulation of the Bank of Mongolia. The Bank performs an assessment on a portfolio basis for the loans that are not individually significant but for which individual assessment does not show actual evidence of impairment. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses and other predictive information.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Risk Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as business or consumer), product type. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future months during the lifetime period 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 been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

30 Financial risk management (Continued)

B. Credit risk (Continued)

The key principles of calculating the credit risk parameters. The EAD is the gross carrying amount of the financial instrument at the calculation date. It is determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected prepayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding an accrued interest for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is calculated based on the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrices, developing lifetime PD curves based on the historical default data.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

ECL measurement for credit lines. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the credit limit.

Forward-looking information incorporated in the ECL models. The Bank identified certain key economic variables that impact on developments in credit risk and ECLs. Forecasts of economic variables (the "based economic scenario") are provided by the Bank and provide the best estimate of the expected macro-economic development over the next year. The impact of the relevant economic variables on ECL has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the systemic non-performing business and individual loan portfolios since there is no long term internal historical non-performing loan data.

The Bank consider historical time series of listed variables and their suitable transformations (e.g., 1-4 quarters lags or year-to-year relative changes), and analyse their relationship with the target variable (year-to-year change in transformed NPL). To find the most suitable candidates, the Bank rely on economic intuition, observed correlations between the target and available historical macroeconomic data, and statistical properties of candidate models.

In addition to the base economic scenario, the Bank's Risk Analytic and Reporting Department also provides other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each reporting date.

30 Financial risk management (Continued)

B. Credit risk (Continued)

The scenario weightings are determined by of statistical analysis, taking into account the range of possible outcomes of which each chosen scenario is representative. The weights of the scenarios are obtained by mapping optimistic and pessimistic multipliers calculated in previous step to respective percentiles of the empirical distribution.

The assessment of SICR is performed using the Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

C. Market risk

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, and (d) financial instruments (including derivatives), all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk arises when a bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank is fulfilling the limits of single foreign currencies exposure to total capital and aggregate foreign currencies to exposure to total capital limit established by the Bank of Mongolia's regulation.

30 Financial risk management (Continued)

C. Market risk (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of MNT	At 31 December 2024			At 31 December 2023			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Net position
MNT	1,366,703,445	(1,183,027,613)	(80,430,383)	103,245,449	506,075,799	(450,595,496)	55,480,303
USD	270,061,409	(338,749,312)	84,778,763	16,090,860	129,078,878	(121,451,187)	7,627,691
EUR	258,472	(222,545)	-	35,927	5,459,443	(4,929,513)	529,930
CNY	483,830	(427,081)	-	56,749	37,324,993	(35,377,876)	1,947,117
JPY	21,818	(803)	-	21,015	1,034	-	1,034
TRY	1,215	-	-	1,215	-	-	-
Total	1,637,530,189	(1,522,427,354)	4,348,380	119,451,215	677,940,147	(612,354,072)	65,586,075

Derivatives presented above are monetary financial assets or monetary financial liabilities but are presented separately to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

In thousands of MNT	At 31 December 2024	At 31 December 2023
USD strengthening by 10% (2023: strengthening by 10%)	1,609,086	762,769
USD weakening by 10% (2023: weakening by 10%)	(1,609,086)	(762,769)
EUR strengthening by 10% (2023: strengthening by 10%)	3,593	52,993
EUR weakening by 10% (2023: weakening by 10%)	(3,593)	(52,993)
CNY strengthening by 10% (2023: strengthening by 10%)	5,675	194,712
CNY weakening by 10% (2023: weakening by 10%)	(5,675)	(194,712)
JPY strengthening by 10% (2023: strengthening by 10%)	2,102	103
JPY weakening by 10% (2023: weakening by 10%)	(2,102)	(103)
TRY strengthening by 10% (2023: strengthening by 10%)	122	-
TRY weakening by 10% (2023: weakening by 10%)	(122)	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Bank.

Interest rate risk. The interest rate risk assessment and performance are monthly monitored by the Bank's Risk Management Committee, and it is reported to both the Board Risk Management Committee and Board of Directors. The responsibility for monitoring interest rate risk within the bank lies within Asset and Liability Management Committee (ALCO). The committee reports changes in market interest rate risk repeatedly, which serves as the basis for informed decision-making and oversight of the bank's interest rate and liquidity positions.

30 Financial risk management (Continued)

C. Market risk (Continued)

The Bank evaluates interest rate risk exposures associated with interest-sensitive assets and liabilities. Fluctuations in market interest rates directly impact the Bank's net interest income in the short term and its economic value of equity in the long term. To monitor risks stemming from market interest rate changes, the Bank adheres to the Basel III standards established by the Basel Committee on Banking Supervision.

Utilizing the methodologies outlined below, the Risk Management Committee approves internal risk appetite limits. Herein:

- To manage short-term interest rate risk, the Bank monitors changes in Net Interest Income under interest rate shock scenarios.
- To manage long-term interest rate risk, the Bank monitors changes in the Economic Value of Equity under shock scenarios on the banking book.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

<i>In thousands of MNT</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2024						
Total financial assets	657,786,544	284,058,504	223,624,163	412,935,122	63,474,236	1,641,878,569
Total financial liabilities	377,727,359	507,710,870	339,265,826	64,213,505	233,509,794	1,522,427,354
Net interest sensitivity gap at 31 December 2024						
	280,059,185	(223,652,366)	(115,641,663)	348,721,617	(170,035,558)	119,451,215
31 December 2023						
Total financial assets	450,721,773	92,380,400	48,562,805	63,434,720	22,840,449	677,940,147
Total financial liabilities	306,909,189	65,500,235	67,032,439	12,269,009	160,643,200	612,354,072
Net interest sensitivity gap at 31 December 2023						
	143,812,584	26,880,165	(18,469,634)	51,165,711	(137,802,751)	65,586,075

At 31 December 2024, if interest rates at that date had been 10% higher/(lower) (2023: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 28,939,621 thousands (2023: MNT 20,338,882 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2024.

30 Financial risk management (Continued)

D. Liquidity risk (Continued)

Liquidity risk. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank establishes liquidity risk appetite based on liquidity metrics that ensure the minimum ability to meet obligations in the event of unexpected large cash withdrawals by customers. The table below summarizes the maturity profile of the Bank's financial assets and liabilities as of 31 December 2024, based on contractual undiscounted cash flows. These include gross finance lease obligations and loan commitments. Unlike the figures in the statement of financial position, which reflect discounted cash flows, these amounts represent total contractual obligations. Financial derivatives are reported at contractual amounts unless the Bank intends to close the positions before maturity, in which case estimated cash flows are used. 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:

<i>In thousands of MNT</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	552,928,835	123,356,199				676,285,034
Mandatory cash balances with Bank of Mongolia	48,854,122	-	-	-	-	48,854,122
Due from banks	-	-	-	7,132,909	-	7,132,909
Reverse sale and repurchase agreements	74,185,229	-	-	-	-	74,185,229
Derivative financial assets	(238,092)	(2,409,049)	(1,815,404)	8,810,925	-	4,348,380
Loans and advances to customers	60,703,791	218,794,185	282,839,854	449,767,377	44,905,500	1,057,010,707
Other financial assets	3,622,472	-	-	-	-	3,622,472
Total financial assets	740,056,357	339,741,335	281,024,450	465,711,211	44,905,500	1,871,438,853
Financial liabilities						
Due to other banks	188,795,774	121,995,222				310,790,996
Due to customers	350,159,873	391,987,573	368,563,368	55,684,883	-	1,166,395,697
Other borrowed funds	68,788,589	9,224,302	8,838,359	16,782,882	-	103,634,132
Lease liabilities	215,395	1,199,922	884,579	1,446,932	-	3,746,828
Other financial liabilities	3,547,600	457,498	38,791	-	-	4,043,889
Total financial liabilities	611,507,231	524,864,517	378,325,097	73,914,697	-	1,588,611,542
Undrawn credit lines	28,241,765	-	-	-	-	28,241,765
Total off-balance sheet items	28,241,765	-	-	-	-	28,241,765
Total financial liabilities and off-balance sheet liabilities	639,748,996	524,864,517	378,325,097	73,914,697	-	1,616,853,307
Net	100,307,360	(185,123,182)	(97,300,647)	391,796,514	44,905,500	254,585,545
Accumulated Net Gap	100,307,360	(84,815,822)	(182,116,469)	209,680,045	254,585,545	-

30 Financial risk management (Continued)

D. Liquidity risk (Continued)

The maturity analysis of financial instruments at 31 December 2023 is as follows:

<i>In thousands of MNT</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	12 months to 5 years	From 5 years	Over 5 years	Total
Financial assets							
Cash and cash equivalents	383,429,070	-	-	-	-	-	383,429,070
Mandatory cash balances with Bank of Mongolia	14,291,395	-	-	-	-	-	14,291,395
Reverse sale and repurchase agreements	34,880,406	-	-	-	-	-	34,880,406
Investments in debt securities	2,200,000	52,000,000	14,800,000	-	-	-	69,000,000
Loans and advances to customers	34,729,726	55,090,048	44,809,520	71,760,418	6,333,188	212,722,900	
Other financial assets	7,704,527	21,488	-	-	-	-	7,726,015
Total financial assets	477,235,124	107,111,536	59,609,520	71,760,418	6,333,188	722,049,786	
Financial liabilities							
Due to other banks	242,987,534	-	-	-	-	-	242,987,534
Due to customers	206,287,590	67,516,579	74,138,535	14,337,742	-	-	362,280,446
Repo arrangements	10,000,000	-	-	-	-	-	10,000,000
Lease liabilities	73,055	284,382	193,349	485,591	-	-	1,036,377
Other financial liabilities	7,975,656	744,032	-	-	-	-	8,719,688
Total financial liabilities	467,323,835	68,544,993	74,331,884	14,823,333	-	625,024,045	
Undrawn credit lines	102,291	-	-	-	-	-	102,291
Total off-balance sheet items	102,291	-	-	-	-	-	102,291
Total financial liabilities and off-balance sheet liabilities	467,426,126	68,544,993	74,331,884	14,823,333	-	625,126,336	
Net	9,808,998	38,566,543	(14,722,364)	56,937,085	6,333,188	96,923,450	
Accumulated Net Gap	9,808,998	48,375,541	33,653,177	90,590,262	96,923,450	-	

30 Financial risk management (Continued)

D. Liquidity risk (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that despite a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

E. Operational risk

Operational risk. The operational risk refers to the risk that arises from inadequacies in human factors, systems, internal processes, and external factors.

Operational risk management framework. The Bank is implementing an operational risk management framework based on the “three lines of defence” principles established by the Board of Directors. In 2024, the Bank focused on enhancing the quality of its operational risk management framework and the governance components that support it, while incorporating international best practices and risk management methodologies. The primary focus included the enhancement of operational risk governance, conducting Risk and Control Self-assessments of process and product, defining and monitoring Key risk indicators, improving the quality of regular risk reporting, and establishing Business continuity management, among other initiatives, to effectively manage and direct risks.

In addition, in alignment with the specific operations of the Bank, major financial industry insurance policies, such as the Bankers’ Blanketed Bond, Cyber Liability Insurance, and Directors and Officers Liability Insurance, were secured to protect the assets and sensitive information of investors, customers, and partners from risks and ensure business continuity.

In the international COBIT framework assessments conducted in 2024, the Bank’s risk management framework and processes for optimizing risk management were evaluated as being “in accordance with international best practices”.

During the reporting period, operational risks were managed within the Risk appetite approved at the Board of Directors, with regular monitoring and reporting provided to the Board. Additionally, through the continuous monitoring of key risk indicators and their reporting, support was consistently provided to optimize decision-making at the executive management level.

Effectively managing operational risks requires maintaining a high level of awareness and capability among stakeholders concerning “Risk Awareness”, which involves identifying, assessing, evaluating risks, and implementing effective response measures. Throughout 2024, the Bank focused on strengthening this awareness by providing regular risk management training and advisory information to all employees and clients to enhance their capabilities.

Information Technology Risk Management. The Bank conducts an annual Risk Control Self-Assessment (RCSA) to effectively manage information technology (IT) risks and regularly monitors the effectiveness of mitigation measures on a quarterly basis. During the reporting year, the Bank successfully reduced medium- and high-level IT risks to an acceptable level. Additionally, the Bank performs risk and impact assessments for all system changes implemented across the organization.

To ensure the availability of IT services and business continuity, the Bank continuously analyses operational issues and disruptions, implements timely corrective actions, and addresses identified challenges through discussions held monthly by the IT management team and quarterly by the Management Committee.

30 Financial risk management (Continued)

E. Operational risk (Continued)

The Bank aligns its IT risk management practices with internationally recognized frameworks such as COBIT and ITIL. In 2024, the Bank successfully underwent a COBIT-based IT governance audit for 16 selected processes, further enhancing its evaluation and maturity in IT risk management.

Information security risk management. The Bank proactively manages information security risks across its business operations and information technology systems to minimize the potential impact of security breaches. Our objective is to maintain the confidentiality, integrity, and availability (CIA) of critical information by reducing vulnerabilities within information systems. This is achieved through a combination of preventive controls, continuous monitoring, and rapid response mechanisms to protect against potential risks.

The Bank regularly assesses and monitors the risk appetite, ensuring that all identified information security risks are within acceptable thresholds. Performance against these risk tolerance levels is reviewed and reported monthly to the Risk Management Committee, ensuring transparency and accountability in managing information security risks.

As part of our ongoing risk management efforts, the Bank conducts vulnerability scanning and penetration testing on a continuous basis. These proactive measures help identify and address potential security weaknesses before they can be exploited, strengthening the overall security posture of our systems.

Furthermore, the Bank conducts Risk and Control Self-Assessment exercises to identify, assess, and mitigate potential risks within our information security framework. Risk and Control Self-Assessment helps in evaluating the effectiveness of existing controls and ensuring that emerging risks are promptly addressed. The results of these assessments are followed by the creation of targeted action plans, which are carefully monitored and reviewed on a quarterly basis to ensure that corrective actions are being implemented effectively and on schedule.

To strengthen our information security practices, the Bank has been preparing for the implementation of PCI DSS and ISO/IEC 27001:2022 standards in 2024. The PCI DSS audit has already commenced as part of our efforts to meet the necessary compliance requirements for protecting payment card information.

Compliance risk management. The Bank's compliance control and surveillance processes, as well as other internal control processes, aim to ensure proper conduct of its business, prevent financial crime, and comply with applicable laws and regulatory requirements. The Bank continues to invest significant attention and resources to strengthen the overall compliance risk management framework, systems and controls.

The Chief Executive Officer (CEO) of the Bank is responsible for overseeing the Compliance division, which was established in November 2023. The Compliance division oversees and monitors the anti-money laundering and terrorist financing risks and provides compliance risk and operation reports to the CEO and Board's Risk Management Committees on a monthly and quarterly basis.

The Board's Risk Management Committee has primary oversight responsibility for all aspects of compliance risk, including money laundering and terrorist financing risk. As part of its oversight responsibilities, the Board's Risk Management Committee reviews and approves compliance and anti-money laundering and counter terrorist financing policies and programs and oversees the Bank's compliance risk management programs.

The Bank is dedicated to mitigating money laundering and terrorist financing risks by ensuring strong governance, effective risk management procedures, and a sound control framework. The Bank continues to improve the effectiveness of Anti-money laundering and terrorist financing program and controls, including Know-your customer, real-time transaction monitoring, screening of all customers for sanctions, adverse media and PEP lists, customer risk assessment during the on-boarding and ongoing basis.

30 Financial risk management (Continued)

E. Operational risk (Continued)

In 2024, the Bank focused on implementing key measures including but not limited to following to enhance and strengthen its anti-money laundering and terrorist financing programs and controls:

- Fully automated the customer risk assessment process [Renewed the Customer risk assessment methodology and implemented the customer risk assessment calculation into the core banking solution]
- Enhancement of sanction screening process and framework [Implemented new sub-module "Watchlist" in the Compliance module which includes International Sanction lists (UN, EU, OFAC, HMT, DFAT, DUTCH, CANADA, JAPAN, FRANCE & MAS), Adverse Media lists]
- Continues improvement on PEP screening module [Improvement on the list information and screening process (fuzzy logic & algorithm)]
- Improvement on the real time transaction monitoring and transaction monitoring rules [Transaction monitoring policy has been updated to include keyword, benchmark and sanction and transaction monitoring rules & parameter has been updated to fully comply with international and domestic regulatory requirements]
- Implementation of Transaction Screening Service provided by SWIFT [Successfully implemented the SWIFT's TSS]
- Enhancement of employee training and awareness framework [Ensuring all training modules are updated and training provided to all employees]
- Performed an annual review of the compliance policy and procedures

31 Management of capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank (Bank of Mongolia) and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Bank of Mongolia is monitored daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chairman of the Board of Directors and Chief Accountant of the Bank.

Under the current capital requirements set by the Bank of Mongolia, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level (Tier 1 ratio and Total capital ratio).

32 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. The Bank has an established protocol for dealing with such legal claims. The Bank does not have any significant legal claims as at 31 December 2024 and 31 December 2023.

Capital expenditure commitments. As at 31 December 2024, the Bank has contractual capital expenditure commitments in respect of software and intangible assets of USD 750 thousand (2023: none). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

32 Contingencies and commitments (Continued)

Credit related contingencies and commitments. To meet financial needs of customers, the Bank enters in irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

<i>In thousands of MNT</i>	At 31 December 2024			At 31 December 2023		
	Gross carrying amount	Credit loss allowance	Carrying mount	Gross carrying amount	Credit loss allowance	Carrying mount
Contingent liabilities						
Undrawn credit lines	28,241,765	(90,559)	28,151,206	102,291	-	102,291
Total	28,241,765	(90,559)	28,151,206	102,291	-	102,291

Expected credit loss allowance for off balance sheet commitments:

<i>In thousands of MNT</i>	Credit loss allowance			Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)
At 31 December 2023						
New originated or purchased/increases	90,559	-	-	28,139,474	-	-
Exposures	-	-	-	-	-	-
derecognised or matured/lapsed	-	-	-	-	-	-
- Transfers to Stage 1	-	-	-	-	-	-
- Transfers to Stage 2	-	-	-	-	-	-
- Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2024	90,559	-	-	28,241,765	-	-

33 Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

The Bank entered into a long-term cross currency interest rate SWAP agreement with the Bank of Mongolia with duration from 2024 to 2026.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

<i>In thousands of MNT</i>	31 December 2024	31 December 2023
Foreign exchange swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	84,778,763	-
- MNT payable on settlement (-)	(80,430,383)	-
Net fair value of foreign exchange swaps	4,348,380	-

34 Fair value disclosures

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

34 Fair value disclosures (Continued)

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of MNT	31 December 2024			31 December 2023			Total	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Loans and advances to customers at FVTPL	-	-	14,209,118	14,209,118	-	-	789,993	789,993
Derivative financial instruments – asset	-	4,348,380	-	4,348,380	-	-	-	-
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	-	4,348,380	14,209,118	18,557,498	-	-	789,993	789,993

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2024 and 31 December 2023:

In thousands of MNT	31 December	31 December	Valuation technique	Inputs used		
	2024	2023				
ASSETS AT FAIR VALUE						
FINANCIAL ASSETS						
Derivative financial instruments	4,348,380	-	Interest rate parity analysis/ Modified discount curve	MNT discount rate based on risk-free rate, country risk premium, currency risk premium and credit spread, USD discount rate based on risk-free rate and country risk premium, USD leg based on SOFR and Z spread, MNT leg based on repo rate.		
Balance at 31 December	4,348,380	-				

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2024 (2023: none).

34 Fair value disclosures (Continued)

(a) Recurring fair value measurements (continued)

The following table sets out information about unobservable inputs used in measuring financial instruments categorised at Level 3 in the fair value hierarchy.

Financial assets at 31 December 2024:

<i>In thousands of Mongolian Tugriks</i>	Fair value	Valuation technique	Inputs used	Range of inputs	Reasonable change	Sensitivity of fair value measurement
Assets at fair value financial assets						
Loans and advances to employees at FVTPL	1,266,999	Discounted cashflow	Discount rate	8.00% - 13.20%	10.00%	+/-126,700
MIK mortgage loan to customers at FVTPL	12,942,119	Discounted cashflow	Discount rate	6%	10.00%	+/-1,294,212
Total recurring fair value measurements at level 3						
	14,209,118					

Financial assets at 31 December 2023:

<i>In thousands of Mongolian Tugriks</i>	Fair value	Valuation technique	Inputs used	Range of inputs	Reasonable change	Sensitivity of fair value measurement
Assets at fair value financial assets						
Loans and advances to employees at FVTPL	789,993	Discounted cashflow	Discount rate	8.00% - 13.20%	10.00%	+/-78,999
Total recurring fair value measurements at level 3						
	789,993					

(b) Valuation processes for recurring and non-recurring level 3 fair value measurements

Loans at FVTPL, which are classified at level 3 for fair value measurement purposes, in the amount of MNT 14,209,118 thousands (31 December 2023: MNT 789,993 thousands, which were classified as level 3) are related to Mortgage portfolio of loans.

Level 3 valuations are reviewed on an annual basis by the Bank's financial management department who report to the Board of Directors on annual basis. The management of the Bank considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the management performs back testing and considers which model's results have historically aligned most closely to actual market transactions. The level three debt instruments are valued at the net present value of estimated future cash flows. The Bank also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

34 Fair value disclosures (Continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

<i>In thousands of MNT</i>	31 December 2024				31 December 2023					
	Level 1	Level 2	Level 3	Fair value	Carrying value	Level 1	Level 2	Level 3	Fair value	Carrying value
ASSETS										
Cash and cash equivalents	-	673,517,011	-	673,517,011	673,517,011	-	382,773,890	-	382,773,890	382,773,890
Mandatory cash balances with Bank of Mongolia	-	48,854,122	-	48,854,122	48,854,122	-	14,291,395	-	14,291,395	14,291,395
Reverse sale and repurchase agreements	-	74,089,698	-	74,089,698	74,089,698	-	34,867,161	-	34,867,161	34,867,161
Due from other banks	-	6,797,069	-	6,797,069	6,797,069	-	-	-	-	-
Investments in debt securities	-	-	-	-	-	-	-	65,632,054	65,632,054	65,632,054
Loans and advances to customers	-	-	816,440,699	816,440,699	816,440,699	-	-	171,859,639	171,859,639	171,859,639
Other financial assets	-	3,622,472	-	3,622,472	3,622,472	-	7,726,015	-	7,726,015	7,726,015
TOTAL	-	806,880,372	816,440,699	1,623,321,071	1,623,321,071	-	439,658,461	237,491,693	677,150,154	677,150,154

34 Fair value disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of MNT	31 December 2024				31 December 2023					
	Level 1 fair value	Level 2 fair value	Level 3 fair value	Total fair value	Carrying value	Level 1 fair value	Level 2 fair value	Level 3 fair value	Total fair value	Carrying value
FINANCIAL LIABILITIES										
Due to other banks	-	308,834,980	-	308,834,980	308,834,980	-	242,629,221	-	242,629,221	242,629,221
Customer accounts	-	1,105,300,290	-	1,105,300,290	1,105,300,290	-	350,093,106	-	350,093,106	350,093,106
Other borrowed funds	-	100,990,229	-	100,990,229	100,990,229	-	-	-	-	-
Repo arrangements	-	-	-	-	-	-	9,996,445	-	9,996,445	9,996,445
Lease liabilities	-	3,257,966	-	3,257,966	3,257,966	-	915,612	-	915,612	915,612
Other financial liabilities	-	4,043,889	-	4,043,889	4,043,889	-	8,719,688	-	8,719,688	8,719,688
TOTAL	-	1,522,427,354	-	1,522,427,354	1,522,427,354	-	612,354,072	-	612,354,072	612,354,072

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

35 Presentation of financial instruments by measurement category

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2024:

<i>In thousands of MNT</i>	Amortised cost	FVTPL	Total
ASSETS			
Cash and cash equivalents	673,517,011	-	673,517,011
Mandatory cash balances with Bank of Mongolia	48,854,122	-	48,854,122
Due from other banks	6,797,069	-	6,797,069
Reverse sale and repurchase agreements	74,089,698	-	74,089,698
Loans and advances to customers	816,440,699	14,209,118	830,649,817
- Consumer loans (individuals)	416,837,761	-	416,837,761
- Business loans (corporate)	389,600,976	-	389,600,976
- Mortgage loans (individuals)	10,001,962	12,942,119	22,944,081
- Mortgage loans (employees)	-	1,266,999	1,266,999
Other financial assets:	3,622,472	-	3,622,472
- Receivable on settlement service	3,383,359	-	3,383,359
- Receivable from individuals	3,530	-	3,530
- Receivable from entities	235,583	-	235,583
Derivative financial instruments	-	4,348,380	4,348,380
 TOTAL FINANCIAL ASSETS	 1,623,321,071	 18,557,498	 1,641,878,569

35 Presentation of financial instruments by measurement category (Continued)

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2023:

<i>In thousands of MNT</i>	Amortised cost	FVTPL	Total
ASSETS			
Cash and cash equivalents	382,773,890	-	382,773,890
Mandatory cash balances with Bank of Mongolia	14,291,395	-	14,291,395
Reverse sale and repurchase agreements	34,867,161	-	34,867,161
Investments in debt securities	65,632,054	-	65,632,054
- BoM treasury bills	65,632,054	-	65,632,054
Loans and advances to customers	171,859,639	789,993	172,649,632
- Consumer loans (individuals)	96,581,497	-	96,581,497
- Business loans (corporate)	72,356,034	-	72,356,034
- Mortgage loans (individuals)	2,922,108	-	2,922,108
- Mortgage loans (employees)	-	789,993	789,993
Other financial assets:	7,726,015	-	7,726,015
- Receivable on settlement service	7,704,527	-	7,704,527
- Receivable from individuals	5,582	-	5,582
- Receivable from entities	15,906	-	15,906
TOTAL FINANCIAL ASSETS	677,150,154	789,993	677,940,147

36 Maturity analysis of assets and liabilities

The maturity analysis of financial instruments at 31 December 2024 is as follows:

<i>In thousands of MNT</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	551,298,303	122,218,708	-	-	-	673,517,011
Mandatory cash balances with Bank of Mongolia	48,854,122	-	-	-	-	48,854,122
Due from banks	-	-	-	6,797,069	-	6,797,069
Reverse sale and repurchase agreements	74,089,698	-	-	-	-	74,089,698
Derivative financial assets	(160,126)	(516,490)	-	5,024,996	-	4,348,380
Loans and advances to customers	43,556,311	162,356,286	223,624,163	377,544,139	23,568,918	830,649,817
Other financial assets	3,622,472	-	-	-	-	3,622,472
Total financial assets	721,260,780	284,058,504	223,624,163	389,366,204	23,568,918	1,641,878,569
Financial liabilities						
Due to other banks	188,369,230	120,465,750	-	-	-	308,834,980
Due to customers	349,855,972	377,929,048	330,761,959	46,753,311	-	1,105,300,290
Other borrowed funds	68,788,590	8,086,702	7,920,354	16,194,583	-	100,990,229
Lease liabilities	179,472	1,229,370	583,513	1,265,611	-	3,257,966
Other financial liabilities	3,547,600	457,498	38,791	-	-	4,043,889
Total financial liabilities	610,740,864	508,168,368	339,304,617	64,213,505	-	1,522,427,354
Liquidity gap arising from financial instruments	110,519,916	(224,109,864)	(115,680,454)	325,152,699	23,568,918	119,451,215
Accumulated Net Gap	110,519,916	(113,589,948)	(229,270,402)	95,882,297	119,451,215	-

36 Maturity analysis of assets and liabilities (Continued)

The maturity analysis of financial instruments at 31 December 2023 is as follows:

<i>In thousands of MNT</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	382,773,890	-	-	-	-	382,773,890
Mandatory cash balances with Bank of Mongolia	14,291,395	-	-	-	-	14,291,395
Reverse sale and repurchase agreements	34,867,161	-	-	-	-	34,867,161
Investments in debt securities	2,188,249	49,609,550	13,834,255	-	-	65,632,054
Loans and advances to customers	31,715,512	42,770,850	34,728,550	60,271,736	3,162,984	172,649,632
Other financial assets	7,704,527	21,488	-	-	-	7,726,015
Total financial assets	473,540,734	92,401,888	48,562,805	60,271,736	3,162,984	677,940,147
Financial liabilities						
Due to other banks	242,629,221	-	-	-	-	242,629,221
Due to customers	206,143,136	65,252,630	66,870,712	11,826,628	-	350,093,106
Repo arrangements	9,996,445	-	-	-	-	9,996,445
Lease liabilities	63,899	247,605	161,727	442,381	-	915,612
Other financial liabilities	7,975,656	744,032	-	-	-	8,719,688
Total potential future payments for financial obligations	466,808,357	66,244,267	67,032,439	12,269,009	-	612,354,072
Liquidity gap arising from financial instruments	6,732,377	26,157,621	(18,469,634)	48,002,727	3,162,984	65,586,075
Accumulated Net Gap	6,732,377	32,889,998	14,420,364	62,423,091	65,586,075	-

37 Offsetting financial assets and liabilities

The disclosure set out in the following table include financial assets and financial liabilities that (i) are offset in the Bank's statement of financial position; or (ii) are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2024:

<i>(In thousands of MNT)</i>	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the financial position	Financial instrument collateral	Net amount
Assets					
Derivative financial asset	5,931,280	(1,582,900)	4,348,380	-	4,348,380
Total financial assets	5,931,280	(1,582,900)	4,348,380	-	4,348,380
Liabilities					
Derivative financial liabilities	(1,582,900)	1,582,900	-	-	-
Total financial liabilities	(1,582,900)	1,582,900	-	-	-

37 Offsetting financial assets and liabilities (Continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2023:

<i>(In thousands of MNT)</i>	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the financial position	Financial instrument collateral	Net amount
Assets					
<i>Cash and cash equivalents</i>					
- BOM treasury bills	99,467,215	-	99,467,215	(10,000,000)	89,467,215
Reverse sale and repurchase agreements	34,867,161	-	34,867,161	-	34,867,161
Total financial assets	134,334,376	-	134,334,376	(10,000,000)	124,334,376
Liabilities					
<i>Repurchase arrangements</i>					
	(9,996,445)	-	(9,996,445)	10,000,000	3,555
Total financial liabilities	(9,996,445)	-	(9,996,445)	10,000,000	3,555

38 Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2024, the main related parties to the Bank are as follows:

Name of party	Relationship
Ultimate shareholders	Odjargal.J and Od.J
Ultimate parent company	MCS Mongolia LLC
Immediate parent company	MCS Holding LLC
Entities under common control	Subsidiaries of parent company
Key management personnel	Executive management and Board of Directors

At 31 December 2024, the outstanding balances with related parties were as follows:

In thousands of MNT	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Loans and advances to customers (contractual interest rate: 8% – 24%)	-	-	40,299,279	1,295,835	41,595,114
Customer accounts (contractual interest rate 0% - 20%)	11,847,154	4,799,243	368,295,784	2,717,395	387,659,576
Other liabilities	-	-	24,866	-	24,866
Prepaid expense	-	-	54,208	-	54,208

The income and expense items with related parties for 2024 were as follows:

In thousands of MNT	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Interest income	-	-	2,043,572	82,758	2,126,331
Interest expense	1,122,680	163,607	16,025,030	116,978	17,428,295
Administrative and other operating expenses	-	227,993	3,231,188	-	3,459,181
Non-operating income	-	-	16,810	-	16,810

38 Related party disclosures (Continued)

Aggregate amounts lent to and repaid by related parties during 2024 were:

<i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Amounts lent to related parties during the year	-	-	75,412,285	1,481,112	76,893,397
Amounts repaid by related parties during the year	-	-	37,286,000	296,437	37,582,437

At 31 December 2023, the outstanding balances with related parties were as follows:

<i>In thousands of MNT</i>	Ultimate shareholder	Immediate parent company	Entities under common control	Key management personnel	Total
Loans and advances to customers (contractual interest rate: 8% – 20.4%)	-	-	3,834,000	741,897	4,575,897
Other assets	-	-	330	-	330
Customer accounts (contractual interest rate 0% - 12.5%)	14,554,278	1,807,854	173,445,782	905,656	190,713,570
Other liabilities	-	44,125	947	-	45,072
Prepaid expense	-	-	29,122	-	29,122

The income and expense items with related parties for 2023 were as follows:

<i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Interest income	-	-	133,944	32,077	166,021
Interest expense	487,863	42,772	5,809,604	47,840	6,388,079
Administrative and other operating expenses	-	158,456	8,150,858	-	8,309,314
Non-operating income	-	-	22,750	-	22,750

38 Related party disclosures (Continued)

Aggregate amounts lent to and repaid by related parties during 2023 were:

<i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Amounts lent to related parties during the year	-	-	3,834,000	809,502	4,643,502
Amounts repaid by related parties during the year	-	-	-	73,977	73,977

At 31 December 2024 and 2023, the outstanding balances of credit related commitments with related parties were as follows:

<i>(In thousands of MNT)</i>	31 December 2024	31 Dec 2023
Undrawn credit lines	6,000,000	-

Key management compensation is presented below:

<i>In thousands of MNT</i>	31 December 2024		31 December 2023	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	1,616,696	-	1,224,733	-
- Short-term bonuses	1,199,436	147,600	130,608	92,720
- Contribution to social and health fund	351,512	-	169,082	-
Total	3,167,644	147,600	1,524,423	92,720

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

39 Subsequent events

On 22 January 2025, the Bank received funds from a Loan Agreement with International Finance Corporation in an amount of USD 10 million for a three-year term.

On 7 February 2025, the Bank has entered into Cooperation Agreement with Urangan LLC for a five-year long-term period with an annual payment of MNT 1 billion as to support sport and entertainment in Mongolia. According to the Cooperation Agreement, UG Arena is rebranded as M Bank Arena.

On 7 March 2025, Monetary Policy Committee of the Bank of Mongolia increased the policy rate from 10.0% to 12.0%.

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

40 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
CCF	Credit Conversion Factor
EAD	Exposure at Default
BoM	Bank of Mongolia
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IASB	International Accounting Standards Board
IFRS	IFRS Accounting Standard
IRB system	Internal Risk-Based system
LGD	Loss Given Default
PD	Probability of Default
ROU asset	Right-of-use asset
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent SPPI

41 Translation

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

MBank Closed JSC

Financial Statements

For the year ended 31 December 2023

(With Independent Auditors' Report Thereon)

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MBank Closed JSC

Bank Information

Registered address

MBank Closed JSC
Central Tower, 15th Floor,
8th Khoroo, Sukhbaatar District,
Ulaanbaatar 14200, Mongolia

Shareholders as at 31 December 2023

MCS Holding LLC

Board of Directors

Ulemj.B	Chairwoman
Odjargal.J	Member
Tsengel.S	Member
Soronzonbold.L	Member
Chimgee.O	Member
Bat-Ochir.D	Independent Member
Delgerjargal.B	Independent Member
Naranbaatar.U	Independent Member
Khaidar.Z	Independent Member

Corporate Secretary

Tugsjargal.T

Chief Executive Officer

Soronzonbold.L

Deputy CEO

Temuulen.B

Chief IT Officer

Batjargal.N

Chief Financial Officer

Turbold.E

Chief Risk Officer

Sansar.B

Chief Audit Executive

Baasanbat.E

Auditor

KPMG Audit LLC
#602, Blue Sky Tower,
Peace Avenue 17, 1st khoroo,
Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

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

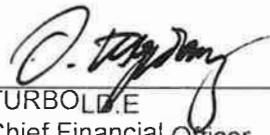
The financial statements of MBank Closed JSC ("the Bank") have been prepared to comply with IFRS Accounting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2023 and the financial performance and cash flows for the year then ended on that date.

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

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

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

The financial statements of the Bank for the year ended 31 December 2023 were authorized for issuance by the Bank's management.



TURBOLDE
Chief Financial Officer

TUNGALAG.N
Head of Financial Reporting and Accounting
Department

Ulaanbaatar,
Mongolia

Date: 29 March 2024



KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax : +976 7011 8102
www.kpmg.com/mn

Independent Auditors' Report

To: The Shareholder and Board of Directors of MBank Closed JSC

Opinion

We have audited the financial statements of MBank Closed JSC ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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



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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements, Continued

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.



KPMG Audit LLC
Ulaanbaatar, Mongolia
29 March 2024

Approved by:

Pyung-Sik Kong
Partner

This report is effective as at 29 March 2024, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the Shareholder and Board of Directors of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

MBank Closed JSC
 Statement of Profit or Loss and Other Comprehensive Income
 For the year ended 31 December 2023

<i>(In thousands of MNT)</i>	Notes	2023	2022
Interest income	5	49,665,352	12,347,376
Interest expense	5	(23,879,829)	(630,261)
Net interest income		25,785,523	11,717,115
Fee and commission income	6	787,371	37,591
Fee and commission expense	6	(102,995)	(5,288)
Net fees and commission income		684,376	32,303
Net trading income/(expense)		12,352	(18,420)
Impairment losses on financial instruments	10	(2,824,134)	(1,327,673)
Foreign exchange (losses)/gains, net		(214,825)	1,157,235
Personnel expenses	7	(12,168,448)	(5,752,811)
Depreciation and amortization	17,18	(3,975,528)	(3,090,488)
Other operating expenses	8	(10,239,567)	(6,204,834)
Net non-operating income	9	54,931	8,162,781
(Loss)/profit before tax		(2,885,320)	4,675,208
Income tax (expense)/benefit	11	(2,114)	4,605
(Loss)/profit for the year		(2,887,434)	4,679,813
Total comprehensive (loss)/income for the year		(2,887,434)	4,679,813

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

MBank Closed JSC
 Statement of Financial Position
 As at 31 December 2023

(In thousands of MNT)	Notes	31 Dec 2023	31 Dec 2022
Assets			
Cash and cash equivalents	12	382,773,890	124,537,073
Mandatory reserves with the Bank of Mongolia	13	14,291,395	1,478,825
Reverse sale and repurchase agreements	14	34,867,161	-
Investments in debt securities	15	65,632,054	-
Loans and advances to customers	16	172,649,632	92,682,114
Property and equipment	17	6,154,580	3,735,192
Intangible assets	18	13,378,422	10,809,319
Current income tax receivables	11	9	9
Deferred tax assets	11	3,643	4,605
Other assets	19	10,700,120	2,305,768
Total assets		700,450,906	235,552,905
Equity and Liabilities			
Liabilities			
Due to other banks	20	242,629,221	30,106,779
Repurchase arrangements	21	9,996,445	-
Due to customers	22	350,093,106	93,244,848
Borrowed funds	23	-	20,101,918
Lease liabilities	26	915,612	87,200
Other liabilities	24	9,505,417	1,813,621
Total liabilities		613,139,801	145,354,366
Equity			
Share capital	25	100,000,000	100,000,000
Accumulated losses		(12,688,895)	(9,801,461)
Total equity		87,311,105	90,198,539
Total equity and liabilities		700,450,906	235,552,905

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

MBank Closed JSC
 Statement of Changes in Equity
 For the year ended 31 December 2023

(In thousands of MNT)

	Share capital	Accumulated losses	Total equity
Balance at 1 January 2022	100	(14,481,274)	(14,481,174)
Total comprehensive income			
Net profit for the year	-	4,679,813	4,679,813
Transactions with owners of the Bank			
Contributions from shareholders	99,999,900	-	99,999,900
Balance at 31 December 2022	100,000,000	(9,801,461)	90,198,539
Balance at 1 January 2023	100,000,000	(9,801,461)	90,198,539
Total comprehensive income			
Net loss for the year	-	(2,887,434)	(2,887,434)
Balance at 31 December 2023	100,000,000	(12,688,895)	87,311,105

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

MBank Closed JSC
 Statement of Cash Flows
 For the year ended 31 December 2023

(In thousands of MNT)	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities			
(Loss)/profit for the year		(2,887,434)	4,679,813
Adjustment for:			
Impairment losses on financial instruments	10	2,824,134	1,327,673
Depreciation of property and equipment	17	1,119,176	697,332
Depreciation of ROU assets	17	1,151,293	253,936
Amortisation of intangible assets	18	1,705,059	2,139,220
Property and equipment written-off		-	2,627
Gain on disposal of property and equipment	9	(27,605)	(1,121)
Interest and similar income	5	(49,665,352)	(12,347,376)
Interest and similar expense	5	23,879,829	630,261
Income tax expense (benefit)	11	2,114	(4,605)
Cash flow used in operating activities before changes in operating assets and liabilities		(21,898,786)	(2,622,240)
Changes in assets and liabilities:			
Mandatory reserves with BoM	13	(12,812,570)	(1,478,825)
Reverse sale and repurchase agreements	14	(34,867,161)	-
Loans and advances to customers		(80,991,495)	(93,075,157)
Other assets		(9,428,631)	(1,465,253)
Due to banks		211,156,637	30,099,502
Due to customers		250,149,881	93,242,498
Other liabilities		7,691,796	(26,842,075)
Net cash generated from/(used in) operating activities before tax and interest		308,999,671	(2,141,550)
Interest on lease liabilities paid	26	(98,895)	(17,992)
Interest paid		(15,804,449)	(500,724)
Interest received		47,495,256	11,320,179
Income tax paid	11	(1,152)	-
Net cash generated from operating activities		340,590,431	8,659,913
Cash flows from investing activities			
Purchase of property and equipment		(2,631,608)	(1,726,217)
Purchase of intangible assets		(3,015,005)	(2,223,733)
Acquisition of debt securities at AC		(114,332,054)	-
Proceeds from redemption of debt securities at AC		48,700,000	-
Proceeds from disposal of property and equipment		78,414	6,100
Net cash used in investing activities		(71,200,253)	(3,943,850)
Cash flows from financing activities			
Proceeds from repurchase arrangements		878,290,081	-
Repayment of repurchase arrangements		(868,307,858)	-
Proceeds from borrowed funds	23	-	30,000,000
Repayment of borrowed funds	23	(20,000,000)	(10,000,000)
Payment of lease liabilities	26	(1,073,879)	(204,567)
Net cash (used in)/generated from financing activities		(11,091,656)	19,795,433
Credit loss allowance charge on cash and cash equivalent		(61,705)	(12,447)
Net increase in cash and cash equivalents		258,236,817	24,499,049
Cash and cash equivalents at 1 January	12	124,537,073	100,038,024
Cash and cash equivalents at 31 December	12	382,773,890	124,537,073

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

1. Reporting entity

MBank Closed JSC (the "Bank") is engaged in the business of providing banking and financial services pursuant to License No. 039 issued by the Bank of Mongolia ("BoM") on 9 February 2022.

The Bank is a closed joint stock company incorporated and domiciled in Mongolia. Its registered office is at Central Tower, 15th Floor, 8th Khoroo, Sukhbaatar District, Ulaanbaatar-14200, Mongolia.

The principal activities of the Bank include:

- Loan services
- Money transfer
- Card services
- Sale, purchase, deposit and trading of foreign currencies
- Treasury box
- Financial leasing services
- Issuance and trading of securities
- Savings
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia

The ultimate controlling party of the Bank is MCS Mongolia LLC. The immediate parent company is MCS Holding LLC (100%) which has a 20 percent of the voting rights.

The financial statements for the year ended 31 December 2023 were approved for issue by the management on 29 March 2024 as authorised by Board of Directors.

2. Basis of preparation

(a) Statement of compliance

The non-statutory financial statements for the year ended 31 December 2023 have been prepared voluntarily and solely for the information of and use by the Board of Directors and existing shareholders of the Bank in their assessment of the Bank's financial performance rather than under a legally mandated requirement.

These financial statements have been prepared in accordance with IFRS Accounting Standard issued by the International Accounting Standards Board ("IASB").

Certain corresponding figures have been reclassified to conform to the current year's presentation.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2. Basis of preparation, continued

(d) Use of judgments and estimates

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

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

(i) Judgments

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

- Note 30.b: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of Expected credit loss (ECL) and selection and approval of models used to measure ECL.
- Note 4 (b) (ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 4 (s): lease term: whether the Bank is reasonably certain to exercise extension options.

(ii) Assumptions and estimation uncertainties

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

Note 4 (b)(vi) and Note 30.b: impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

(iii) Fair value measurement

The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Bank.

Financial assets quoted in an active market means that quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques, such as the discounted cash flow model, and models based on data from similar transactions performed on market or on the current values are used to determine the fair value of financial instruments for which market information on the price of transactions is not available. For calculations using these estimation methods, it may be necessary to form judgments.

2. Basis of preparation, continued

(d) Use of judgments and estimates, continued

(iii) Fair value measurement, continued

Fair values are classified within the fair value hierarchy based on inputs used in valuation method, as follows:

Level 1: In the event of an assessment if this fair value is confirmed by a quoted price for an identical asset or liability in an active market.

Level 2: For financial assets and liabilities, the substantive data method both directly and indirectly.

Level 3: Requires data not directly available from the market, independent of relying on market data.

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

(iv) Going concern

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

3. Application of new accountings standards or amendments for 2023 and forthcoming requirements

(a) New standards and amendments to the IFRS Accounting Standards that are mandatorily effective for the current year

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2023.

The application of the new and amendments to IFRS Accounting Standards in the current year has had no material impact on the Bank's financial positions and performance for the current year and on the disclosures set out in these financial statements.

Effective date	New accounting standards or amendments
1 January 2023	IFRS 17 Insurance contract
	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statements 2)
	Definition of Accounting Estimates (Amendments to IAS 8)
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
	Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
23 May 2023	International Tax Reform – Pillar Two Models Rules (Amendments to IAS 12)

(b) New standards and amendments to the IFRS Accounting Standards that have been issued but are not yet effective

The new and amendments to IFRS Accounting Standards 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.

The following new standards or amendments are not expected to have a significant impact on the Bank's financial statements.

Effective date	New accounting standards or amendments
1 January 2024	Non-current Liabilities with Covenants (Amendments to IAS 1)
	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
	Lease liability in a Sale and Leaseback (Amendments to IFRS 16)
	Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 17)
1 January 2025	Lack of Exchangeability (Amendments to IAS 21)
Available for optional adoption/effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

4. Material accounting policies

Material accounting policy information

The Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information and disclosed in the financial statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclose of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

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

(a) Foreign currency transactions

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

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

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification

Financial assets

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification, continued

Business model assessment, continued

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

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

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

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

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

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

Reclassifications

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Modification of financial assets and financial liabilities

Financial assets

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

If the cash flows are substantially different (referred to as "substantial modification"), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

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

Financial assets, continued

Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

Financial liabilities

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

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

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(v) Offsetting

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

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

(vi) Impairment

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

- financial assets that are debt instruments;

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

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

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

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

Measurement of ECL

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets

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

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Restructured financial assets, continued

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

Credit-impaired financial assets

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

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

- Borrower’s qualitative classification has downgraded accordingly by “Regulation on asset classification, provisioning and its disbursement” from Bank of Mongolia;
- Borrower has excessed contractual payments;
- The borrower is exposed to unexpected operational risk;
- The debtor filing official bankruptcy;
- The borrower is deceased.

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

Presentation of allowance for ECL in the statement of financial position

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

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

4. Material accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Write-offs

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

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

(vii) Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

(c) Cash and cash equivalents and due from other banks and financial institutions

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

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

Amounts due from other banks and other financial institutions are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Due amounts from other banks and financial institutions are initially recognized at fair value and subsequently measured at either at amortized cost, FVOCI and FVTPL based on the business model and SPPI test. If due amounts from other Banks are carried at amortized cost, related accrued interest receivables are reported as part of due from other banks and financial institutions.

Any impaired or past due balances should be reclassified out of cash and cash equivalents, as in such case, they no longer meet the definition of cash and cash equivalents (e.g. to investments and loan etc).

The Bank calculates expected credit loss on its internal policies and methodologies.

4. Material accounting policies, continued

(d) Investment securities

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

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

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

- interest revenue under the effective interest method;
- ECLs and reversals; and
- Foreign exchange gains and losses

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

(e) Loans and advances to customer

Loan is a lending process to lend a portion of its own and depositors' cash to others according to agreed specification, interest, maturity term, repayment conditions and collateral or guarantee. Measurement of the loans and advances depends on the classification.

Loans and advances are initially recognized at fair value plus incremental direct transaction costs. Directly related transaction costs refer to incremental costs that are directly attributable to the issue of the loan such as commissions and fees related to loan origination.

Subsequent to initial recognition, a loan is measured at amortized cost. The amortized cost of a loan is the amount at which the loan is measured at initial recognition minus principal payments, plus or minus the cumulative amortization using the effective interest method of deferred income or expense, and minus impairment provision on loan. Loan interest income is calculated and accrued using effective interest rate.

In case the loans carried at amortized cost are denominated in foreign currencies, the expected future cash flows are discounted using the financial asset's initial effective interest rate. Related impairment allowance expense is translated with the official rate of that day.

In case of the impairment allowance is reversed partially or wholly at the reporting date, the official rate of the reversing date shall be applied. Loan impairment allowance account denominated in foreign currency is translated monthly and foreign exchange difference is reported to foreign currency translation gain and loss.

4. Material accounting policies, continued

(f) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

	Useful lives (years)
Plant and equipment	10
Fixtures and fittings	2-10
Office equipment	2-10
Vehicles	10
Others	5
Right-of-use assets	1-3

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

(g) Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

4. Material accounting policies, continued

(g) Intangible assets, continued

Amortisation of intangible assets with finite useful lives is charged into profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Useful life (in years)
License	2-10
Software	3-10
Trademark	10
Others	10

Both the period and method of amortization are reviewed annually.

(h) Impairment of non-financial assets

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

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

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

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

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

(i) Customer accounts and due to other financial institutions

Customers' current accounts and deposits consist of funds raised from the entities and individuals (referred as customer) as current accounts and deposit accounts.

Customer's current account is a fund used for the daily transaction settlement without any limitation. The Bank can accrue interest on the customer's current accounts.

Customer's deposits are the funds which have agreement on the interest rate and the amount of the deposits and customers cannot use them for daily transaction settlements. The Bank pays the interest agreed on the contract. Current accounts, term deposits and other deposits are examples of deposits.

4. Material accounting policies, continued

(i) Customer accounts and due to other financial institutions, continued

The customer accounts and deposits are measured at fair value at initial recognition. Fair value is equal to the contractual amount minus related transaction costs that are directly attributable to the issue of the financial liability.

Customer accounts and deposits are carried at amortized cost using the effective interest rate.

Interest expense of the customer accounts and deposits are calculated and recorded using the effective interest rate.

(j) Due to other banks and financial institutions

Due to other banks and financial institutions comprise current accounts and deposits from domestic and foreign banks and other financial institutions.

Current accounts of the domestic and commercial banks and other financial institutions: Current accounts of domestic and commercial banks and other financial institutions for the purpose of payment settlement without any restrictions.

Deposits of the domestic and commercial banks and other financial institutions: Deposits of domestic and commercial banks and other financial institutions placed in the bank under interest and other contractual terms.

The current accounts and deposits from other banks and other financial institutions are measured at fair value less transaction costs at initial recognition. The current accounts and deposits from other banks and other financial institutions are carried at amortized cost using the effective interest rate in the financial statement.

When calculating the effective interest rate the Bank considers all contractual terms for the future cash flow assessment. In this calculation of the effective interest rate components such as contractual commission fees, other discounts and premiums are included.

(k) Other borrowed funds

Borrowed funds include loans obtained from international and local financial institutions and Mongolian government organizations. After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost using the effective interest method. In this calculation of the effective interest rate components such as contractual commission fees, other discounts and premiums are included.

(l) Repurchase agreement

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 cash collateral on securities lent and 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 financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

4. Material accounting policies, continued

(l) Repurchase agreement, continued

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 cash collateral on securities borrowed and 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 net interest income and is accrued over the life of the agreement using the EIR. If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

(m) Reverse repurchase agreement – securities backed loans

In the case of a financial asset being sold at a fixed price or fixed price plus borrower's return under the contract term with repurchase the asset at the maturity, the selling party shall not derecognize the financial asset because the risks and rewards of the financial asset are retained on the Bank itself. If the selling party has the right to sell or collateralize, the selling party shall present the asset in its initial classification and otherwise the selling party shall change the classification of the financial asset and present it separately in accordance with IFRS Accounting Standards. Repo securities shall be transferred to "the pledged securities" and separated. This account is the account which tracks the separated securities. Once the repurchase agreement is settled, the securities shall transfer back to the initial account.

(n) Equity capital

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

(o) Employee benefits

(i) Short-term employee benefits

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

(ii) Social and health insurance

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

(p) Interest

(i) Effective interest rate

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

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

4. Material accounting policies, continued

(p) Interest, continued

(i) Effective interest rate, continued

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

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

(ii) Amortised cost and gross carrying amount

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

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

(iii) Calculation of interest income and expense

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

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

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

(iv) Presentation

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

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

4. Material accounting policies, continued

(p) Interest, continued

(iv) Presentation, continued

- negative interest on financial liabilities measured at amortised cost.

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

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

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

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

(q) Fees and commissions

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

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

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

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

(r) Net trading income

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

(s) Leases

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

4. Material accounting policies, continued

(s) Leases, continued

(i) Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

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

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

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

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

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

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

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

(ii) Short-term leases and leases of low-value assets

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

4. Material accounting policies, continued

(t) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

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

4. Material accounting policies, continued

(u) Provisions

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

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

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

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

(v) Financial guarantees and loan commitments

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

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

For loan commitments the Bank recognizes a loss allowance.

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

(w) Related parties

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

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

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

5. Net interest income

Interest income

<i>(In thousands of MNT)</i>	2023	2022
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	31,131,449	7,375,044
Investments in debt securities at AC	9,002,319	-
Due from other banks at AC	5,883,646	3,236,213
Cash balances with Bank of Mongolia at AC	3,349,934	1,731,613
Reverse sale and repurchase agreements at AC	251,436	-
Total interest income calculated using effective interest rate	49,618,784	12,342,870
<i>(In thousands of MNT)</i>	2023	2022
Other similar income		
Loans and advances to customers at FVTPL	46,568	4,506
Total other similar income	46,568	4,506
Total interest income	49,665,352	12,347,376

Interest income is recorded for all debt instruments other than those at FVTPL, on an accrual basis using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- the financial assets that have become credit impaired (Stage 3), for which interest income is calculated using the effective interest rate to their amortised cost, net of the expected credit loss allowance, and
- financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortised cost.

Interest expense

<i>(In thousands of MNT)</i>	2023	2022
Interest expense calculated using the effective interest method		
Due to customers	12,058,072	9,627
Due to other banks	8,374,358	-
Borrowed funds	2,589,845	602,642
Repurchase arrangements	758,659	-
Total interest expense calculated using effective interest rate	23,780,934	612,269

5. Net interest income, continued

(In thousands of MNT)	2023	2022
Other interest expense		
Interest expense on lease liabilities	98,895	17,992
Total other interest expense	98,895	17,992
Total interest expense	23,879,829	630,261
 Net interest income	 25,785,523	 11,717,115

6. Net fees and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 *Revenue from Contracts with Customers* is disaggregated by major type of services.

(In thousands of MNT)	2023	2022
Card services	398,432	10,048
Transactional	236,971	19,453
Account services	151,968	8,090
Total fees and commission income	787,371	37,591
 (In thousands of MNT)	 2023	 2022
Card services	(85,733)	(302)
Account services	(16,932)	(4,986)
Transactional	(330)	-
Total fees and commission expense	(102,995)	(5,288)
 Net fees and commission income	 684,376	 32,303

7. Personnel expenses

(In thousands of MNT)	2023	2022
Salaries, wages and bonuses	10,787,210	5,040,779
Contribution to social and health insurance fund	1,381,238	712,032
Total personnel expenses	12,168,448	5,752,811

8. Other operating expenses

<i>(In thousands of MNT)</i>	2023	2022
Advertising and marketing	3,273,268	2,427,877
IT and communications	2,732,328	1,356,329
Professional service fees	898,711	326,618
Event expense	841,576	456,943
Insurance	494,815	58,954
Other tax and fees	374,637	76,151
Stationary	327,201	72,223
Business trip	257,764	65,166
Low value and short-term leases	253,785	42,979
Supply materials	166,650	46,146
Training	161,633	107,340
Security	139,175	9,381
Repairs and maintenance	133,120	47,768
Transportation	28,424	19,964
Utilities	21,746	2,384
License fee	-	1,011,160
Occupational safety	14,938	56,374
Other expenses	119,796	21,077
Total administrative and other operating expenses	10,239,567	6,204,834

9. Net non-operating income

<i>(In thousands of MNT)</i>	2023	2022
Other income	57,409	8,167,236
Gain on disposal of property and equipment	27,605	1,121
Penalty income	230	-
Total non-operating income	85,244	8,168,357
<i>(In thousands of MNT)</i>	2023	2022
Penalty expense	(722)	(114)
Other expense	(29,591)	(3,462)
Donation	-	(2,000)
Total non-operating expense	(30,313)	(5,576)
Net non-operating income	54,931	8,162,781

10. Impairment losses on financial instruments

(In thousands of MNT)	2023	2022
Loans and advances to customers (Note 16)	2,762,358	1,315,226
Cash and cash equivalents (Note 12)	61,705	12,447
Receivables from entities (Note 19)	71	-
Total impairment losses on financial instruments	2,824,134	1,327,673

11. Income tax expense/(benefit)

(1) Income tax expense/(benefit) consists of the following:

(In thousands of MNT)	2023	2022
Income tax expense/(benefit)		
Current tax expense	1,152	-
Deferred tax expense/(benefit)	962	(4,605)
Income tax expense/(benefit) for the year	2,114	(4,605)

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

(In thousands of MNT)	2023	2022
(Loss)/profit before tax	(2,885,320)	4,675,208
Tax at statutory rate*	(288,532)	467,521
Effect of non-deductible expenses	195,857	187,099
Effect of non-taxable income	-	(654,620)
Tax under special tax rate	1,152	-
Current year tax losses for which no deferred tax asset is recognized	92,675	-
Change in recognized temporary differences	962	(4,605)
Total income tax expense/(benefit) for the year	2,114	(4,605)

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

(3) The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, the laws and regulations affecting businesses continue to change rapidly. These changes are sometimes characterized by poor drafting, varying interpretations and inconsistent application by the tax authorities. In particular, taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Bank believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation and status at the period-end, the above facts may create tax risks for the Bank which are not possible to quantify at this stage.

(4) Deferred tax assets in amount of MNT 3,643 thousand (2022: MNT 4,605 thousand) were recognized on temporary differences arose on property and equipment, intangible assets and supply materials.

11. Income tax expense / (benefit), continued

(5) Reconciliation of corporate income tax is as follows:

<i>(In thousands of MNT)</i>	2023	2022
Corporate income tax receivables (at beginning)	9	9
Current tax expense for the year	1,152	-
Income tax withheld by others	(1,152)	-
Corporate income tax receivables (at closing)	9	9

12. Cash and cash equivalents

<i>(In thousands of MNT)</i>	2023	2022
Cash balances with BOM (a)	53,700,498	92,456,097
BOM treasury bills - less than three months (b)	99,467,215	-
Due from other banks - less than three months (c)	229,680,329	32,093,423
Total carrying amount of cash and cash equivalents	382,848,042	124,549,520
Allowance for impairment losses on cash and cash equivalents	(74,152)	(12,447)
Net cash and cash equivalents	382,773,890	124,537,073

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Restricted cash balances for a period of more than three months on origination are excluded from cash and cash equivalents.

(a) Details of cash balances with BOM are as follows:

<i>(In thousands of MNT)</i>	2023	2022
Current accounts at BOM (MNT)	8,877,045	1,010,992
Current accounts at BOM (Foreign currency)	1,266,247	30,195,584
Overnight deposits at BOM (MNT)	43,557,206	44,026,521
Deposits at BOM (Foreign currency)	-	17,223,000
Total carrying amount of cash with BOM	53,700,498	92,456,097
Allowance for impairment losses on cash balances with BOM	(4,766)	-
Net cash balances with Bank of Mongolia	53,695,732	92,456,097

Credit quality of cash balances with the Bank of Mongolia had a B3 rating from Moody's as at 31 December 2023 and 31 December 2022. For the purpose of ECL measurement, cash and cash balances with the Bank of Mongolia are included in Stage 1 as at 31 December 2023 and 31 December 2022. The ECL for these balances represents an insignificant amount.

(b) BOM treasury bills with original maturities of less than three months are classified as cash equivalents. For the purpose of ECL measurement, BOM treasury bills are included in Stage 1 as at 31 December 2023. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for BOM treasury bills.

12. Cash and cash equivalents, continued

As at 31 December 2023, repurchase agreements are pledged by BOM treasury bills in an amount of MNT 10,000,000 thousand (2022: nil). The Bank does not have right to repledge or sell those treasury bills.

(c) Details of due from other banks are as follows:

(In thousands of MNT)	2023	2022
Current accounts at local banks	785,142	31,848,907
Deposits at local banks	228,857,290	244,516
Current account at foreign bank	37,897	-
Total due from other banks	229,680,329	32,093,423
Allowances for impairment losses on due from other banks	(69,386)	(12,447)
Net due from other banks	229,610,943	32,080,976

A reconciliation of the allowance for impairment losses on cash and cash equivalents is as follows:

(In thousands of MNT)	2023	2022
Beginning balance	12,447	-
Charge for the year	74,152	12,447
Reversal of impairment loss	(12,447)	-
Ending balance	74,152	12,447

13. Mandatory reserves with the Bank of Mongolia

(In thousands of MNT)	2023	2022
Mandatory cash balances with the BOM (MNT)	8,947,146	1,119,806
Mandatory cash balances with the BOM (Foreign currency)	5,344,249	359,019
Mandatory cash balances with BOM	14,291,395	1,478,825

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 8% in MNT and 18% in foreign currency (2022: not less than 8% in MNT and 18% in foreign currency) of customer deposits for a period of 2 weeks. Additionally, according to the Bank of Mongolia resolution dated 29 March 2018, the Bank shall maintain 50% of the mandatory reserve balance as at the reporting date.

For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2023 and 31 December 2022. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any impairment loss allowance for mandatory cash balances with the Bank of Mongolia.

14. Reverse sale and repurchase agreements

<i>(In thousands of MNT)</i>	2023	2022
Reverse sale repurchase agreements – less than three months	34,867,161	-
Total reverse sale and repurchase agreements	34,867,161	-

As of 31 December 2023, MNT 34,867,161 thousand of the reverse sale and repurchase agreements relate to a short-term agreement with local bank, earning interest rate 13.6% and 14% per annum with original maturity 5 days. The reverse sale and repurchase agreements are fully collateralized by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell or re-pledge in the case of non-repayment.

For the purpose of ECL measurement, reverse sale repurchase agreements are included in Stage 1 as of 31 December 2023. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any impairment loss allowance for reverse sale and repurchase agreements.

15. Investments in debt securities

<i>(In thousands of MNT)</i>	2023	2022
Debt securities at amortised cost – BOM treasury bills	65,632,054	-
Total securities measured at amortised cost	65,632,054	-

The Bank has classified BOM treasury bills as investment securities held for satisfying liquidity and business model needs under a "held to collect" classification, with maturity exceeding three months.

For the purpose of ECL measurement, BOM treasury bills are included in Stage 1 as of 31 December 2023. BOM treasury bills are considered low credit risk, and as the expiration date approaches, the sale price remains consistent with the cash flow amount. Therefore, no impairment losses have been recognised on the financial statements.

16. Loans and advances to customers

<i>(In thousands of MNT)</i>	2023	2022
Consumer loans	100,363,874	19,099,983
Business loans	72,648,758	74,181,424
Mortgage loans	2,924,591	631,270
Gross carrying amount of loans and advances to customers at AC	175,937,223	93,912,677
Less: Credit loss allowance	(4,077,584)	(1,315,226)
Net loans and advances to customers at amortized cost	171,859,639	92,597,451
Loans and advances to customers at FVTPL (Mortgage loans)	789,993	84,663
Total loans and advances to customers	172,649,632	92,682,114

In 2023, the Bank launched new products, such as government project loan, credit line, and deposit backed loans, which were unavailable in 2022.

In 2023, the Bank provided a credit line in an amount of MNT 4,401,822 thousand to corporate customer, which included in the business loan portfolio.

Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed as below:

<i>(In thousands of MNT)</i>	31 December 2023			31 December 2022		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Consumer loans (individuals)	100,363,874	(3,782,377)	96,581,497	19,099,983	(99,684)	19,000,299
Business loans (corporate)	72,648,758	(292,724)	72,356,034	74,181,424	(1,211,685)	72,969,739
Mortgage loans (individuals)	2,924,591	(2,483)	2,922,108	631,270	(3,857)	627,413
Total loans and advances to customers at AC	175,937,223	(4,077,584)	171,859,639	93,912,677	(1,315,226)	92,597,451

16. Loans and advances to customers, continued

The following tables disclose the changes in the credit loss allowance and gross carrying amount movement for the year ended the 31 December 2023:

Consumer loans – Gross carrying amount

	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
<i>(In thousands of MNT)</i>				
1 January 2023	18,885,456	214,527	-	19,099,983
New financial assets originated or purchased	95,453,223	-	-	95,453,223
- Transfers from Stage 1	(4,705,813)	2,753,909	1,951,904	-
- Transfers from Stage 2	25,390	(110,025)	84,635	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	(14,088,943)	(100,389)	-	(14,189,332)
31 December 2023	95,569,313	2,758,022	2,036,539	100,363,874

Credit loss allowance:

Consumer loans – Credit loss allowance

	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
<i>(In thousands of MNT)</i>				
1 January 2023	88,149	11,535	-	99,684
New financial assets originated or purchased	3,130,137	-	-	3,130,137
- Transfers from Stage 1	(2,089,243)	624,832	1,464,411	-
- Transfers from Stage 2	914	(74,349)	73,435	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	(48,479)	(2,961)	-	(51,440)
Impact of exposure change, inputs and models	537,616	66,380	-	603,996
31 December 2023	1,619,094	625,437	1,537,846	3,782,377

16. Loans and advances to customers, continued

Business loans - Gross carrying amount

(In thousands of MNT)

	2023		
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)
1 January 2023	74,181,424	-	-
New financial assets originated or purchased	47,646,017	-	-
- Transfers from Stage 1	(6,706,067)	2,646,818	4,059,249
- Transfers from Stage 2	-	-	-
- Transfers from Stage 3	-	-	-
Payments and derecognised	(49,178,683)	-	-
31 December 2023	65,942,691	2,646,818	4,059,249
			72,648,758

Credit loss allowance:

Business loans – Credit loss allowance

(In thousands of MNT)

	2023		
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)
1 January 2023	1,211,685	-	-
New financial assets originated or purchased	231,954	-	-
- Transfers from Stage 1	(84,500)	84,500	-
- Transfers from Stage 2	-	-	-
- Transfers from Stage 3	-	-	-
Payments and derecognised	(618,266)	-	-
Impact of exposure change, inputs, and models	(532,649)	-	-
31 December 2023	208,224	84,500	-
			292,724

16. Loans and advances to customers, continued

Mortgage loans – Gross carrying amount

(In thousands of MNT)

1 January 2023

New financial assets originated or purchased
 - Transfers from Stage 1
 - Transfers from Stage 2
 - Transfers from Stage 3
 Payments and derecognised

31 December 2023

	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2023	631,270	-	-	631,270
New financial assets originated or purchased	2,326,804	-	-	2,326,804
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	(33,483)	-	-	(33,483)
31 December 2023	2,924,591	-	-	2,924,591

Credit loss allowance:

Mortgage loans - Credit loss allowance

(In thousands of MNT)

1 January 2023

New financial assets originated or purchased
 - Transfers from Stage 1
 - Transfers from Stage 2
 - Transfers from Stage 3
 Payments and derecognised
 Impact of exposure change, inputs and models

31 December 2023

	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2023	3,857	-	-	3,857
New financial assets originated or purchased	1,761	-	-	1,761
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
Impact of exposure change, inputs and models	(3,135)	-	-	(3,135)
31 December 2023	2,483	-	-	2,483

16. Loans and advances to customers, continued

The following tables disclose the changes in the credit loss allowance and gross carrying amount movement for the year ended 31 December 2022:

Consumer loans – Gross carrying amount

<i>(In thousands of MNT)</i>	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	19,099,983	-	-	19,099,983
- Transfers from Stage 1	(214,527)	214,527	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
31 December 2022	18,885,456	214,527	-	19,099,983

Credit loss allowance:

Consumer loans – Credit loss allowance

<i>(In thousands of MNT)</i>	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	99,684	-	-	99,684
- Transfers from Stage 1	(11,535)	11,535	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
Impact of exposure change, inputs and models	-	-	-	-
31 December 2022	88,149	11,535	-	99,684

16. Loans and advances to customers, continued

Business loans – Gross carrying amount

<i>(In thousands of MNT)</i>	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	74,181,424	-	-	74,181,424
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
31 December 2022	74,181,424	-	-	74,181,424

Credit loss allowance:

Business loans – Credit loss allowance

<i>(In thousands of MNT)</i>	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	1,211,685	-	-	1,211,685
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
Impact of exposure change, inputs, and models	-	-	-	-
31 December 2022	1,211,685	-	-	1,211,685

16. Loans and advances to customers, continued

Mortgage loans – Gross carrying amount (In thousands of MNT)	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	631,270	-	-	631,270
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
31 December 2022	631,270	-	-	631,270

Credit loss allowance:

Mortgage loans - Credit loss allowance (In thousands of MNT)	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
1 January 2022	-	-	-	-
New financial assets originated or purchased	3,857	-	-	3,857
- Transfers from Stage 1	-	-	-	-
- Transfers from Stage 2	-	-	-	-
- Transfers from Stage 3	-	-	-	-
Payments and derecognised	-	-	-	-
Impact of exposure change, inputs and models	-	-	-	-
31 December 2022	3,857	-	-	3,857

Movements in the expected credit loss allowance during 2023 are as follows:

(In thousands of MNT)	Consumer loans	Business loans	Mortgage loans	Total
1 January 2023	99,684	1,211,685	3,857	1,315,226
Credit loss allowance charge during the year	3,130,137	231,954	1,761	3,363,852
Reversal of credit loss allowance during the year	(51,440)	(618,266)	-	(669,706)
Impact of exposure change, inputs and models	603,996	(532,649)	(3,135)	68,212
31 December 2023	3,782,377	292,724	2,483	4,077,584

16. Loans and advances to customers, continued

Movements in the expected credit loss allowance during 2022 are as follows:

<i>(In thousands of MNT)</i>	Consumer loans	Business loans	Mortgage loans	Total
1 January 2022	-	-	-	-
Credit loss allowance charge during the year	99,684	1,211,685	3,857	1,315,226
Reversal of credit loss allowance during the year	-	-	-	-
31 December 2022	99,684	1,211,685	3,857	1,315,226

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 30. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans and advances to customers carried at amortised cost is as follows at 31 December 2023:

<i>(In thousands of MNT)</i>	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	88,291,158	-	-	88,291,158
- Good	7,278,155	-	-	7,278,155
- Satisfactory	-	1,698,339	-	1,698,339
- Special monitoring	-	1,059,683	-	1,059,683
- Default	-	-	2,036,539	2,036,539
Gross carrying amount	95,569,313	2,758,022	2,036,539	100,363,874
Less: Credit loss allowance	(1,619,094)	(625,437)	(1,537,846)	(3,782,377)
Carrying amount	93,950,219	2,132,585	498,693	96,581,497

16. Loans and advances to customers, continued

Business loans

(In thousands of MNT)	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	64,795,463	-	-	64,795,463
- Good	1,147,228	-	-	1,147,228
- Satisfactory	-	2,438,843	-	2,438,843
- Special monitoring	-	207,975	-	207,975
- Default	-	-	4,059,249	4,059,249
Gross carrying amount	65,942,691	2,646,818	4,059,249	72,648,758
Less: Credit loss allowance	(208,224)	(84,500)	-	(292,724)
Carrying amount	65,734,467	2,562,318	4,059,249	72,356,034

Mortgage loans

(In thousands of MNT)	2023			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	2,785,430	-	-	2,785,430
- Good	139,161	-	-	139,161
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	2,924,591	-	-	2,924,591
Less: Credit loss allowance	(2,483)	-	-	(2,483)
Carrying amount	2,922,108	-	-	2,922,108

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2022:

Consumer loans

(In thousands of MNT)	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	17,922,262	-	-	17,922,262
- Good	963,194	-	-	963,194
- Satisfactory	-	151,886	-	151,886
- Special monitoring	-	62,641	-	62,641
- Default	-	-	-	-
Gross carrying amount	18,885,456	214,527	-	19,099,983
Less: Credit loss allowance	(88,149)	(11,535)	-	(99,684)
Carrying amount	18,797,307	202,992	-	19,000,299

16. Loans and advances to customers, continued

Business loans

(In thousands of MNT)

	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	72,981,690	-	-	72,981,690
- Good	1,199,734	-	-	1,199,734
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	74,181,424	-	-	74,181,424
Less: Credit loss allowance	(1,211,685)	-	-	(1,211,685)
Carrying amount	72,969,739	-	-	72,969,739

Mortgage loans

(In thousands of MNT)

	2022			
	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL for SICR)	Stage 3 (Lifetime ECL for credit impaired)	Total
- Excellent	631,270	-	-	631,270
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	631,270	-	-	631,270
Less: Credit loss allowance	(3,857)	-	-	(3,857)
Carrying amount	627,413	-	-	627,413

The following table shows the total amount of loans and advances granted to the Bank's customers by economic sector.

Concentration by sector

(In thousands of MNT)

	31 December 2023		31 December 2022	
	Amount	%	Amount	%
Consumer loan	101,736,712	59%	19,000,298	20%
Services	29,728,109	17%	24,889,670	27%
Construction	14,030,994	8%	18,909,831	20%
Trading	10,702,948	6%	15,219,431	16%
Manufacturing	7,218,795	4%	6,287,392	7%
Mortgage loan	3,712,100	2%	712,077	1%
Mining	3,595,761	2%	-	0%
Transportation	1,201,773	1%	7,169,077	8%
Agricultural	722,440	1%	494,338	1%
Carrying value of loans and advances to customers at AC and FVTPL	172,649,632	100%	92,682,114	100%

16. Loans and advances to customers, continued

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Description of collateral and credit enhancements held for loans to customers carried at amortised cost is as follows at 31 December 2023:

<i>(In thousands of MNT)</i>	Consumer loans	Business loans	Mortgage loans	Total
Loans collateralised by:				
- Cash deposits	-	5,155,278	-	5,155,278
- Immovable property	-	44,634,455	1,940,065	46,574,520
- Vehicles	-	1,009,446	-	1,009,446
- Machinery	-	1,207,833	-	1,207,833
- Inventories	-	8,499,082	-	8,499,082
- Credit enhancements	-	10,242,742	294,361	10,537,103
Total	-	70,748,836	2,234,426	72,983,262
Unsecured exposures	100,363,874	1,899,922	690,165	102,953,961
Total gross carrying amount	100,363,874	72,648,758	2,924,591	175,937,223

Description of collateral and credit enhancements held for loans to customers carried at amortised cost is as follows at 31 December 2022:

<i>(In thousands of MNT)</i>	Consumer loans	Business loans	Mortgage loans	Total
Loans collateralised by:				
- Immovable property	-	49,325,637	631,270	49,956,907
- Vehicles	-	1,158,990	-	1,158,990
- Machinery	-	15,672	-	15,672
- Inventories	-	7,018,073	-	7,018,073
- Credit enhancements	-	16,126,065	-	16,126,065
Total	-	73,644,437	631,270	74,275,707
Unsecured exposures	19,099,983	536,987	-	19,636,970
Total gross carrying amount	19,099,983	74,181,424	631,270	93,912,677

Credit enhancements consist of the receivables, future revenues and other assets. The disclosure above represents the lower of the gross carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The gross carrying value of loans was allocated to different collaterals based on liquidity of the assets taken as collateral when the loan has multiple collaterals.

16. Loans and advances to customers, continued

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

<i>(In thousands of MNT)</i>	2023	2022
Business loans	32,653,329	-
Mortgage loans	1,432,951	-
Total over-collateralised loans and advances to customers at AC	34,086,280	-

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit-impaired assets at 31 December 2023 is as follows:

<i>(In thousands of MNT)</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of the assets	Carrying value of the assets	Fair value of the assets
<i>Credit impaired assets (at AC):</i>				
Business loans	4,059,249	13,424,557	-	-
Total	4,059,249	13,424,557	-	-

There was no credit-impaired loans and advances to customers as at 31 December 2022.

16. Loans and advances to customers, continued

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to two years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are fair value of the collateral and the Bank applies haircut of 10-100%, considering liquidity and quality of the pledged assets.

Description of collateral held for loans to individual customers carried at FVTPL is as follows at 31 December:

<i>(In thousands of MNT)</i>	2023	2022
Mortgage loans		
Loans collateralised by:		
- Residential real estate	789,993	84,663
Total	789,993	84,663
Unsecured exposures	-	-
Total carrying amount of loans and advances at FVTPL	789,993	84,663

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at FVTPL, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit assets at FVTPL at 31 December 2023 and 31 December 2022 are as follows:

<i>(In thousands of MNT)</i>	31 December 2023		31 December 2022	
	Carrying value of the assets	Fair value of the assets	Carrying value of the assets	Fair value of the assets
Over-collateralised assets	789,993	2,125,464	84,663	323,532
Under-collateralised assets	-	-	-	-
Total	789,993	2,125,464	84,663	323,532

There were no loans and advances to customers written-off that are subject to enforcement activity as at 31 December 2023 and 31 December 2022.

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written-off, as there is no reasonable expectation of recovery from normal collection processes.

17. Property and equipment

Changes in property and equipment are as follows:

(1) *Cost*

<i>(In thousands of MNT)</i>	Equipment	Fixtures and fittings	Office equipment	Vehicles	Other	Right-of-use assets	Total
At 1 Jan 2022	2,899,006	323,891	549,217	-	365,729	-	4,137,843
Additions	446,520	364,525	762,075	159,300	-	382,816	2,115,236
Disposals	-	(2,862)	(20,645)	-	-	-	(23,507)
At 31 Dec 2022	3,345,526	685,554	1,290,647	159,300	365,729	382,816	6,229,572
At 1 Jan 2023	3,345,526	685,554	1,290,647	159,300	365,729	382,816	6,229,572
Additions	1,444,755	266,583	893,463	-	239,775	1,915,410	4,759,986
Disposals	-	(6,403)	(270,022)	-	-	(1,005,299)	(1,281,724)
At 31 Dec 2023	4,790,281	945,734	1,914,088	159,300	605,504	1,292,927	9,707,834

17. Property and equipment, continued

(2) Accumulated depreciation

<i>(In thousands of MNT)</i>	Equipment	Fixtures and fittings	Office equipment	Vehicles	Other	Right-of-use assets	Total
At 1 Jan 2022	930,801	81,879	467,430	-	78,903	-	1,559,013
Depreciation	313,085	63,034	244,366	3,751	73,096	253,936	951,268
Disposals	-	(530)	(15,371)	-	-	-	(15,901)
At 31 Dec 2022	1,243,886	144,383	696,425	3,751	151,999	253,936	2,494,380
At 1 Jan 2023	1,243,886	144,383	696,425	3,751	151,999	253,936	2,494,380
Depreciation	395,630	81,530	549,062	15,919	77,035	1,151,293	2,270,469
Disposals	-	(76)	(219,176)	-	-	(992,343)	(1,211,595)
At 31 Dec 2023	1,639,516	225,837	1,026,311	19,670	229,034	412,886	3,553,254
<i>(3) Net book value</i>							
At 1 Jan 2022	1,968,205	242,012	81,787	-	286,826	-	2,578,830
At 31 Dec 2022	2,101,640	541,171	594,222	155,549	213,730	128,880	3,735,192
At 31 Dec 2023	3,150,765	719,897	887,777	139,630	376,470	880,041	6,154,580

18. Intangible assets

(1) *Cost*

<i>(In thousands of MNT)</i>	Software	Trademarks & License	Mobile application	System	IA in developments	Total
At 1 Jan 2022	657,381	-	-	8,682,615	2,017,021	11,357,017
Additions	49,665	1,018,120	1,123,021	1,155,948	-	3,346,754
Reclassification	10,525	-	-	2,006,496	(2,017,021)	-
At 31 Dec 2022	717,571	1,018,120	1,123,021	11,845,059	-	14,703,771
At 1 Jan 2023	717,571	1,018,120	1,123,021	11,845,059	-	14,703,771
Additions	182,199	29,066	468,595	3,594,302	-	4,274,162
Disposals	(657,381)	-	-	-	-	(657,381)
At 31 Dec 2023	242,389	1,047,186	1,591,616	15,439,361	-	18,320,552

18. Intangible assets, continued

(2) Accumulated amortization

<i>(In thousands of MNT)</i>	Software	Trademarks & License	Mobile application	System	IA in developments	Total
At 1 Jan 2022	653,685	-	-	1,101,547	-	1,755,232
Amortization	7,365	59,980	68,735	2,003,140	-	2,139,220
At 31 Dec 2022	661,050	59,980	68,735	3,104,687	-	3,894,452
At 1 Jan 2023	661,050	59,980	68,735	3,104,687	-	3,894,452
Amortization	45,602	102,395	118,820	1,438,242	-	1,705,059
Disposals	(657,381)	-	-	-	-	(657,381)
At 31 Dec 2023	49,271	162,375	187,555	4,542,929	-	4,942,130
<i>(3) Net book value</i>						
At 1 Jan 2022	3,696	-	-	7,581,068	2,017,021	9,601,785
At 31 Dec 2022	56,521	958,140	1,054,286	8,740,372	-	10,809,319
At 31 Dec 2023	193,118	884,811	1,404,061	10,896,432	-	13,378,422

19. Other assets

(In thousands of MNT)	2023	2022
Other financial assets at AC		
Receivables on cash and settlement services	7,704,527	447,737
Receivables from entities	15,977	-
Receivables from employees	5,582	1,483
Allowance for impairment losses on other financial assets	(71)	-
Total other financial assets	7,726,015	449,220
 (In thousands of MNT)		
Other non-financial assets		
Prepaid expenses	1,776,006	606,745
Supply materials	736,348	545,690
Prepayments for employee benefits	356,190	113,744
Prepayment for non-current assets	74,600	588,519
Other tax receivables	30,961	1,850
Total other non-financial assets	2,974,105	1,856,548
Total other assets	10,700,120	2,305,768

Receivables on cash and settlements services mainly consist of transaction settlement receivables. Related balances are settled on the next working day.

20. Due to other banks

(In thousands of MNT)	2023	2022
Current accounts from other banks	1,275	30,106,779
Deposit accounts from other banks *	242,627,946	-
242,629,221	30,106,779	

Current accounts and deposit accounts from other banks represent foreign currency and local currency current accounts and deposit accounts placed by local commercial banks. Due to other banks are carried at amortised cost.

*As at 31 December 2023, due to other banks included deposit from other local banks with original maturities from 7 to 14 days.

21. Repurchase arrangements

As of 31 December 2023, MNT 9,996,445 thousands (31 December 2022: nil) of repurchase arrangements relate to placement from local bank bearing interest rate ranging from 13.0% to 14.0% per annum (2022: nil), with original maturities of 1 and 17 days (2022: nil). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 12.

22. Due to customers

(In thousands of MNT)	2023	2022
Private sector deposits:		
Current accounts	138,819,099	71,023,754
Term deposits	104,826,866	12,718,640
Total private sector deposits	243,645,965	83,742,394
Individual deposits:		
Current accounts	12,452,356	8,500,446
Term deposits	90,308,332	1,002,008
Total individual deposits	102,760,688	9,502,454
Government deposits:		
Current accounts	650,782	-
Term deposits	3,035,671	-
	3,686,453	-
Total due to customers	350,093,106	93,244,848

23. Borrowed funds

(In thousands of MNT)	2023	2022
Xac Bank	-	20,101,918

On 25 November 2022, the Bank received loan from Xac Bank in amount of MNT 20 billion with 15.5% annual interest for 6 months period to invest the Bank's operations. The Bank pledged performing loan portfolios equal to MNT 30 billion as collateral. In 2023, the Bank fully repaid the loan along with the interest.

24. Other liabilities

(In thousands of MNT)	2023	2022
Other financial liabilities:		
Liabilities for settlement of transactions	7,975,656	781,747
Payables and accrued expenses	744,032	365,311
	8,719,688	1,147,058
Other non-financial liabilities:		
Salary payables	655,643	573,324
Other tax payables (other than corporate income tax)	130,086	93,239
	785,729	666,563
Total other liabilities	9,505,417	1,813,621

Liabilities for settlement for transactions mainly related to the amount of payables in cash and settlement services. Related balances are settled on the next working day.

25. Share capital

Issued and fully paid share capital			
	2023	2022	
	Number of shares	Share capital	Number of shares
Ordinary shares		MNT'000	
At 01 January	100,000,000	100,000,000	100
Issued during the year	-	-	99,999,900
At 31 December	100,000,000	100,000,000	100,000,000
			100,000,000

On 21 March 2022, the Bank of Mongolia approved the request of the Bank to increase share capital from MNT 100 thousands to MNT 100 billion.

The share capital as at 31 December 2023 amounted to MNT 100,000,000 thousand and consists of 100,000,000 common shares authorized and issued at par value of MNT 1,000 (31 December 2022: 100,000,000 common shares authorized and issued at par value of MNT 1,000).

26. Leases

The Bank leases offices for its operations with average lease term of 1 to 3 years. The Bank does not have lease arrangements with option to purchase the right-of-use assets at the end of the lease term.

The Bank has in total of 6 lease arrangements that are recognized in accordance with IFRS 16 (2022: 3 lease arrangements).

(1) Right-of-use assets (Note 17)

(In thousands of MNT)	2023	2022
At 1 January	128,880	-
Additions	1,915,410	382,816
Disposals	(1,005,299)	-
Depreciation charge for the year	(1,151,293)	(253,936)
Depreciation related to disposals	992,343	-
At 31 December	880,041	128,880

(2) Amounts recognized in profit or loss

(In thousands of MNT)	2023	2022
Depreciation on right-of-use assets	1,151,293	253,936
Interest expense on lease liabilities (Note 5)	98,895	17,992
Expense relating to short-term lease (Note 8)	253,785	42,979

26. Leases, continued

(3) Amounts recognized in statement of cash flows

(In thousands of MNT)	2023	2022
Interest expense on lease liabilities	(98,895)	(17,992)
Payment of lease liabilities	(1,073,879)	(204,567)
Total cash outflow for leases	(1,172,774)	(222,559)

(4) Lease liabilities

(In thousands of MNT)	2023	2022
Maturity analysis:		
Within one year	550,786	89,126
More than one year but less than two years	323,727	-
More than two years but less than five years	161,864	-
	1,036,377	89,126
Less: unearned interest	(120,765)	(1,926)
Lease liabilities	915,612	87,200

27. Contingencies and commitments

(a) Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. The Bank does not have any legal claims as at 31 December 2023 (2022: none).

(b) Compliance issue with Banking law

In accordance with 36.1 of the Law on Banking amended on 29 January 2021, shares or other share equivalent securities to be held by any party individually or jointly with its related parties shall not exceed more than 20 percent of the total issued shares of such bank. This law requirement is required to be complied within 31 December 2023 in accordance with Article 5 of the Law on Implementation Procedure of Banking Law Amendment. The purpose of this law requirement is intended to reduce the ownership concentration of the single shareholder.

As at 31 December 2023, the above law requirement was not implemented by the Bank as well as other commercial banks in Mongolia due to the reasons explained below.

Based on Resolution A-166 issued by the President of Bank of Mongolia dated on 31 August 2023, a working group with joint representatives from Bank of Mongolia, Financial Regulatory Commission, Deposit Insurance Corporation and Mongolian Banking Association was formed as to propose amendments on Law on Implementation Procedure of Banking Law Amendment considering the internal and external difficulties faced in relation to implementation of the law requirements by the commercial banks in Mongolia. Proposal of legislation draft on Law on Implementation Procedure of Banking Law Amendment was submitted to the Government of Mongolia on 13 December 2023 and the proposal was discussed by the Government of Mongolia 20 December 2023.

27. Contingencies and commitments, continued

(b) Compliance issue with Banking law, continued

In accordance with 40.1.6 of the Law on Legislation, a proposal and conclusion of the Government regarding the legislation draft shall be submitted to the State Great Khural (the "Parliament"). On 7 February 2024, Member of the Parliament of Mongolia and Chairman of the Standing Committee on Ethics and Disciplinary Responsibility, submitted the draft legislation to the Parliament of Mongolia.

Based on the official letter A-1/1136 issued by the President of Bank of Mongolia dated on 28 December 2023, the proposal on legislation draft on amendments on Law on Implementation Procedure of Banking Law Amendment includes implementation of the ownership concentration requirements to be postponed until 31 December 2026 considering the impact of COVID-19 in the banking sector, current capacity of Mongolian capital market and current state of investment environment. Bank of Mongolia also expressed its intention to support the above proposal on legislation draft and cooperate with the Parliament.

The management of the Bank expects the above legislation draft to be discussed and approved by the Parliament in 2024. Based on Bank of Mongolia's official letter on 28 December 2023, the management also believe there will be no operational and financial impact to the Bank. In the unlikely event that the Parliament rejects the amendment of the Banking Law of Mongolia, the Bank of Mongolia has the right to take certain measures, as stipulated in 6.1 and 6.2 of Law on Implementation Procedure of Banking Law Amendment, against all banks in relation to the non-compliance with the law requirements. Considering the efforts made by all banks and the support from the side of the regulator and the government, the Bank expects the Parliament approval of the extension of the deadline to the Banking Law from end of 2023 to end of 2026 will be made. Given the extension, the Bank will be in compliance with the Banking law, even if the Bank has not achieved the desired 20% limited shareholding structure. The Bank is continuously taking actions to attract potential investors to meet the above law requirement and actively submitting the plan and actions taken to the Bank of Mongolia.

(c) Credit related commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

<i>(In thousands of MNT)</i>	31 Dec 2023	31 Dec 2022
Undrawn credit lines	102,291	-

(d) Capital commitments

As at 31 December 2023, the Bank does not have contractual capital expenditure commitments in respect of non-financial assets. As at 31 December 2022, the Bank had contractual commitment to acquire intangible assets of USD 200 thousand which is equal to MNT 688,920 thousand from Crepass.

27. Contingencies and commitments, continued

(e) Tax contingencies

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

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible the transactions and activities that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for four (2022: four) calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

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

28. Maturity analysis of assets and liabilities

The maturity analysis of financial instruments as at 31 December 2023 is as follows:

See Note 30.c 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

(In thousands of MNT)

		31 December 2023					
	Note	Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Financial assets							
Cash and cash equivalents	12	382,773,890		-	-	-	382,773,890
Mandatory reserves with the Bank of Mongolia	13	14,291,395		-	-	-	14,291,395
Reverse sale and repurchase agreements	14	34,867,161		-	-	-	34,867,161
Investments in debt securities	15	2,188,249	49,609,550	13,834,255	-	-	65,632,054
Loans and advances to customers	16	31,715,512	42,770,850	34,728,550	60,271,736	3,162,984	172,649,632
Other financial assets	19	7,704,527	21,488	-	-	-	7,726,015
Total financial assets		473,540,734	92,401,888	48,562,805	60,271,736	3,162,984	677,940,147
Financial liabilities							
Due to other banks	20	242,629,221		-	-	-	242,629,221
Repurchase arrangements	21	9,996,445		-	-	-	9,996,445
Due to customers	22	206,143,136	65,252,630	66,870,712	11,826,628	-	350,093,106
Lease liabilities	26	63,899	247,605	161,727	442,381	-	915,612
Other financial liabilities	24	7,975,656	744,032	-	-	-	8,719,688
Total financial liabilities		466,808,357	66,244,267	67,032,439	12,269,009	-	612,354,072
Net financial assets		6,732,377	26,157,621	(18,469,634)	48,002,727	3,162,984	65,586,075

28. Maturity analysis of assets and liabilities, continued

The maturity analysis of financial instruments as at 31 December 2022 is as follows:

(In thousands of MNT)

	Note	31 December 2022					Total
		Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Financial assets							
Cash and cash equivalents	12	124,537,073	-	-	-	-	124,537,073
Mandatory reserves with the Bank of Mongolia	13	1,478,825	-	-	-	-	1,478,825
Loans and advances to customers	16	6,065,299	23,720,622	29,022,577	33,230,870	642,746	92,682,114
Other financial assets	19	447,737	1,483	-	-	-	449,220
Total financial assets		132,528,934	23,722,105	29,022,577	33,230,870	642,746	219,147,232
Financial liabilities							
Due to other banks	20	30,106,779	-	-	-	-	30,106,779
Due to customers	22	90,232,745	3,012,103	-	-	-	93,244,848
Borrowed funds	23	101,918	20,000,000	-	-	-	20,101,918
Lease liabilities	26	25,866	61,334	-	-	-	87,200
Other financial liabilities	24	781,747	365,311	-	-	-	1,147,058
Total financial liabilities		121,249,055	23,438,748	-	-	-	144,687,803
Net financial assets		11,279,879	283,357	29,022,577	33,230,870	642,746	74,459,429

29. Related party disclosures

1) As at 31 December 2023, the main related parties to the Bank are as follows:

Name of party	Relationship
a. Ultimate shareholder	Odjargal.J
b. Ultimate parent company	MCS Mongolia LLC
c. Immediate parent company	MCS Holding LLC
d. Fellow subsidiaries	Subsidiaries of parent company
e. Key management personnel	Executive management and Board of Directors

As of 31 December 2023, The Bank's ultimate parent company is MCS Mongolia LLC. The Bank is ultimately controlled by Mr.Odjargal Jambaljamts.

A number of Banking transactions are entered into with related parties during the normal course of business. These include loans, deposits, other expenses, and income transactions.

29. Related party disclosures, continued

2) Related party balances

(In thousands of MNT)

a. Loans and advances

	2023	2022
Fellow subsidiaries	3,834,000	-
Key management personnel	741,897	5,719
	4,575,897	5,719

b. Due to customers

Current accounts:

Immediate parent company	1,807,854	5,958,664
Fellow subsidiaries	127,815,012	53,403,701
Ultimate shareholder	187,278	6,287,681
Key management personnel	124,911	53,794
	129,935,055	65,703,840

Deposit accounts:

Fellow subsidiaries	45,630,770	12,328,384
Ultimate shareholder	14,367,000	1,000,996
Key management personnel	780,745	1,011
	60,778,515	13,330,391

c. Account payables

Immediate parent company	44,125	-
Fellow subsidiaries	947	16,000
	45,072	16,000

d. Other receivables

Fellow subsidiaries	330	-
	330	-

e. Prepaid expense

Fellow subsidiaries	-	5,360
	-	5,360

29. Related party disclosures, continued

3) Related party transactions

(In thousands of MNT)

	2023	2022
Other operating expense paid to related parties:		
Immediate parent company	158,456	1,001,662
Fellow subsidiaries	8,150,858	910,335
	8,309,314	1,911,997
Non-operating income from related parties:		
Immediate parent company	-	8,167,236
Fellow subsidiaries	22,750	-
	22,750	8,167,236
Interest income received from related parties:		
Key management personnel	32,077	349
Fellow subsidiaries	133,944	-
	166,021	349
Interest expense paid to related parties:		
Immediate parent company	42,772	-
Fellow subsidiaries	5,809,604	-
Ultimate shareholder	487,863	986
Key management personnel	47,840	1
	6,388,079	987

4) Compensation to key management personnel

(In thousands of MNT)

	2023	2022
Short term employee benefits:		
Salaries	1,224,733	784,185
Bonus and compensation	130,608	401,817
Contribution to social and health fund	169,082	148,250
	1,524,423	1,334,252

30. Risk management

(a) Introduction

Risk Management Framework: The Bank's risk management framework aims to establish an effective risk management and control function that facilitates informed, risk-based decision making. Integral components to the Bank's risk management framework are the risk governance, risk appetite, risk universe, three lines of defence, stress testing, as well as risk reporting and monitoring.

Risk Governance: It involves defining roles and responsibilities for managing and overseeing risks, establishing reporting lines, and ensuring accountability. The bank's risk governance is executed through different risk governing bodies, as follows:

- **The Board of Directors** holds the ultimate responsibility for approving and reviewing the Bank's risk management framework and risk appetite statement.
- **The Board Risk Management Committee** oversees the implementation and execution of the approved risk management framework and challenges its effectiveness.
- **The Risk Management Committee** is responsible for the execution of the Bank's risk management framework at the management level and ensures the adherence to approved risk appetite.
- **The Credit Committee** is tasked with resolving the loans that carry significant risk or exposure, ensuring a focused approach to managing such loans.

Risk Universe: It encompasses all the potential types of risks that the Bank may encounter during its operation. The Bank conducts a periodic review of its risk universe at least annually as part of the process for reviewing and recalibrating the risk appetite.

Risk Appetite: It is the level of risk that the Bank is willing to accept in pursuit of the Bank's business strategy and goals. The Bank performs a periodic assessment of its risk appetite at least once a year, considering revision of the Bank's business plan and/or change in applicable regulatory constraints or lender covenants.

Three Lines of Defense: It represents distinct roles and responsibilities to ensure effective risk management and controls within the Bank.

- **First Line of Defense** owns and manages the risk. It has the responsibility for identifying, assessing, and reporting the potential risks, as well as designing and implementing the controls to mitigate these risks.
- **Second Line of Defense** oversees the risk, taking responsibility for reviewing and recalibrating risk universe and risk appetite. It ensures adherence to approved risk appetite and reports the performance of the risk appetite to the relevant risk committees. Furthermore, it monitors the implementation and execution of the controls established in the First Line of Defense, providing guidance and advice to enhance their effectiveness.
- **Third Line of Defense** provides independent assurance on the effectiveness of both the First Line and Second Line Defense in managing and controlling risks within the Bank through internal audit function to the Board of Directors.

Stress testing: It serves to assess the Bank's financial capacity within predefined scenarios, evaluates potential losses, and formulates action plans for mitigating the losses. Two recession scenarios are applied in stress testing to assess the Bank's performance under adverse conditions. Stress testing is an integral part of the Bank's risk management framework and must be conducted at least once a year, aligned with the Bank's financial budget planning. The results and outcomes of stress testing inform the risk governing bodies.

30. Risk management, continued

(a) Introduction, continued

Risk analytic and reporting: To implement effective risk management and control framework, the risk report is a crucial part to monitor the Bank's risk landscape. The risk report is prepared and presented to Risk Management Committee monthly and to Board Risk Management Committee on a quarterly basis. It provides a detailed analysis of all the risks including credit risk, concentration risk, market risk, interest rate risk, liquidity risk and operational risk.

(b) Credit risk

Credit Risk Strategy: The Bank's credit risk strategy aims to prudently manage credit risk exposures while aligning with its risk appetite and business objectives. The bank establishes a clear credit risk appetite for individual and aggregated credit exposures, in line with its risk tolerance and regulatory requirements.

Credit risk is the probability of financial loss caused by its customers, clients or counterparties fail to fulfil their contractual obligations. Credit risk is the single largest risk for the Bank's business. Managing credit risk, the Bank aims to keep the risk at the lowest level from the time of loan investigation. The Bank manages and controls credit risk by carefully setting limits on credit exposures for individual or related counterparties, and industry, and monitoring exposures in relation to such limits. Within the Credit Risk Policy system, selecting customers, offering appropriate products, services, and conditions to them, evaluating collateral assets to meet the obligations of loan agreements, paying off and monitoring loans, collecting loans of concern, and taking necessary measures in relation to paying off risky loans function.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. The Credit Risk Committee discusses the quality of the total loan portfolio, concentration risk, the adequacy of the credit risk fund, the implementation of the early detection system, the internal limit, the fulfilment of the requirements of credit institutions, and makes relevant decisions.

Expected credit loss impairment: The Bank calculates the Expected Credit Losses (ECL) in compliance with the regulations set forth by the IFRS 9. The Bank considers following two approaches to estimate the ECL.

Individual Assessment: This assessment is applied to calculate the ECL for individually significant exposures or other special cases. It considers the possible options on expected cashflows related to the recovery of these exposures, including cash settlement and collateral sale. The Bank assigns the probability-weight to each option and calculates the ECL by discounting the probability-weighted expected cashflows over all options.

Collective assessment: All loans that are not individually significant and loans that are individually significant but for which individual assessment does not show actual evidence of impairment are grouped and expected losses are calculated for collective assessment. The Bank uses following three components in the collective assessment to assess the ECLs:

- **Probability of default (PD)** expresses probability of occurrence of default event in given period. The PD is typically estimated from historical data and then adjusted to current conditions and available forecast through macroeconomic adjustment.
- **Loss given default (LGD)** is an expected percentage loss of EAD assuming the default event occurred.
- **Exposure at default (EAD)** is an expected exposure at the time of default event.

30. Risk management, continued

(b) Credit risk, continued

The Bank determines the level of impairment stages, as follows:

- **Stage 1** includes financial assets that are overdue up to 30 days past due and have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit loss is recognized.
- **Stage 2** includes financial assets that are overdue from 31 to 90 days past due and have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognized.
- **Stage 3** includes financial assets that are overdue more than 91 days past due and have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized.

Forward looking information in the ECL calculation: The Bank relies on forward-looking information as economic inputs, such as GDP, inflation, unemployment rate. When incorporating forward looking information, the Bank considers three scenarios (a baseline, optimistic, pessimistic) in statistical econometric methods.

Due to short historical data, the Bank uses country-wide non-performing loan ratios (NPL) reported by Bank of Mongolia as a target variable in the model. The NPL ratios are highly non-stationary time-series, as they usually accumulate effects over multiple time periods. To obtain more suitable series for the regression bank used the annual difference between transformed NPL ratios.

Scenarios: To derive alternative scenarios, the Bank look into the historical development of the NPL rate. The multiplier for pessimistic scenario is obtained as an average over all historical multipliers worse than currently forecasted baseline. Similarly, the multiplier for optimistic scenario is obtained as an average over all historical multipliers better than currently forecasted baseline.

(c) Liquidity risk

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. 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. The bank establishes liquidity risk appetite based on liquidity metrics that ensure the minimum ability to meet obligations in the event of unexpected large cash withdrawals by customers.

The Bank holds sufficient amount of liquid assets which is much higher than the level required by the BOM. In addition, the Bank maintains a statutory deposit with BoM equal to 8% and 18% of customer deposits in local and foreign currency.

30. Risk management, continued

(c) Liquidity risk, continued

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

The table below summarizes the maturity profile of the Bank's financial assets and financial liabilities as at 31 December 2023 based on contractual undiscounted repayment obligations. 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.

(In thousands of MNT)

	31 December 2023					
	Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Financial assets						
Cash and cash equivalents	383,429,070	-	-	-	-	383,429,070
Mandatory reserves with the Bank of Mongolia	14,291,395	-	-	-	-	14,291,395
Reverse sale and repurchase agreements	34,880,406	-	-	-	-	34,880,406
Investments in debt securities	2,200,000	52,000,000	14,800,000	-	-	69,000,000
Loans and advances to customers	34,729,726	55,090,048	44,809,520	71,760,418	6,333,188	212,722,900
Other financial assets	7,704,527	21,488	-	-	-	7,726,015
Total financial assets	477,235,124	107,111,536	59,609,520	71,760,418	6,333,188	722,049,786
Financial liabilities						
Due to other banks	242,987,534	-	-	-	-	242,987,534
Repurchase arrangements	10,000,000	-	-	-	-	10,000,000
Due to customers	206,287,590	67,516,579	74,138,535	14,337,742	-	362,280,446
Lease liabilities	73,055	284,382	193,349	485,591	-	1,036,377
Other financial liabilities	7,975,656	744,032	-	-	-	8,719,688
Total financial liabilities	467,323,835	68,544,993	74,331,884	14,823,333	-	625,024,045
Net Gap	9,911,289	38,566,543	(14,722,364)	56,937,085	6,333,188	97,025,741
Accumulated Net Gap	9,911,289	48,477,832	33,755,468	90,692,553	97,025,741	

30. Risk management, continued

(c) Liquidity risk, continued

(i) Analysis of financial assets and liabilities by remaining contractual maturities, continued

The table below summarizes the maturity profile of the Bank's financial assets and financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations.

(In thousands of MNT)

	31 December 2022					
	Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Financial assets						
Cash and cash equivalents	124,616,247	-	-	-	-	124,616,247
Mandatory reserves with the Bank of Mongolia	1,478,825	-	-	-	-	1,478,825
Loans and advances to customers	7,460,456	30,480,571	35,436,459	39,317,490	1,548,193	114,243,169
Other financial assets	447,737	1,483	-	-	-	449,220
Total financial assets	134,003,265	30,482,054	35,436,459	39,317,490	1,548,193	240,787,461
Financial liabilities						
Due to other banks	30,106,779	-	-	-	-	30,106,779
Due to customers	90,296,318	3,118,312	-	-	-	93,414,630
Borrowed funds	263,288	21,019,178	-	-	-	21,282,466
Lease liabilities	26,738	62,388	-	-	-	89,126
Other financial liabilities	781,747	365,311	-	-	-	1,147,058
Total financial liabilities	121,474,870	24,565,189	-	-	-	146,040,059
Net Gap	12,528,395	5,916,865	35,436,459	39,317,490	1,548,193	94,747,402
Accumulated Net Gap	12,528,395	18,445,260	53,881,719	93,199,209	94,747,402	

30. Risk management, continued

(d) Market risk

Market risk for banks is defined as the risk of losses in the Bank's revenue and economic value due to the negative impact of movements in market prices. Bank's Financial Risk Management Policy regulates and monitors a system that manages financial risks encompassing market risk, liquidity risk and capital adequacy.

(i) Interest rate risk

The Bank's financial position and currency fluctuations are affected by change in market interest rate. Such fluctuations are likely to result in an increase in interest rates, but when unexpected changes occur, losses can decrease or increase.

This assessment is regularly monitored by the Bank's Risk Management Committee and its performance will be reported to both the Board Risk Management Committee and Board of Directors.

The Bank regularly reports and monitors the risk assessment of interest rate risk and reports to both the Bank's Risk Management Committee and the Board Risk Management Committee.

The responsibility for monitoring interest rate risk within the bank lies within Asset and Liability Management Committee (ALCO). The Committee reports changes in market interest rate risk repeatedly, which serves as the basis for informed decision-making and oversight of the Bank's interest rate and liquidity positions.

At 31 December 2023, if interest rates at that date had been 10% higher/(lower) (2022: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 20,338,882 thousands (2022: MNT 15,146,051 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2023.

30. Risk management, continued

(d) Market risk, continued

(i) Interest rate risk, continued

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates:

(In thousands of MNT)	Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
At 31 December 2023						
Financial assets						
Cash and cash equivalents	381,950,851	-	-	-	-	381,950,851
Reverse sale and repurchase agreements	34,867,161	-	-	-	-	34,867,161
Investments in debt securities	2,188,249	49,609,550	13,834,255	-	-	65,632,054
Loans and advances to customers	31,715,512	42,770,850	34,728,550	60,271,736	3,162,984	172,649,632
Total financial assets	450,721,773	92,380,400	48,562,805	60,271,736	3,162,984	655,099,698
Financial liabilities						
Due to other banks	242,627,946	-	-	-	-	242,627,946
Repurchase arrangements	9,996,445	-	-	-	-	9,996,445
Due to customers	54,220,899	65,252,630	66,870,712	11,826,628	-	198,170,869
Lease liabilities	63,899	247,605	161,727	442,381	-	915,612
Total financial liabilities	306,909,189	65,500,235	67,032,439	12,269,009	-	451,710,872
Net interest sensitivity gap at 31 December 2023						
	143,812,584	26,880,165	(18,469,634)	48,002,727	3,162,984	203,388,826

30. Risk management, continued

(d) Market risk, continued

(i) Interest rate risk, continued

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates:

(In thousands of MNT)	Demand and less than 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
At 31 December 2022						
Financial assets						
Cash and cash equivalents	92,688,166	-	-	-	-	92,688,166
Loans and advances to customers	6,065,299	23,720,622	29,022,577	33,230,870	642,746	92,682,114
Total financial assets	98,753,465	23,720,622	29,022,577	33,230,870	642,746	185,370,280
Financial liabilities						
Due to customers	10,708,545	3,012,103	-	-	-	13,720,648
Borrowed funds	101,918	20,000,000	-	-	-	20,101,918
Lease liabilities	25,866	61,334	-	-	-	87,200
Total financial liabilities	10,836,329	23,073,437	-	-	-	33,909,766
Net interest sensitivity gap at 31 December 2022	87,917,136	647,185	29,022,577	33,230,870	642,746	151,460,514

30. Risk management, continued

(d) Market risk, continued

(ii) Foreign exchange risk

Foreign exchange risk is the risk of a change in financial instrument value due to exchange rate fluctuations. As foreign exchange risk management, the bank is fulfilling the limits of single foreign currencies exposure to total capital and aggregate foreign currencies exposure to total capital limit established by the Bank of Mongolia's regulation.

The following table shows the Bank's assets that may be at risk of foreign currency as of 31 December 2023, and 2022. The chart shows the record amounts of financial assets and liabilities in groups of each foreign currency.

A 10% strengthening of MNT against foreign currencies held by the Bank as at the date of the statement of financial position would increase/decrease profit (loss) before tax by the amount shown below. This analysis assumes all other risk variables remain constant.

Below are the effects of foreign exchange rates.

<i>(In thousands of MNT)</i>	31 December 2023	31 December 2022
	Change in net open position	Change in net open position
US dollar strengthens by 10%	(4,001,621)	1,217,272
US dollar weakens by 10%	4,001,621	(1,217,272)
Euro strengthens by 10%	(8,430,775)	1,136
Euro weakens by 10%	8,430,775	(1,136)
Yuan strengthens by 10%	3,108,710	(0)
Yuan weakens by 10%	(3,108,710)	0
Yen strengthens by 10%	103	139
Yen weakens by 10%	(103)	(139)

30. Risk management, continued

(d) *Market risk, continued*

(ii) Foreign exchange risk, continued

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

(In thousands of MNT)		31 December 2023					
Financial assets	Notes	MNT	USD	EUR	CNY	JPY	Total
Cash and cash equivalents	12	220,505,648	119,482,772	5,459,443	37,324,993	1,034	382,773,890
Mandatory reserves with the Bank of Mongolia	13	8,947,146	5,344,249	-	-	-	14,291,395
Reverse sale and repurchase agreements	14	34,867,161	-	-	-	-	34,867,161
Investments in debt securities	15	65,632,054	-	-	-	-	65,632,054
Loans and advances to customers	16	168,397,775	4,251,857	-	-	-	172,649,632
Other financial assets	19	7,726,015	-	-	-	-	7,726,015
		<u>506,075,799</u>	<u>129,078,878</u>	<u>5,459,443</u>	<u>37,324,993</u>	<u>1,034</u>	<u>677,940,147</u>
Financial liabilities							
Due to other banks	20	128,570,043	99,096,799	358	14,962,021	-	242,629,221
Repurchase arrangements	21	9,996,445	-	-	-	-	9,996,445
Due to customers	22	302,393,708	22,354,388	4,929,155	20,415,855	-	350,093,106
Lease liabilities	26	915,612	-	-	-	-	915,612
Other financial liabilities	24	8,719,688	-	-	-	-	8,719,688
		<u>450,595,496</u>	<u>121,451,187</u>	<u>4,929,513</u>	<u>35,377,876</u>	<u>-</u>	<u>612,354,072</u>
Net position		<u>55,480,303</u>	<u>7,627,691</u>	<u>529,930</u>	<u>1,947,117</u>	<u>1,034</u>	<u>65,586,075</u>

30. Risk management, continued

(d) Market risk, continued

(ii) Foreign exchange risk, continued

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

		31 December 2022					
		MNT	USD	EUR	CNY	JPY	Total
Financial assets							
Cash and cash equivalents	12	75,112,805	49,410,587	11,722	568	1,391	124,537,073
Mandatory reserves with the Bank of Mongolia	13	1,119,806	359,019	-	-	-	1,478,825
Loans and advances to customers	16	92,682,114	-	-	-	-	92,682,114
Other financial assets	19	449,220	-	-	-	-	449,220
		169,363,945	49,769,606	11,722	568	1,391	219,147,232
Financial liabilities							
Due to other banks	20	-	30,105,934	358	487	-	30,106,779
Due to customers	22	85,753,805	7,490,957	-	86	-	93,244,848
Borrowed funds	23	20,101,918	-	-	-	-	20,101,918
Lease liabilities	26	87,200	-	-	-	-	87,200
Other financial liabilities	24	1,147,058	-	-	-	-	1,147,058
		107,089,981	37,596,891	358	573	-	144,687,803
Net position		62,273,964	12,172,715	11,364	(5)	1,391	74,459,429

30. Risk management, continued

(e) Offsetting financial assets and financial liabilities

The disclosure set out in the following table include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2023:

	<i>(In thousands of MNT)</i>	Related amounts not offset in the statements of financial position				Net amount
		Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the financial position	Financial instruments (including non-cash collateral)	
Assets						
Reverse sale and repurchase agreements	34,867,161		-	34,867,161	(34,867,161)	-
Total financial assets	34,867,161		-	34,867,161	(34,867,161)	-
Liabilities						
Repurchase arrangements	(9,996,445)		-	(9,996,445)	9,996,445	-
Total financial liabilities	(9,996,445)		-	(9,996,445)	9,996,445	-

30. Risk management, continued

(f) Operational risk

The Bank defines operational risk as the risk of loss resulting from inadequate or insufficient control and risk management in internal processes, information technology, people, or external events.

Operational risk management framework: The framework anchored the three lines of defense approach to establish sound internal controls within the Bank. Within this framework, the Bank's each unit holds full accountability to establish and implement effective controls over its daily operations. Second line (operational risk function) plays a crucial role in monitoring and validating the effectiveness of the controls and risk management practices implemented by the first line. The Bank's internal audit function assures the overall effectiveness of the bank's risk management and control systems established by both the first and second lines.

(g) Compliance risk

The Bank's priority is to conduct stable financial operations in accordance with Mongolian laws, regulations, and international standards, to prevent the risk of money laundering and terrorist financing, and to keep banking operations free from any financial crime.

As the first fully digital and neo-bank in Mongolia, the Bank aims to deliver comprehensive digitalized financial services to its customers in an entirely understandable, accessible, fast, and cyber-secure manner. The Bank is committed to preventing the possible risks associated with money laundering and terrorist financing by determining the risks associated with the customer, product, and services and implementation of KYC procedures and screening transactions daily.

The Bank implements the "Procedures for the Prevention of Money laundering and Terrorist financing" and "Internal Control Program" which were enacted in compliance with the 40 recommendations of the Financial Action Task Force /FATF/, the Law on Combating Money Laundering and Terrorist Financing, and the relevant regulations issued by the Financial Information Unit of the Central Bank of Mongolia.

The Compliance Department of the Banks report to Risk Management Committee under the Chief Executive Director once a month, to the Board of Directors and Risk Management Committee under the Board of Directors quarterly basis regarding the activities related to identification of compliance risk, assessment, development of risk mitigation plan, monitoring of the implementation process based on the business scope, nature, size of the Bank.

30. Risk management, continued

(g) Compliance risk, continued

In 2023, the Compliance Department completed the following main tasks within the framework of the establishment of Compliance Culture and implementation of the AML/CFT system in compliance with international standards at a bank level. It includes:

- Improvement of the screening tool for the list of terrorist individuals and legal entities issued by the Security Council of the United National Organization in accordance with international standards and the requirements of the authorized regulatory body.
- AML/CFT risk assessment methodology of the Bank has been revised and implemented in the operation of the Bank which were based on the international standards and best practice of the large banks and financial institutions.
- The PEP screening and monitoring process has been fully automated in the main registration system, and relevant improvements have been implemented in the system on a regular basis.
- The rules configured in the transaction monitoring system have been improved and step by step implementation on the system based on the international standards, best practices of the large banks and ML/TF typology, patterns provided by authorized regulatory bodies.

(h) Information security risk management

The Bank manages information security risks in business operations and information technology to maintain at the lowest level by preventing the risk of damage due to the loss of its confidentiality, integrity and accessibility using the vulnerability of the information system and to effectively manage the risk. Information Security Department monitors Risk appetite levels are within the acceptable level and reports its performance in monthly basis to Risk Management Committee. To fully comply and meet the objectives of risk management framework of information security, the Bank planned to implement PCI DSS v 3.2.1 standard and ISO27001:2022 in 2024.

31. Recognition of liabilities arising from financing activities

The table below sets out an analysis of the Bank's debt and movements for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

(In thousands of MNT)	Liabilities from financing activities			
	Repurchase arrangements	Other borrowed funds	Lease liabilities	Total
Liabilities from financing activities at 1 January 2023		20,101,918	87,200	20,189,118
Cash transactions				
Cash inflows	878,290,081	-	-	878,290,081
Cash outflows	(868,307,858)	(20,000,000)	(1,073,879)	(889,381,737)
Interest paid	(744,437)	(2,691,763)	(98,895)	(3,535,095)
Non-cash transactions				
New leases	-	-	1,902,291	1,902,291
Interest accrued	758,659	2,589,845	98,895	3,447,399
Liabilities from financing activities at 31 December 2023		9,996,445	-	915,612
		9,996,445	-	10,912,057

(In thousands of MNT)	Liabilities from financing activities		
	Other borrowed funds	Lease liabilities	Total
Liabilities from financing activities at 1 January 2022		-	-
Cash transactions			
Cash inflows	30,000,000	-	30,000,000
Cash outflows	(10,000,000)	(204,567)	(10,204,567)
Interest paid	(500,724)	(17,992)	(518,716)
Non-cash transactions			
New leases	-	291,767	291,767
Interest accrued	602,642	17,992	620,634
Liabilities from financing activities at 31 December 2022	20,101,918	87,200	20,189,118

32. Fair value

(a) Assets measured at fair value

If the interest rate would increase/(decrease) by 10%, the fair value of those loans would increase/(decrease) by MNT 78,999 thousands (2022: MNT 8,466 thousands).

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2023 are as follows:

(In thousands of MNT)	Fair value			Carrying amount
	Level 1	Level 2	Level 3	
Financial assets				
Cash and cash equivalents	-	283,306,675	99,467,215	382,773,890
Cash balances with BOM	-	53,695,732	-	53,695,732
BOM treasury bills- less than three months	-	-	99,467,215	99,467,215
Due from other banks - less than three months	-	229,610,943	-	229,610,943
Mandatory reserves with the Bank of Mongolia	-	14,291,395	-	14,291,395
Reverse sale and repurchase agreements	-	34,867,161	-	34,867,161
Investments in debt securities	-	-	65,632,054	65,632,054
Loans and advances to customers	-	-	171,859,639	171,859,639
Consumer loans	-	-	96,581,497	96,581,497
Business loans	-	-	72,356,034	72,356,034
Mortgage loans	-	-	2,922,108	2,922,108
Other financial assets	-	7,726,015	-	7,726,015
Total financial assets carried at amortised cost	-	340,191,246	336,958,908	677,150,154

32. Fair value, continued

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2022 are as follows:

(In thousands of MNT)	Fair value			Carrying amount
	Level 1	Level 2	Level 3	
Financial assets				
Cash and cash equivalents	-	124,537,073	-	124,537,073
Cash balances with BOM	-	92,456,097	-	92,456,097
Due from other banks - less than three months	-	32,080,976	-	32,080,976
Mandatory reserves with the Bank of Mongolia	-	1,478,825	-	1,478,825
Loans and advances to customers	-	-	92,597,451	92,597,451
Consumer loans	-	-	19,000,299	19,000,299
Business loans	-	-	72,969,739	72,969,739
Mortgage loans	-	-	627,413	627,413
Other financial assets	-	449,220	-	449,220
Total financial assets carried at amortised cost	-	126,465,118	92,597,451	219,062,569

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2023 are as follows:

(In thousands of MNT)	Fair value			Carrying amount
	Level 1	Level 2	Level 3	
Financial liabilities				
Due to other banks	-	242,629,221	-	242,629,221
Current accounts from other banks	-	1,275	-	1,275
Deposit from other banks	-	242,627,946	-	242,627,946
Repurchase arrangements	-	9,996,445	-	9,996,445
Due to customers	-	350,093,106	-	350,093,106
Private sector deposits:	-	243,645,965	-	243,645,965
Current accounts	-	138,819,099	-	138,819,099
Term deposits	-	104,826,866	-	104,826,866
Individual deposits:	-	102,760,688	-	102,760,688
Current accounts	-	12,452,356	-	12,452,356
Term deposits	-	90,308,332	-	90,308,332
Government deposits:	-	3,686,453	-	3,686,453
Current accounts	-	650,782	-	650,782
Term deposits	-	3,035,671	-	3,035,671
Lease liabilities	-	915,612	-	915,612
Other financial liabilities	-	8,719,688	-	8,719,688
Total financial liabilities carried at amortised cost	-	612,354,072	-	612,354,072

32. Fair value, continued

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2022 are as follows:

<i>(In thousands of MNT)</i>	Fair value			Carrying amount
	Level 1	Level 2	Level 3	
Financial liabilities				
Due to other banks	-	30,106,779	-	30,106,779
Current accounts from other banks	-	30,106,779	-	30,106,779
Due to customers	-	93,244,848	-	93,244,848
Private sector deposits:	-	83,742,394	-	83,742,394
Current accounts	-	71,023,754	-	71,023,754
Term deposits	-	12,718,640	-	12,718,640
Individual deposits:	-	9,502,454	-	9,502,454
Current accounts	-	8,500,446	-	8,500,446
Term deposits	-	1,002,008	-	1,002,008
Borrowed funds	-	20,101,918	-	20,101,918
Lease liabilities	-	87,200	-	87,200
Other financial liabilities	-	1,147,058	-	1,147,058
Total financial liabilities carried at amortised cost	-	144,687,803	-	144,687,803

33. Significant non-cash transaction

In 2022, payables of MNT 99,999,900 thousand to immediate parent company was settled against the share capital contribution of the shareholders. As a result, share capital of the Bank increased to MNT 100,000,000 thousand.

34. Subsequent events

On 26 January 2024, the immediate parent company, MCS Holding LLC, resolved to increase share capital by MNT 15,000,000 thousand (consists of 15,000,000 common shares with par value of MNT 1,000).

On 28 March 2024, the Bank entered into a Loan Agreement with International Finance Corporation in an amount of USD 30,000 thousand for thirty-six month term with the purpose to finance the Bank's lending operations.

35. Translation into Mongolian language

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

MBank Closed JSC

Financial Statements

For the year ended 31 December 2022

(With Independent Auditors' Report Thereon)

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MBank Closed JSC

Bank Information

Registered address

MBank Closed JSC
Central Tower 15th Floor,
8th Khoroo, Sukhbaatar District,
Ulaanbaatar 14200, Mongolia

Shareholders as at 31 December 2022

MCS HOLDING LLC

Board of Directors

Ulemj.B	Chairwoman
Odjargal.B	Member
Sansar.B	Member
Soronzonbold.L	Member
Chimgee.O	Member
Bat-Ochir.D	Independent Member
Delgerjargal.B	Independent Member
Naranbaatar.U	Independent Member
Khaidar.Z	Independent Member

Corporate Secretary

Tugsjargal.T

Chief Executive Officer

Soronzonbold.L

Deputy CEO and CBO

Temuulen.B

Director of Information Technology Division

Batjargal.N

Chief financial officer

Turbold.E

Auditor

KPMG Audit LLC
#602, Blue Sky Tower,
Peace Avenue 17, 1st khoroo,
Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

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

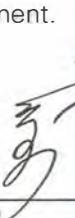
The financial statements of MBank Closed JSC ("the Bank") have been prepared to comply with International Financial Reporting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2022 and the financial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

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

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

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

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


SORONZONBOLD.L
Chief Executive Officer




TURBOLD.E
Chief Financial Officer


TUNGALAG.N
Head of Financial Reporting and Accounting
Department

Ulaanbaatar,
Mongolia

Date: 3 May 2023



KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax : +976 7011 8102
www.kpmg.com/mn

Independent Auditors' Report

To: The Shareholder and Board of Directors of MBank Closed JSC

Opinion

We have audited the financial statements of MBank Closed JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board ("IFRS Standards").

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 22 April 2022.

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

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



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

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.

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

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

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

KPMG Audit LLC

KPMG Audit LLC

Ulaanbaatar, Mongolia

3 May 2022

Approved by:

A handwritten signature in black ink, appearing to read 'Cho Sang Yong'.

Cho Sang Yong

Partner

This report is effective as at 3 May 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the Shareholder and Board of Directors of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

MBank Closed JSC
 Statement of Profit or Loss and Other Comprehensive Income
 For the year ended 31 December 2022

<i>(In thousands of MNT)</i>	Notes	2022	2021
Interest and similar income	5	12,347,376	-
Interest and similar expense	5	(612,269)	-
Net interest income		11,735,107	-
Fee and commission income	6	37,591	-
Fee and commission expense	6	(21,629)	-
Net fee and commission income		15,962	-
Net trading expense		(18,420)	-
Expected credit loss expense	10	(1,327,673)	-
Other income	7	1,157,235	1,153,899
Depreciation and amortization	15,16	(3,090,488)	(1,715,873)
Other expenses	8	(11,959,296)	(1,888,706)
Net non-operating income	9	8,162,781	-
Profit/(loss) before tax		4,675,208	(2,450,680)
Income tax benefit	11	4,605	-
Profit/(loss) for the year		4,679,813	(2,450,680)
<i>Other comprehensive income</i>		-	-
Total comprehensive income/(loss) for the year		4,679,813	(2,450,680)

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

MBank Closed JSC
 Statement of Financial Position
 As at 31 December 2022

(In thousands of MNT)	Notes	31 Dec 2022	31 Dec 2021
Assets			
Cash balances with Bank of Mongolia	12, 23	93,934,922	100,000,000
Due from other banks	13	32,080,976	38,024
Loans and advances to customers	14	92,682,114	-
Property and equipment	15	3,735,192	2,578,830
Intangible assets	16	10,809,319	9,601,785
Deferred tax assets	11	4,605	-
Other assets	17	2,305,777	1,944,854
Total assets		235,552,905	114,163,493
Equity and Liabilities			
Liabilities			
Due to banks and other financial institutions	18	52,230,034	-
Due to customers	19	71,121,593	-
Borrowed funds	20	20,101,918	-
Other liabilities	21	1,813,621	128,644,667
Lease liabilities		87,200	-
Total liabilities		145,354,366	128,644,667
Equity			
Share capital	22	100,000,000	100
Accumulated losses		(9,801,461)	(14,481,274)
Total equity		90,198,539	(14,481,174)
Total equity and liabilities		235,552,905	114,163,493

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

MBank Closed JSC
 Statement of Changes in Equity
 For the year ended 31 December 2022

<i>(In thousands of MNT)</i>	Share capital	Accumulated losses	Total equity
Balance at 1 January 2021	100	(12,030,594)	(12,030,494)
Total comprehensive loss			
Net loss for the year	-	(2,450,680)	(2,450,680)
Transactions with owners of the Bank	-	-	-
Balance at 31 December 2021	100	(14,481,274)	(14,481,174)
Total comprehensive income			
Net profit for the year	-	4,679,813	4,679,813
Transactions with owners of the Bank			
Contributions from shareholders	99,999,900	-	99,999,900
Balance at 31 December 2022	100,000,000	(9,801,461)	90,198,539

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

MBank Closed JSC
 Statement of Cash Flows
 For the year ended 31 December 2022

<i>(In thousands of MNT)</i>	<i>Notes</i>	2022	2021
Cash flows from operating activities			
Profit/ (loss) for the year		4,679,813	(2,450,680)
Adjustment for:			
Expected credit loss expense	10	1,327,673	-
Depreciation of property and equipment	15	951,268	537,289
Amortisation of Intangible assets	16	2,139,220	1,178,584
Property and equipment written-off		2,627	-
(Gain)/ loss on disposal of property and equipment		(1,121)	674
Intangible assets written-off		-	145,423
Interest income	5	(12,347,376)	-
Interest expense	5	612,269	-
Income tax benefit	11	(4,605)	-
Changes in assets and liabilities:			
Statutory reserves with BoM	23	(2,957,651)	-
Loans and advances to customers		(93,075,157)	-
Other assets		(1,490,147)	(276,366)
Due to banks and other financial institutions		52,222,757	-
Due to customers		71,119,243	-
Other liabilities		(26,904,203)	101,098,020
Interest on lease liabilities paid		(17,992)	-
Interest paid		(500,724)	-
Interest received		11,320,179	-
Net cash from operating activities		7,076,073	100,232,944
Cash flows from investing activities			
Purchase of property and equipment		(1,726,217)	(27,514)
Purchase of intangible assets		(2,223,733)	(191,779)
Proceeds from disposal of property and equipment		6,100	2,454
Net cash used in investing activities		(3,943,850)	(216,839)
Cash flows from financing activities			
Payment of lease liabilities		(204,567)	-
Proceeds from borrowed funds		30,000,000	-
Repayment of borrowed funds		(10,000,000)	-
Net cash flows from financing activities		19,795,433	-
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January	23	22,927,656	100,016,105
Cash and cash equivalents at 31 December	23	122,965,680	21,919
			100,038,024

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

1. Reporting entity

MBank Closed JSC (the "Bank") is engaged in the business of providing banking and financial services pursuant to License No. 039 issued by the Bank of Mongolia ("BoM") on 09 February 2022.

The Bank is a closed joint stock company incorporated and domiciled in Mongolia. Its registered office is at Central Tower 15th Floor, 8th Khoroo, Sukhbaatar District, Ulaanbaatar-14200, Mongolia.

The holding company of the Bank is MCS Holding LLC (100%), but has 20 percent of the voting rights. The financial statements for the year ended 31 December 2022 were approved for issue by the Chief Executive Officer on 3 May 2023 as authorised by Board of Directors.

2. Basis of preparation

(a) Statement of compliance

The non-statutory financial statements for the year ended 31 December 2022 have been prepared voluntarily and solely for the information of and use by the Board of Directors and existing shareholders of the Bank in their assessment of the Bank's financial performance rather than under a legally mandated requirement.

These financial statements have been prepared in accordance with applicable individual International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments and estimates

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

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

(i) Judgments

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

- Note 28.2: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

2. Basis of preparation, continued

(d) Use of judgments and estimates, continued

(i) Judgments, continued

- Note 4 (b)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 4 (l): lease term: whether the Bank is reasonably certain to exercise extension options.

(ii) Assumptions and estimation uncertainties

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

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

(iii) Fair value measurement

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

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

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

(iv) Going concern

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

3. New or revised standards and interpretations

(a) Adoption of new or revised standards and interpretations

In the current year, the Bank has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The following amended standards became effective from 1 January 2022, but did not have a material impact on the Bank:

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

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

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

Effective Date	New Standards or amendments
1 January 2023	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
	IFRS 17 Insurance Contracts** and amendments to IFRS 17 Insurance Contracts
	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
	Definition of Accounting Estimates (Amendments to IAS 8)
Available for optional adoption/effective date deferred indefinitely***	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

*The Amendments to IAS 1, as issued in January 2020 (2020 amendments), are subject to future developments. Certain application issues resulting from the 2020 amendments have been raised with the IFRS Interpretations Committee, which referred them to the Board. In June 2021, the Board tentatively decided to propose further amendments to IAS 1 and to defer the effective date of the 2020 amendments to no earlier than 1 January 2024.

**Early application of IFRS 17 is permitted only for companies that also apply IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers.

***The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

4. Significant accounting policies

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

(a) Foreign currency transactions

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

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

Foreign currency differences are generally recognised in profit or loss.

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

Financial assets

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

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification, continued

Financial assets, continued

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

The information considered includes:

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification, continued

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

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

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

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

Reclassifications

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

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

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Derecognition, continued

Financial assets, continued

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

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

Financial assets, continued

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

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

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

Financial liabilities

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

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

(v) Offsetting

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

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment

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

- financial assets that are debt instruments;

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

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

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

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

Measurement of ECL

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets

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

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

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(vi) Impairment, continued

Credit-impaired financial assets

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

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

- Borrower's qualitative classification has downgraded accordingly by "Regulation on asset classification, provisioning and its disbursement" from Bank of Mongolia;
- Borrower has excessed contractual payments;
- The borrower is exposed to unexpected operational risk;
- The debtor filing official bankruptcy;
- The borrower is deceased.

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

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;

Write-offs

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

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

(vii) Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

4. Significant accounting policies, continued

(c) Cash and cash equivalents

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

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

(d) Property and equipment

Recognition and measurement

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

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

Subsequent costs

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

Depreciation

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

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

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

	Useful lives (years)
Plant and equipment	10
Fixtures and fittings	2-10
Office equipment	2-10
Vehicles	10
Others	5
Right-of-use assets	1

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

4. Significant accounting policies, continued

(e) Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged into profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Useful life (in years)
License	2-10
Software	3-10
Trademark	10
Others	10

Both the period and method of amortisation are reviewed annually.

(f) Impairment of non-financial assets

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

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

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

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

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

(g) Equity capital

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

4. Significant accounting policies, continued

(h) Employee benefits

(i) Short-term employee benefits

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

(ii) Social and health insurance

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

(i) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

4. Significant accounting policies, continued

(i) Interest, continued

Calculation of interest income and expense

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

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

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

Presentation

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

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

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

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

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

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

4. Significant accounting policies, continued

(j) Fees and commissions

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

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

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

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

(k) Net trading income

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

(l) Leases

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

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

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

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

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

4. Significant accounting policies, continued

(I) Leases, continued

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

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

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

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

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

Short-term leases and leases of low-value assets

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

(m) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

4. Significant accounting policies, continued

(m) Income taxes, continued

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

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

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

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

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

(n) Provisions

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

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

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

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

4. Significant accounting policies, continued

(o) Financial guarantees and loan commitments

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

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

For loan commitments the Bank recognizes a loss allowance.

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

(p) Related parties

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

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

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

(q) 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.

5. Net interest income calculated using effective interest method

Interest and similar income

<i>(In thousands of MNT)</i>	2022	2021
Loans and advances to customers	7,379,550	-
Cash balances with BoM	1,731,613	-
Due from other banks	3,236,213	-
Total interest and similar income	12,347,376	-

Interest and similar expense

<i>(In thousands of MNT)</i>	2022	2021
Due to customers	9,627	-
Borrowed fund	602,642	-
Total interest and similar expense	612,269	-
Net interest income	11,735,107	-

The amounts reported above include interest income and expenses, calculated using the effective interest method, that related to the following interest-bearing financial assets and financial liabilities.

<i>(In thousands of MNT)</i>	2022	2021
Interest-bearing financial assets		
Financial assets measured at amortised cost	218,613,349	-
Interest-bearing financial liabilities		
Financial liabilities measured at amortised cost	143,453,545	-

6. Net fee and commission income

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

<i>(In thousands of MNT)</i>	2022	2021
Loan related service fees	19,453	-
Card service fees	10,048	-
Account service fees	8,090	-
Total fee and commission income	37,591	-
<i>(In thousands of MNT)</i>	2022	2021
Card service fees	(16,644)	-
Account service fees	(4,985)	-
Total fee and commission expense	(21,629)	-
Net fees and commission income	15,962	-

7. Other income

(In thousands of MNT)

	2022	2021
Foreign exchange gain/(loss), net	1,157,235	(528)
Other income from related parties	-	1,152,918
Other income	-	1,509
	1,157,235	1,153,899

8. Other expense

(In thousands of MNT)

	2022	2021
Salaries, wages and bonuses	5,102,390	582,217
Contribution to social and health insurance fund	712,033	67,158
Advertising and marketing	2,427,878	-
IT and communications	1,356,329	1,190,776
License fee	1,011,160	-
Event expenses	368,788	5,571
Professional service fees	326,618	-
Supply materials	107,650	-
Training expenses	107,339	-
Other tax and fees	76,152	-
Business trip expenses	65,167	-
Deposit insurance fees	51,950	
Repairs and maintenance	47,769	385
Rental expenses	42,978	-
Interest expense on lease	17,992	-
Transportation expenses	13,789	6,826
Security expenses	9,381	-
Insurance expenses	7,941	8,056
Other expenses	105,992	27,717
	11,959,296	1,888,706

9. Net non-operating income

<i>(In thousands of MNT)</i>	2022	2021
Gain on disposals of PPE	1,121	-
Other income	8,167,236	-
Total non-operating income	8,168,357	-

The other income amounting to MNT 8,167,236 represents the gain on debt forgiveness recognized upon derecognition of the obligation as the liability has been extinguished.

<i>(In thousands of MNT)</i>	2022	2021
Donation	(2,000)	-
Penalty	(114)	-
Other expense	(3,462)	-
Total non-operating expense	(5,576)	-
 Net non-operating income	 8,162,781	 -

10. Expected credit loss expense

<i>(In thousands of MNT)</i>	2022	2021
Due from other banks	12,447	-
Loans and advances to customers	1,315,226	-
1,327,673	-	-

11. Income tax benefit

(1) Income tax benefit consists of the following:

<i>(In thousands of MNT)</i>	2022	2021
Income tax expense	-	-
Current tax expense	-	-
Deferred tax benefit	(4,605)	-
(4,605)	-	-

11. Income tax benefit (continued)

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

<i>(In thousands of MNT)</i>	2022	2021
Profit before tax	(4,675,208)	(2,450,680)
Tax at statutory rate*	467,521	(245,068)
Net effect of non-taxable (income)/ expense	(472,126)	245,068
Total income tax benefit	(4,605)	-

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

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

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

12. Cash and interest balances with Bank of Mongolia (BoM)

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Current accounts at BoM (MNT)	2,130,799	100,000,000
Current accounts at BoM (Foreign currency)	30,554,602	-
Overnight deposit accounts at BoM (MNT)	44,000,000	-
Deposit accounts at BoM (Foreign currency)	17,223,000	-
Accrued interest receivables on cash balances at BoM	26,521	-
	93,934,922	100,000,000

(*) Current accounts and deposit accounts at BoM are maintained in accordance with BoM regulations. The balances maintained at BoM are determined at not less than local currency 6%, foreign currency 18% of customer deposits for a period of 2 weeks. As at 31 December 2022, the average reserve required by BoM for this period of 2 weeks was MNT 2,239,613 for local currency and MNT 718,038 thousand for foreign currency maintained in current accounts at BoM.

13. Due from other banks

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Current accounts at local banks	31,848,907	38,024
Deposit accounts at local banks	166,023	-
Accrued interest receivables on due from other banks	78,493	-
Allowances for impairment losses on due from other banks	(12,447)	-
	<u>32,080,976</u>	<u>38,024</u>

14. Loans and advances to customers

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Business loans	73,487,992	-
Consumer loans	19,107,213	-
Mortgage loans	629,716	-
	<u>93,224,921</u>	<u>-</u>
Accrued interest receivables	922,183	-
Gross loans and advances to customers	<u>94,147,104</u>	<u>-</u>
Less: Allowances for loans and advances to customers	(1,315,226)	-
Less: Deferred loan origination fees	(234,427)	-
Net loans and advances to customers at amortised cost	<u>92,597,451</u>	<u>-</u>
Loans and advances to customers at fair value through profit or loss	84,663	-
Net loans and advances to customers	<u>92,682,114</u>	<u>-</u>

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

<i>(In thousands of MNT)</i>	Note	2022	2021
Beginning balance		-	-
Charge for the year	10	1,315,226	-
Ending balance		<u>1,315,226</u>	<u>-</u>

Thse Bank pledged its performing loan portfolio which amounting to MNT 30 billion as principal collateral for borrowing of Xac Bank LLC. (Refer to Note 20)

Refer to Note 28.2 for credit risk.

15. Property, plant and equipment

Changes in property and equipment are as follows:

(1) Cost

(In thousands of MNT)	Plant and equipment	Fixtures and fittings	Office equipment	Vehicles	Other	Right of use assets	Total
At 1 Jan 2021	2,899,006	324,480	525,053	-	365,729	-	4,114,268
Addition	-	3,350	24,164	-	-	-	27,514
Disposal	-	(3,939)	-	-	-	-	(3,939)
At 31 Dec 2021	2,899,006	323,891	549,217	-	365,729	-	4,137,843
At 1 Jan 2022	2,899,006	323,891	549,217	-	365,729	-	4,137,843
Addition	446,520	364,525	762,075	159,300	-	382,816	2,115,236
Disposal	-	(2,862)	(20,645)	-	-	-	(23,507)
At 31 Dec 2022	3,345,526	685,554	1,290,647	159,300	365,729	382,816	6,229,572

15. Property and equipment, continued

(2) *Accumulated depreciation*

<i>(In thousands of MNT)</i>	Plant and equipment	Fixtures and fittings	Office equipment	Vehicles	Other	Right of use assets	Total
At 1 Jan 2021	632,821	47,190	336,716	-	5,808	-	1,022,535
Depreciation	297,980	35,500	130,714	-	73,095	-	537,289
Disposal	-	(811)	-	-	-	-	(811)
At 31 Dec 2021	930,801	81,879	467,430	-	78,903	-	1,559,013
At 1 Jan 2022	930,801	81,879	467,430	-	78,903	-	1,559,013
Depreciation	313,085	63,034	244,366	3,751	73,096	253,936	951,268
Disposal	-	(530)	(15,371)	-	-	-	(15,901)
At 31 Dec 2022	1,243,886	144,383	696,425	3,751	151,999	253,936	2,494,380
(3) Net book value							
At 1 Jan 2021	2,266,185	277,290	188,337	-	359,921	-	3,091,733
At 31 Dec 2021	1,968,205	242,012	81,787	-	286,826	-	2,578,830
At 31 Dec 2022	2,101,640	541,171	594,222	155,549	213,730	128,880	3,735,192

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16. Intangible assets

(1) *Cost*

(In thousands of MNT)	Software	Trademarks & License	Mobile application	System	IA in developments	Total
At 1 Jan 2021	657,381	-	-	8,636,259	2,017,021	11,310,661
Addition	-	-	-	191,779	-	191,779
Disposal	-	-	-	(145,423)	-	(145,423)
At 31 Dec 2021	657,381	-	-	8,682,615	2,017,021	11,357,017
At 1 Jan 2022	657,381	-	-	8,682,615	2,017,021	11,357,017
Addition	49,665	1,018,120	1,123,021	1,155,948	-	3,346,754
Reclassification	10,525	-	-	2,006,496	(2,017,021)	-
At 31 Dec 2022	717,571	1,018,120	1,123,021	11,845,059	-	14,703,771

16. Intangible assets, continued

(2) *Accumulated amortization*

(In thousands of MNT)	Software	Trademarks & License	Mobile application	System	IA in developments	Total
At 1 Jan 2021	(472,991)	-	-	(103,657)	-	(576,648)
Amortization	(180,694)	-	-	(997,890)	-	(1,178,584)
At 31 Dec 2021	(653,685)	-	-	(1,101,547)	-	(1,755,232)
At 1 Jan 2022	(653,685)	-	-	(1,101,547)	-	(1,755,232)
Amortization	(7,365)	(59,980)	(68,735)	(2,003,140)	-	(2,139,220)
At 31 Dec 2022	(661,050)	(59,980)	(68,735)	(3,104,687)	-	(3,894,452)
<i>(3) Net book value</i>						
At 1 Jan 2021	184,390	-	-	8,532,602	2,017,021	10,734,013
At 31 Dec 2021	3,696	-	-	7,581,068	2,017,021	9,601,785
At 31 Dec 2022	56,521	958,140	1,054,286	8,740,372	-	10,809,319

17. Other assets

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Other receivables	447,737	-
Other receivables from related parties	-	328,798
Receivables from employees	1,483	101
Other tax receivables	1,859	152,430
Prepaid expense	606,746	39,167
Supply materials	545,689	301,337
Prepayments for employees benefits	113,744	-
Prepayments for intangible assets	588,519	1,123,021
	2,305,777	1,944,854

18. Due to banks and other financial institutions

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Current accounts from banks and financial institutions	41,912,757	-
Deposit accounts from banks and financial institutions	10,317,277	-
	52,230,034	-

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

19. Due to customers

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Deposits from private sector:		
Current accounts	59,217,777	-
Time deposits	2,401,363	-
	61,619,140	-
Deposits from individuals:		
Current accounts	8,500,446	-
Time deposits	1,002,007	-
	9,502,453	-
	71,121,593	-

20. Borrowed funds

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Xac Bank LLC	20,101,918	-

On 25 November 2022, the Bank received loan from Xac Bank LLC in amount of MNT 20 billion with 15.5% annual interest for 6 months period to invest the Bank's operations. The Bank has pledged performing loan portfolios equal to MNT 30 billion as collateral.

21. Other liabilities

<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
Account payable	803,702	5,879
Account payables to related parties	16,000	128,407,145
Accrued expense	900,680	212,583
Other tax payable	93,239	19,060
	1,813,621	128,644,667

22. Share capital

	Issued and fully paid share capital			
	2022		2021	
	Number of shares	Share capital MNT'000	Number of shares	Share capital MNT'000
Ordinary shares				
At 01 January	100	100	100	100
Issued during the year	99,999,900	99,999,900	-	-
At 31 December	100,000,000	100,000,000	100	100

On 21 March 2022, Bank of Mongolia approved the request of the Bank to increase the share capital from MNT 100 thousands to MNT 100 billion.

23. Cash and cash equivalents

<i>(In thousands of MNT)</i>	Note	31 Dec 2022	31 Dec 2021
Cash balances with BoM	12	93,908,401	100,000,000
Due from other banks	13	32,014,930	38,024
		125,923,331	100,038,024
Less: Minimum reserve with BoM not available to finance the Bank's day to day operations		(2,957,651)	-
Total cash and cash equivalents for the statement of cash flows		122,965,680	100,038,024

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

24. Contingent liabilities and commitments

Capital commitments

As at 31 December 2022, the Bank had contractual commitment to acquire Intangible assets of USD 200 thousand which is equal to MNT 688,920 thousands from the Crepass.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. The bank does not have any legal claims as at 31 December 2022.

Tax contingencies

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

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

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

25. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 28.3 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

<i>(In thousands of MNT)</i>	Less than 12 months	More than 12 months	Total
At 31 December 2022			
Financial assets			
Cash balances with Bank of Mongolia	93,934,922	-	93,934,922
Due from other banks	32,080,976	-	32,080,976
Loans and advances to customers	58,257,983	34,424,131	92,682,114
Other assets ¹	<u>449,220</u>	-	<u>449,220</u>
	<u>184,723,101</u>	<u>34,424,131</u>	<u>219,147,232</u>
Financial liabilities			
Due to banks and other financial institutions	(52,230,034)	-	(52,230,034)
Due to customers	(71,121,593)	-	(71,121,593)
Borrowed funds	(20,101,918)	-	(20,101,918)
Other liabilities ²	(1,720,382)	-	(1,720,382)
Lease liabilities	(87,200)	-	(87,200)
	<u>(145,261,127)</u>	-	<u>(145,261,127)</u>
Net financial assets	<u>39,461,974</u>	<u>34,424,131</u>	<u>73,886,105</u>
<i>(In thousands of MNT)</i>	Less than 12 months	More than 12 months	Total
At 31 December 2021			
Financial assets			
Cash balances with Bank of Mongolia	100,000,000	-	100,000,000
Due from other banks	38,024	-	38,024
Other assets ¹	<u>328,899</u>	-	<u>328,899</u>
	<u>100,366,923</u>	-	<u>100,366,923</u>
Financial liabilities			
Other liabilities ²	(128,625,607)	-	(128,625,607)
Net financial liabilities	<u>(28,258,684)</u>	-	<u>(28,258,684)</u>

¹ Excludes prepayments and other non-financial assets

² Excludes other non-financial liabilities

26. Operating segments

The Bank voluntarily adopted to report operating segments in the financial statements, although the Bank is not mandatorily required to disclose under IFRS.

The Bank's all activities were carried out in Mongolia. Therefore, no geographical analysis is presented.

Reportable segments	Operations
Consumer banking	Consumer loan through a mobile application
Corporate banking	Business loan
Others	Mortgage loan and other operation

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2022.

2022: (In thousands of MNT)	Consumer banking	Corporate banking	Others	Total
Interest and similar income	886,386	6,493,164	4,967,826	12,347,376
Interest and similar expense	-	(9,627)	(602,642)	(612,269)
Net interest income	886,386	6,483,537	4,365,184	11,735,107
Fee and commission income	17,077	4,762	15,752	37,591
Fee and commission expense	-	-	(21,629)	(21,629)
Net fee and commission income /(expense)	17,077	4,762	(5,877)	15,962
Net trading expense	-	-	(18,420)	(18,420)
Other income	-	-	1,157,235	1,157,235
Operating income	903,463	6,488,299	5,498,122	12,889,884
Expected credit loss expense	(99,684)	(1,211,686)	(16,303)	(1,327,673)
Other expenses	(224,294)	(778,661)	(14,046,829)	(15,049,784)
Operating expenses	(323,978)	(1,990,347)	(14,063,132)	(16,377,457)
Net operating income /(expense)	579,485	4,497,952	(8,565,010)	(3,487,573)
Non-operating income	-	-	8,168,357	8,168,357
Non-operating expense	-	(190)	(5,386)	(5,576)
Profit /(loss) before tax	579,485	4,497,762	(402,039)	4,675,208
Income tax benefit	-	-	4,605	4,605
Profit /(loss) for the year	579,485	4,497,762	(397,434)	4,679,813
Total assets	8,602,575	116,172,433	110,777,897	235,552,905
Total liabilities	8,499,034	114,933,510	21,921,822	145,354,366

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26. Operating segments, continued

2021: (In thousands of MNT)	Consumer banking	Corporate banking	Others	Total
Interest and similar income	-	-	-	-
Interest and similar expense	-	-	-	-
Net interest income	-	-	-	-
Fee and commission income	-	-	-	-
Fee and commission expense	-	-	-	-
Net fee and commission income/ (expense)	-	-	-	-
Net trading expense	-	-	-	-
Other income	-	-	1,153,899	1,153,899
Operating income	-	-	1,153,899	1,153,899
Expected credit loss expense	-	-	-	-
Other expenses	-	-	(3,604,579)	(3,604,579)
Operating expenses	-	-	(3,604,579)	(3,604,579)
Net operating expense	-	-	(2,450,680)	(2,450,680)
Non-operating income	-	-	-	-
Non-operating expense	-	-	-	-
Loss before tax	-	-	(2,450,680)	(2,450,680)
Income tax expense	-	-	-	-
Loss for the year	-	-	(2,450,680)	(2,450,680)
Total assets	-	-	114,163,493	114,163,493
Total liabilities	-	-	128,644,667	128,644,667

27. Related party disclosures

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

Name of party	Relationship
a. Ultimate shareholder	Odjargal.J
b. Parent company	MCS Holding LLC (100%)
c. Fellow subsidiaries	Subsidiaries of Parent company
d. Key management personnel	Executive management and Board of Directors

As of 31 December 2022, The Bank's immediate and ultimate parent company is MCS Holding LLC. The Bank is ultimately controlled by Mr.Odjargal Jambaljamts.

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

27. Related party disclosures, continued

(2) Related party balances

	<i>(In thousands of MNT)</i>	31/12/2022	31/12/2021
a. Loans and advances to related parties			
Key management personnel		5,719	-
b. Due to banks and other financial institutions			
Current accounts			
Fellow subsidiaries		7,403,720	-
Deposit accounts			
Fellow subsidiaries		10,317,277	-
		17,720,997	-
c. Due to customers			
Current accounts			
Parent company		5,958,664	-
Fellow subsidiaries		45,999,981	-
Ultimate shareholder		6,287,681	-
Key management personnel		53,794	-
Deposit accounts			
Fellow subsidiaries		2,011,107	-
Ultimate shareholder		1,000,996	-
Key management personnel		1,011	-
		61,313,234	-
d. Account payables to related parties			
Parent company		-	128,406,856
Fellow subsidiaries		16,000	289
		16,000	128,407,145
e. Other receivables from related parties			
Fellow subsidiaries		-	328,798
f. Prepaid expense to related parties			
Fellow subsidiaries		5,360	-

27. Related party disclosures, continued

(3) Related party transactions

(*In thousands of MNT*)

	2022	2021
Interest income received from related parties:		
Key management personnel	349	-
Interest expense paid to related parties:		
Ultimate shareholder	986	-
Key management personnel	1	-
Other operating expense paid to related parties:		
Parent company	1,001,662	-
Fellow subsidiaries	910,335	4,427
Other operating income from related parties:		
Fellow subsidiaries	-	1,152,918
Non-operating income from related parties:		
Parent company	8,167,236	-

(4) Compensation to key management personnel

(*In thousands of MNT*)

	2022	2021
Short term employee benefits:		
Salaries	784,185	582,217
Bonus and compensation	401,817	-
Contribution to social and health fund	148,250	67,158
	1,334,252	649,375

28. Risk management

28.1 Introduction

The main objectives of the Bank's risk management policy are to identify key risks of business activity of the bank, to set risk appetite limits and to maintain effective risk management governance and sound internal control framework.

Risk Governance

The Bank's risk management framework is to implement an effective risk management through supporting risk-based decision making for business and ensuring its implementation with continuous monitoring and reporting of risk environment.

Bank's risk management framework is based on the following components which are:

- **Three lines of defence** which define the overall responsibility and accountability on how to manage and control the risks at acceptable level;
- **Risk Management Committee and function** are responsible to determine risk management framework, to set risk appetite levels and to monitor its implementation;
- **Risk management documents** are combined set of policies and procedures that describe the structure of risk management and its internal control

Risk Management Committees and Responsibilities

Risk Management Committees set an effective risk management framework through fostering risk-based decision-making and overseeing its implementation.

- **The Board of Directors (BoD)** approves risk management policy and oversees its implementation.
- **The Risk Management Committee of the BoD** establishes risk management and control framework within the Bank and oversees the implementation of overall risk management of the Bank on behalf of BoD and approves risk management approach, risk appetite and tolerances.
- **The Risk Management Committee** is the management level oversight committee to review, challenge and oversee risk function, to implement the risk management framework, the adherence to the Bank's risk appetite.
- **Credit committee** approves loans excluding consumer loans. It has five members: The Chairman is the CEO of the Bank; the other four members are the Deputy CEO, the Chief Financial Officer, Head of the Credit Risk Management Unit and the Head of the Finance Management Unit. The Credit committee makes credit decisions within the limits set by risk appetite.

Risk Management Policy and Regulations

The Bank's risk management and monitoring are regulated by its policies and procedures. The implementation of these policies and procedures are reviewed by the Risk Management Unit once a year to define necessary changes or actions to be taken by management. Any changes approved by Executive's Risk Management Committee are reported to BoDs Risk Management Committee.

28. Risk management, continued

28.1 Introduction, continued

Risk Universe and Key Risk Type

The Bank defined following types of risks:

- **Credit risk:** potential loss resulting from failure of customers, clients or counterparties to meet their contractual obligations;
- **Market risk:** potential loss of the Bank's earnings or economic value due to adverse changes in market variables;
- **Capital adequacy risk:** potential inability to conduct business due to limited capitalization or short-fall against regulatory capital requirement;
- **Liquidity risk:** potential inability to fund increase in asset and meet obligation as they come due, without incurring unacceptable losses;
- **Operational risk:** potential for loss resulting from inadequate or failed internal and external process, human resource and systems or from impact of external event;
- **Information security risk:** potential for loss resulting from attacks on information system and loss of information;
- **Conduct risk:** potential for loss resulting from breach of codes of conduct and delivery of unfair customer outcome;
- **Compliance risk:** potential for loss resulting from violations of law, regulation and codes of conduct;
- **Reputational risk:** potential for loss of earning due to damaging to the Bank's reputation;
- **Strategic risk:** potential for opportunity loss from failure to optimize the Bank's strategy.

Risk Appetite

The Bank sets risk appetite in its operation which is defined as the amount of risk the Bank is willing to take in pursuit of the Bank's business model and its strategic goals. The risk appetite is set within the limits of risk tolerance or the limits defined by the regulatory body. First line of defence units are responsible to operate under the Bank's approved risk appetite while second line of defence units whereas the Risk Management Unit is responsible for overseeing the implementation of risk appetite levels. Necessary changes and adjustments to the risk appetite levels can be made by the acceptable risk indicators at least once a year prior to the financial budget planning process. The Risk Management Committee under the executive management reviews risk indicators and proposes necessary changes to the Risk Management Committee under the Board of Directors for approval.

28. Risk management, continued

28.1 Introduction, continued

Risk Control and Reporting

The risk report is a document that describes the implementation of risk management and effective risk control system. The risk report is prepared on regular basis by Risk Management Unit to have discussions on necessary actions to be made by reporting to the Executive Management and Board of Directors' Risk Management Committees.

The risk report includes:

- Risk appetite performance for each risk level;
- Assessment of changes in risk indicators, levels and characteristics;
- Medium and High-risk levels, their outlook and further measures;
- Detailed analysis, conclusions and actions taken on each type of risk scope

Operational risk

Bank has defined operational risk as the risk of loss resulting from people, processes, information technology and from internal or external events. Operational risk types are categorized as follows;

1. Internal fraud
2. External fraud
3. Employment practices and workplace safety
4. Clients, products and business practices
5. Damage to physical assets
6. Business disruption and system failures
7. Execution, delivery and process management

Bank follows Three lines of defence principles in operational risk management to adhere risk events within risk appetite levels. Risk Management Department oversees the control framework as second line of defence and reports directly to the executive and board's Risk Management Committees accordingly.

All units of first line of defence as per control framework principle are responsible to their daily operational risks while second line of defence units are responsible to support first line of defence units for identifying and evaluating risks and implementing operational risk management framework.

Additionally, non-financial risk appetite performances related to operational risk are reported to the Risk Management Committees (RMC) in monthly basis and decisions in relevant events are made appropriately by RMC.

28. Risk management, continued

28.1 Introduction, continued

Internal Audit Department, the third line of defence unit is responsible for giving independent assurance in performance of first and second line of defence units and provides relevant recommendations to improve operational risk management framework.

In context of operational risk management framework, the Bank has planned to introduce Risk and Control Self-assessment program to all units, department and activities in 2023 and also planning to introduce risk management software based upon best practice.

28.2 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's credit risk is primarily attributable to loan and advances to customers and loan interest receivables. The Bank's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions, for which the Bank considers to have low credit risk.

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

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

<i>(In thousands of MNT)</i>	Note	31 Dec 2022	31 Dec 2021
Cash balances with BoM	12	93,934,922	100,000,000
Due from other banks	13	32,080,976	38,024
Loans and advances to customers	14	92,597,451	-
Total credit risk exposure		218,613,349	100,038,024

Expected credit loss impairment

The credit loss impairment is based on expected credit loss model in accordance with IFRS 9, which replaced the IAS 39 incurred loss model. Measurement of expected credit loss impairment as per IFRS 9 require to consider current actual default behaviour (Point in time) and best available forward-looking information of macroeconomic.

When fair value of financial asset and liability recorded in the statement of financial position can't derived from active market, they are determined by mathematical and statistical models. The standard doesn't prescribe specific and certain methodology and modelling to estimate expected credit loss. Therefore, the Bank should use its long-term historical data and develop internal expect credit loss methodology and modelling.

28. Risk management, continued

28.2 Credit risk, continued

Definition

Default is defined as an event when the borrower is unlikely to pay both principal and interest payment to the Bank for more than 90 days;

Probability of default (PD) is the parameter estimated as likelihood of default over given time horizon, calculated as the number of defaulted loans divided into non-defaulted loans.

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

Loss given default (LGD) is the parameter estimated as likelihood of actual loss arising where a default occurs at given time.

Loss rate is the multiplication of probability of default and loss given default.

Assessment of expected credit loss and definition of default

In all cases where the borrower excessed on contractual payments by 90 days or more, the financial instrument is considered to be in Stage 3 (default) when calculating the expected credit loss. The Bank measures that probability of default and impaired financial instrument of by using qualitative assessment. In this case, the Bank conducts a specific analysis of each customer and determine whether financial instrument is classified as Stage 2 or 3. The following factors are taken into account in the quality assessment:

- Borrower's qualitative classification has downgraded accordingly by "Regulation on asset classification, provisioning and its disbursement" from Bank of Mongolia;
- Borrower has excessed contractual payments;
- The borrower is exposed to unexpected operational risk;
- The debtor filing official bankruptcy;
- The borrower is deceased.

It is the Bank's policy to consider a loan as "cured" and therefore re-classified out of Stage 3 when none of default criteria have been occurred for at least six consecutive months. The decision whether to upgrade a loan to Stage 1 or Stage 2 once cured depends on the assessment that whether there has been a significant increase in credit risk compared to initial recognition.

Individual assessment

Bank evaluates expected credit loss on each significant loan and advance. If there is objective evidence of impairment, we calculate the expected credit loss. Tangible evidence of loan impairment is financial difficulties, excessed contractual payment, restructure the contractual main terms and devaluation of collateral valuation. We consider business stability, ability to improve performance during the financial problem, payments and receivables or expected dividend payments in the event of bankruptcy, opportunity to get financial support from others, fair value of collateral and expected cashflow necessarily when we determining expected credit loss.

28. Risk management, continued

28.2 Credit risk, continued

Collective assessment

All loans and advances that are not individually significant, and loans and advances that are individually significant but do not have actual evidence of impairment through a specific assessment, are grouped by similar characteristics or products, and the collective assessment is performed.

As the Bank has not yet accumulated sufficient historical data to calculate the parameters to be used in the collective assessment, the assessment was carried out using market reference benchmark parameters. When the Bank calculating market benchmark parameters, we focused to use all available information, and the following requirements are met when selecting the reference parameters

- Use the parameters of other commercial banks as a benchmark;
- The Bank used as benchmark has at least 3 years of historical data;
- Benchmark bank has been audited by an international auditing organization;
- The benchmark data has a similar characteristic to our segment of portfolio.

Measurement of ECL

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

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

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

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

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

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

28. Risk management, continued

28.2 Credit risk, continued

Concentration risk

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 BoD, 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. However, the Bank sets stricter concentration limits on total exposure to single borrower or group of related borrowers and related party shall not exceed 10 percent of total equity of the Bank.

Moreover, the Bank sets economic sector limits to manage and mitigate the credit risk exposed by single sector concentration. Within these limits we set concentration limits on construction, finance, trade, transportation and mining sectors. Every single economic sector shall not exceed 20% of total loan portfolio and it can be adjusted by ±5% according to the that economic sector's future forecast and economy outlook.

	2022	
	Loan portfolio	%
Financial institution	21,199,857	22.52%
Salary loan	19,263,487	20.46%
Property	19,236,737	20.43%
Trading	15,492,630	16.46%
Transportation and storage	7,294,321	7.75%
Others	11,660,072	12.38%
Total gross loan amount	94,147,104	100%
Allowances for loans and advances to customers	(1,315,226)	
Deferred loan origination fees	(234,427)	
Net loan amount	92,597,451	

Collateral

The Bank maintains collateral coverage in order to mitigate credit risk.

	2022
	MNT'000
Movable	21,072,031
Fixed assets	74,576,352
Others*	55,500,000
Total	151,148,383

*it includes the borrower's receivables and loan portfolio.

28. Risk management, continued

28.2 Credit risk, continued

Credit quality analysis

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

Loans and advances to customers at amortized cost by products

<i>(In thousands of MNT)</i>	2022			
	Stage 1	Stage 2	Stage 3	Total
Business loan	74,251,167	-	-	74,251,167
Salary loan	19,047,366	216,121	-	19,263,487
Mortgage	632,450	-	-	632,450
Allowances for loans and advances to customers	(1,303,691)	(11,535)	-	(1,315,226)
Deferred loan origination fees	(232,833)	(1,594)	-	(234,427)
Total amounts	92,394,459	202,992	-	92,597,451

Loans and advances to customers at amortized cost by overdue status

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

<i>(In thousands of MNT)</i>	2022			
	Stage 1	Stage 2	Stage 3	Total
Overdue less than 30 days	93,930,983	-	-	93,930,983
Overdue 30-89 days	-	216,121	-	216,121
Allowances for loans and advances to customers	(1,303,691)	(11,535)	-	(1,315,226)
Deferred loan origination fees	(232,833)	(1,594)	-	(234,427)
Total amounts	92,394,459	202,992	-	92,597,451

28. Risk management, continued

28.3 Liquidity risk

Bank defined risk and control systems of market, equity and liquidity risks under Financial risk management procedure.

Liquidity risk is the risk that the Bank will not have enough cash to meet its financial obligations to customers on time, shortage of funds that are insufficient to cover increased asset level and condition where the Bank may fall into large sum of penalties regarding inadequacy.

Bank's Financial Management Unit is responsible to report performances of cashflow management and analysis on liquidity ratio performances to Asset Liability Management Committee while Risk management unit is responsible for monitoring the implementation of risk appetite levels. Risk management unit reports risk appetite level indicators of liquidity risk to Risk management committee on monthly basis.

Credit risk refers to potential losses on corporate earnings and asset size due to the negative impact of market factors. Bank's Financial Management Unit is responsible for implementing a plan to create efficient asset and resource management that meets business goals while Risk management unit is responsible for monitoring the implementation of risk appetite levels.

28. Risk management, continued

28.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities

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

(In thousands of MNT)

Note	As at 31 Dec 2022						Total undiscounted financial liabilities	Carrying value
	On demand	Up to 6 months	6 months to 1 year	1 year to 5 year	More than 5 years			
Due to banks and other financial institutions								
18	41,912,757	10,383,029	-	-	-		52,295,786	52,230,034
Due to customers	19	67,718,223	3,512,972	-	-	-	71,231,195	71,121,593
Borrowed funds	20	-	21,282,466	-	-	-	21,282,466	20,101,918
Other liabilities	21	-	1,720,382	-	-	-	1,720,382	1,720,382
Lease liabilities		-	87,200	-	-	-	87,200	87,200
Total		109,630,980	36,986,049	-	-	-	146,617,029	145,261,127

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2021 based on contractual undiscounted repayment obligations.

(In thousands of MNT)

Note	As at 31 Dec 2021						Total undiscounted financial liabilities	Carrying value
	On demand	Up to 6 months	6 months to 1 year	1 year to 5 year	More than 5 years			
Other liabilities								
21	128,625,607	-	-	-	-		128,625,607	128,625,607
Total	128,625,607	-	-	-	-	-	128,625,607	128,625,607

28. Risk management, continued

28.4 Market risk

Interest rate risk

Interest rate risk refers to potential losses that may arise due to changes and instability in market interest rates. Interest rate risk is calculated on basis of GAP analysis and Weighted average maturity analysis and results of those analysis are reported to the Asset Liability Management Committee. Risk Management Unit is responsible for monitoring Risk appetite levels and implementation results are reported to Risk Management Committee in monthly basis.

Foreign exchange risk

Foreign exchange risk refers to the potential losses that may arise due to fluctuations and instability in market currency exchange rates. Bank has set risk appetite levels on individual and overall open positions in foreign currency positions. Monitoring and implementation of risk appetite level is regularly reviewed by Risk Management Unit.

The sensitivity analysis of foreign exchange is shown below

	<i>(In thousands of MNT)</i>	31 Dec 2022	31 Dec 2021
		Impact on profit and loss	Impact on profit and loss
1	USD strengthening by 10%	1,212,346	(19,478)
	USD weakening by 10%	(1,212,346)	19,478
2	EUR strengthening by 10%	1,136	-
	EUR weakening by 10%	(1,136)	-
3	CNY strengthening by 10%	-	1
	CNY weakening by 10%	-	(1)
4	JPY strengthening by 10%	139	-
	JPY weakening by 10%	(139)	-

28. Risk management, continued

28.4 Market risk, continued

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

As at 31 December 2022 (In thousands of MNT)	Note	MNT	USD	EUR	CNY	JPY	Total
Financial assets							
Cash balances with Bank of Mongolia							
12	46,157,319	47,776,740	367	496	-	93,934,922	
Due from other banks	13	30,075,291	1,992,867	11,355	72	1,391	32,080,976
Loans and advances to customer	14	92,682,114	-	-	-	-	92,682,114
Other assets	17	449,220	-	-	-	-	449,220
		<u>169,363,944</u>	<u>49,769,607</u>	<u>11,722</u>	<u>568</u>	<u>1,391</u>	<u>219,147,232</u>
Financial liabilities							
Due to banks and other financial institutions							
18	(19,488,137)	(32,741,052)	(358)	(487)	-	(52,230,034)	
Due to customers	19	(66,265,669)	(4,855,839)	-	(85)	-	(71,121,593)
Borrowed funds	20	(20,101,918)	-	-	-	-	(20,101,918)
Other liabilities	21	(1,671,125)	(49,257)	-	-	-	(1,720,382)
Lease liabilities		(87,200)	-	-	-	-	(87,200)
		<u>(107,614,049)</u>	<u>(37,646,148)</u>	<u>(358)</u>	<u>(572)</u>	<u>-</u>	<u>(145,261,127)</u>
Net position		<u>61,749,895</u>	<u>12,123,459</u>	<u>11,364</u>	<u>(4)</u>	<u>1,391</u>	<u>73,886,105</u>

28. Risk management, continued

28.4 Market risk, continued

As at 31 December 2021 (In thousands of MNT)	Note	MNT	USD	EUR	CNY	JPY	Total
Financial assets							
Cash balances with Bank of Mongolia	12	100,000,000	-	-	-	-	100,000,000
Due from other banks	13	33,800	4,219	-	5	-	38,024
Other assets	17	328,899	-	-	-	-	328,899
		<u>100,362,699</u>	<u>4,219</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>100,366,923</u>
Financial liabilities							
Other liabilities	21	(128,426,604)	(199,003)	-	-	-	(128,625,607)
		<u>(128,426,604)</u>	<u>(199,003)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128,625,607)</u>
Net position		<u>(28,063,905)</u>	<u>(194,784)</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>(28,258,684)</u>

29. Capital adequacy

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

Capital management

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

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

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

<i>(In thousands of MNT)</i>	31 Dec 2022
Tier 1 capital	90,198,539
Tier 2 capital	-
Total Tier 1 and Tier 2 capital	90,198,539
 Risk weighted assets	 117,198,320
 Capital ratios	
Total regulatory capital expressed as a percentage of total risk-weighted assets	76.96%
 Total Tier 1 capital expressed as a percentage of risk-weighted assets	 76.96%

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

<i>(In thousands of MNT)</i>	2022	
%	Risk Assets	Weighted
0	93,934,921	-
20	30,009,245	6,001,849
50	824,537	412,269
90	-	-
100	110,784,202	110,784,202
150	-	-
Total	235,552,905	117,198,320

30. Subsequent events

The Bank has experienced a significant increase in customer numbers over the first quarter of 2023. Customer numbers have increased from 7,495 to 33,965, representing a growth rate of 353.17% which further resulted in notable growth of MNT 112,576,330 thousand at facilitated funding from a local market. The increase is attributed to the Bank's planned campaigns on customer acquisition in the first quarter of 2023 along with efforts to deliver more seamless and user-friendly products and functions. As for the loan portfolio, the number of lenders is remarkably increased from 4,104 to 7,064 representing a growth rate of 72.12%.

31. Translation into Mongolian language

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

M Bank Closed JSC

**Condensed Interim Financial Statements for
the nine months period ended**

30 September 2025

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General Information

Registered address	MBank Closed JSC Central Tower, 15 th Floor, 8 th Khoroo, Sukhbaatar District, Ulaanbaatar 14200, Mongolia	
Shareholders as at 30 September 2025	MCS Holding LLC	
Board of Director	Ulemj.B Odjargal.J Chimgee.O Myagmarjav.G Tsengel.S Naranbaatar.U Delgerjargal.B Bat-Ochir.D Khaidar.Z	Chairwoman Member Member Member Member Independent Member Independent Member Independent Member Independent Member
Corporate Secretary	Tugsjargal.T	
Chief Executive Officer Vice President, Business Banking Chief IT Officer Chief Financial Officer Chief Risk Officer Chief Audit Executive Chief People Officer	Temuulen.B Badruun.D Batjargal.N Turbold.E Sansar.B Baasanbat.E Sarangerel.B	
Auditor	KPMG Audit LLC #602, Blue Sky tower, Peace Avenue 17, 1 st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia	

Management's Responsibility Statement

M Bank Closed JSC ("the Bank")'s management is responsible for the preparation of the condensed interim financial statements.

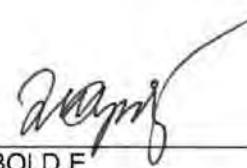
The condensed interim financial statements of the Bank have been prepared to comply with IAS 34 Interim Financial Reporting ("IAS 34"). The management is responsible for ensuring that these condensed interim financial statements present fairly the state of affairs of the Bank as at 30 September 2025 and the financial performance and cash flows for the period then ended on that date.

The management has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank, and which enable them to ensure that the condensed interim financial statements comply with the requirements set out in relevant notes to the last annual financial statements.

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

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

The condensed interim financial statements of the Bank for the period ended 30 September 2025 were authorized for issuance by the Bank's management.



TURBOLD.E
Chief Financial Officer



TUNGALAG.N
Head of Financial Reporting and Accounting Department

Ulaanbaatar,
Mongolia

Date: 14 November 2025



KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax : +976 7011 8102
www.kpmg.com/mn

Independent Auditors' Report on Review of Condensed Interim Financial Statements

To: The Shareholders and Board of Directors of M Bank Closed Joint Stock Company

Introduction

We have reviewed the accompanying condensed statement of financial position of M Bank Closed JSC ("the Bank") as at 30 September 2025, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the interim financial statements ('the condensed interim financial statements'). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Other matter

The condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period ended 30 September 2024, presented for the comparative purposes, have not been reviewed.

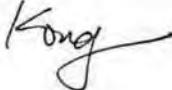


Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at and for the nine-month ended 30 September 2025 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.



Approved by:

PS 
Pyung-Sik Kong
Partner

This report is effective as at 14 November 2025, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

M Bank Closed JSC
Condensed Statement of Financial Position

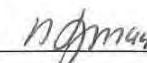
<i>In thousands of MNT</i>	<i>Notes</i>	30 September 2025	31 December 2024
ASSETS			
Cash and cash equivalents	6	347,425,138	673,517,011
Mandatory cash balances with Bank of Mongolia	6	102,941,746	48,854,122
Due from other banks	7	7,397,247	6,797,069
Reverse sale and repurchase agreements	10	-	74,089,698
Investments in debt securities	8	194,929,775	-
Derivative financial assets	30	12,166,320	4,348,380
Loans and advances to customers	9	1,213,357,880	830,649,817
Property and equipment	12	10,038,995	7,527,892
Intangible assets	13	21,970,285	17,466,195
Right-of-use-assets	14	6,956,866	3,878,305
Deferred tax assets	26	1,408,865	1,159,531
Income tax receivables	26	1,063	-
Other assets	11	22,811,205	8,477,115
TOTAL ASSETS		1,941,405,385	1,676,765,135
LIABILITIES			
Due to other banks	15	195,186	308,834,980
Due to customers	16	1,445,417,248	1,105,300,290
Other borrowed funds	17	253,583,941	100,990,229
Lease liabilities		6,646,435	3,257,966
Current income tax liabilities	26	-	446,265
Other liabilities	18	17,457,450	7,055,260
TOTAL LIABILITIES		1,723,300,260	1,525,884,990
EQUITY			
Share capital	19	240,000,000	170,000,000
Accumulated losses		(26,217,771)	(19,119,855)
Other reserve	19	4,322,896	-
TOTAL EQUITY		218,105,125	150,880,145
TOTAL LIABILITIES AND EQUITY		1,941,405,385	1,676,765,135

Approved for issue and signed on behalf of Management Board on 14 November 2025.


TEMUULEN B.
Chief Executive Officer




TURBOLD.E.
Chief Financial Officer


TUNGALAG.N.
Head of Financial Reporting and Accounting Department

M Bank Closed JSC
Condensed Statement of Profit or Loss and Other Comprehensive Income

For the nine months ended 30 September

<i>In thousands of MNT</i>	<i>Notes</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Interest income calculated using the effective interest method	20	170,618,334	73,860,969
Other similar interest income	20	3,696,302	142,391
Interest expense	20	(113,905,848)	(44,933,551)
Interest similar expense	20	(6,187,848)	(498,794)
Net margin on interest and similar income		54,220,940	28,571,015
Impairment losses on financial instruments	25	(32,328,998)	(7,093,661)
Net margin on interest and similar income after credit loss allowance		21,891,942	21,477,354
Fee and commission income	21	7,496,496	2,400,386
Fee and commission expense	21	(3,013,620)	(1,254,620)
Gains less losses from financial derivatives		8,488,000	1,138,598
Gains less losses from trading in foreign currencies		572,326	158,245
Foreign exchange translation losses less gains		(4,395,070)	(50,629)
Personnel expenses	22	(13,159,816)	(10,662,651)
Depreciation and amortization	12,13,14	(6,708,210)	(4,884,818)
Other operating expenses	23	(14,074,650)	(10,163,906)
Net non-operating expenses	24	(70,059)	(70,124)
Loss before tax		(2,972,661)	(1,912,165)
Income tax benefit	26	197,641	343,359
LOSS FOR THE PERIOD		(2,775,020)	(1,568,806)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,775,020)	(1,568,806)

M Bank Closed JSC
Condensed Statement of Changes in Equity

For the nine months ended 30 September

<i>In thousands of MNT</i>	<i>Notes</i>	Share capital	Accumulated losses	Other reserve	Total equity
Balance at 1 January 2024	19	100,000,000	(12,688,895)	-	87,311,105
Total comprehensive loss for the period (unreviewed)					
Loss for the period			(1,568,806)	-	(1,568,806)
Transactions with owners of the Bank (unreviewed)					
Issue of ordinary shares	19	70,000,000		-	70,000,000
Increase in regulatory reserve (unreviewed)			(1,870,064)	1,870,064	-
Balance at 30 September 2024 (unreviewed)		170,000,000	(16,127,765)	1,870,064	155,742,299
Balance at 1 January 2025		170,000,000	(19,119,855)	-	150,880,145
Total comprehensive loss for the period					
Loss for the period			(2,775,020)	-	(2,775,020)
Transactions with owners of the Bank					
Issue of ordinary shares	19	70,000,000		-	70,000,000
Increase in regulatory reserve			(4,322,896)	4,322,896	-
Balance at 30 September 2025		240,000,000	(26,217,771)	4,322,896	218,105,125

M Bank Closed JSC
Condensed Statement of Cash Flows

For the nine months ended 30 September

<i>In thousands of MNT</i>	<i>Note</i>	2025	(Unreviewed) 2024
Cash flows from operating activities			
Loss before tax		(2,972,661)	(1,912,165)
Adjustments to reconcile profit before tax to net cash flow:			
Impairment losses on financial instruments	25	32,328,998	7,093,661
Depreciation of property and equipment	12	1,437,025	1,256,876
Depreciation of rights-of-use assets	14	2,993,409	2,118,489
Amortisation of intangible assets	13	2,277,776	1,509,453
Gain on written-off of property and equipment	24	-	(310)
Loss on disposal of property and equipment	24	487	-
Gain on disposal of right-of-use assets	24	(6,463)	-
Loss on disposal of intangible asset	24	-	1,926
Gains less losses from financial derivatives		(8,488,000)	(1,138,598)
Foreign exchange translation losses less gains		4,395,070	50,629
Interest and similar income	20	(174,314,636)	(74,003,360)
Interest and similar expense	20	120,093,696	45,432,345
Cash flows used in operating activities before changes in operating assets and liabilities			
		(22,255,299)	(19,591,054)
Increase in mandatory reserves with the BoM		(54,087,075)	(12,316,358)
Decrease in reverse sale and repurchase agreements		74,209,989	34,867,160
Decrease/(increase) in due from banks		780,932	(6,226,875)
Increase in investments in debt securities at FVTPL		(226,912,302)	-
Increase in loans and advances to customers		(404,745,515)	(416,390,942)
Increase in other assets		(20,952,578)	(2,075,363)
Decrease in due to other banks		(307,474,902)	(105,946,825)
Increase in due to customers		320,408,645	447,461,116
Increase in other liabilities		10,402,190	2,544,803
Net cash used in operating activities before tax and interest		(630,625,915)	(77,674,338)
Interest received			
Interest received		183,362,447	66,215,846
Interest paid		(96,051,882)	(29,126,620)
Interest on lease liabilities paid		(633,844)	(337,886)
Income tax paid	26	(499,021)	(384,647)
Net cash used in operating activities		(544,448,215)	(41,307,645)
Acquisition of debt securities at AC			
Acquisition of debt securities at AC	8	(52,539,500)	(29,190,000)
Proceeds from redemption of debt securities at AC		65,516,820	73,668,775
Acquisition of property and equipment		(2,589,939)	(2,944,096)
Acquisition of right-of-use assets		-	(274,865)
Acquisition of intangible assets		(1,525,713)	(4,955,603)
Proceeds from disposal of property and equipment		500	4,448
Proceeds from right-of-use assets		-	10,635
Proceeds from disposal of intangible assets		-	34,462
Net cash generated from investing activities		8,862,168	36,353,756
Cash flows from financing activities			
Proceeds from repurchase arrangements		245,820,803	4,345,870,517
Repayment of repurchase arrangements		(245,820,803)	(4,355,852,740)
Repayment of lease liabilities		(2,677,036)	(1,490,966)
Proceeds from borrowed funds		235,280,434	92,290,240
Repayment of borrowed funds		(93,165,510)	-
Issue of ordinary shares	19	70,000,000	70,000,000
Net cash generated from financing activities		209,437,888	150,817,051
Credit loss allowance reversal/(charge) on cash and cash equivalent		56,286	(340,754)
Net (decrease)/increase in cash and cash equivalents		(326,091,873)	145,522,408
Cash and cash equivalents at the beginning of the period		673,517,011	382,773,890
Cash and cash equivalents at the end of the period		347,425,138	528,296,298

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

1 Introduction

These condensed interim financial statements for the nine months ended 30 September 2025 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Bank's last annual financial statements as and for the year ended 31 December 2024 ("last annual financial statements").

The Bank was incorporated and is domiciled in Mongolia. The Bank is a closed joint stock company limited by shares and was set up in accordance with Mongolia's regulations. As of 30 September 2025 and 31 December 2024, the Bank's immediate parent company is MCS Holding LLC, and the ultimate controlling party is MCS Mongolia LLC.

Principal activity. In accordance with the effective Charter of the Bank, the Bank's principal business activities include:

- Loan services;
- Card services;
- Savings;
- Payment and settlement services;
- Sale, purchase, deposit and placing of foreign currencies;
- Safekeeping of valuables;
- Conducting foreign remittance services;
- Financial leasing services;
- Guarantees and letters of credit;
- Purchase and sales of loans and other financial instruments;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia.

The Bank had 474 employees at 30 September 2025 (31 December 2024: 378 employees).

Registered address and place of business. The Bank's registered address is: Central tower 15th floor, 8th khoroo, Sukhbaatar District, Ulaanbaatar-14200, Mongolia.

Presentation currency. These condensed interim financial statements are presented in Mongolian tugrik ("MNT"), unless otherwise stated.

Abbreviations. A glossary of various abbreviations used in this document is included in Note 34.

2 Operating environment of the Bank

Mongolia is widely regarded as an emerging market with rapid economic growth and yet having struggles from external shocks with ongoing geopolitical tensions on global level and instability and institutional challenges on domestic level. By the second quarter of this year, Mongolian economy kept its growth from previous year and posed 5.6% growth that was caused by significant increase of 36% in agriculture, non-mining sector and meanwhile, the mining sector production slowed by 7.6% from previous year. Looking forward, GDP growth is expected to keep at 5% or slightly lower at around 4.8% by the end of 2025 because of mining export decreased by 9%.

At its regular meeting in the third quarter of 2025, the Monetary Policy Committee of the Bank of Mongolia decided to maintain the policy rate at 12.0%, taking into account inflation dynamics, the economic outlook, conditions in the banking and financial markets, and external risk factors. Bank of Mongolia increased the policy rate by 2% in March 2025 to 12% because the inflation had been increasing steadily from 5.1% in June 2024 to 9.1% in March 2025. Throughout 2025, State inflation and Capital city inflation has been stagnant at 8.7% and 9.6% respectively and a tight monetary policy is expected to continue in 2026. Average household income increased by 17.6% in nominal value but total domestic trade has been slowed by slightly 1% on yearly basis.

The economic and financial assessments and the baseline projections underlying this policy decision are presented in the Monetary Policy Report. The decision to maintain the policy rate at 12.0% is consistent with the objective of stabilizing inflation at the target over the medium term and supporting the stability of the economy and the financial sector.

2 Operating environment of the Bank (Continued)

In view of potential funding shortfalls in the banking system and the need to align monetary and macroprudential policies, the authorities are assessing possible measures including a reduction in the required reserve ratio for discussion at the next meeting, subject to evolving economic conditions.

Under this scenario, coal export volume reaches 90 million tons in 2026, lifting export earnings and improving the macro-outlook. Stronger coal exports narrow the current account deficit and ease depreciation pressure on the MNT, with the exchange rate projected to be around MNT 70 stronger than the baseline. Higher mining output raises growth in the mining sector and, via spillovers to non-mining sectors (transport, trade, services), real GDP growth is 0.7 percentage points higher next year relative to the baseline. With the exchange rate firmer and external inflation lower, imported-cost pressures moderate, leaving headline inflation 0.3–0.4 percentage points below the baseline through the first half of 2026.

As of July 2025, non-performing loans reached MNT 2.1 trillion, an increase of MNT 186.7 billion 9.5% year-on-year. The deterioration has been concentrated in salary loans and, subsequently, consumer and deposit collateralized loans, which has been the principal driver of the acceleration in NPL growth this year. This autumn, S&P has upgraded Mongolia a 'BB' long-term sovereign credit rating with a stable outlook from 'B+' in previous year, stating improved debt metrics, sustainable robust growth and broad policy continuity. Prior to this, Fitch had affirmed Mongolia at 'B+' with a stable outlook stating similar rationales in its statement.

The Mongolian national currency, the tugrik, has slightly depreciated against the US dollar by 5.1% as of 30 September 2025 (MNT 3,594.64) compared to the exchange rate on 31 December 2024 (MNT 3,420.25). For the measurement of Expected Credit Losses (ECL), the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. However, as with any economic forecast, the projections and their likelihoods are subject to a high degree of inherent uncertainty, and actual outcomes may significantly differ from those projected.

3 Basis of preparation

These condensed interim financial statements for the nine months ended 30 September 2025 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Bank's last annual financial statements as and for the year ended 31 December 2024 ("last annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the last annual financial statements.

These condensed interim financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These condensed interim financial statements are directed to primary users, being investors who lend or provide equity capital to the reporting entity. These condensed interim financial statements assume that the primary users have a reasonable knowledge of business and economic activities and review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena reported in these condensed interim financial statements.

These condensed interim financial statements aim disclosing only information that management considers is material for the primary users. Management seeks not to reduce the understandability of these condensed interim financial statements by obscuring material information with immaterial information.

3 Basis of preparation (Continued)

Change in Accounting Policies. The accounting policies applied in these condensed interim financial statements are the same as those applied in the Bank's financial statements as of and for the year ended 31 December 2024.

Going concern. The condensed interim financial statements have been prepared on a going concern basis. Management has assessed the Bank's ability to continue as a going concern for the foreseeable future and concluded that the Bank has adequate resources to continue its operations.

In making this assessment, management has considered current and forecasted profitability, capital adequacy, liquidity position, and access to funding. There have been no significant changes in the Bank's assessment of its ability to continue as a going concern since the last annual financial statements. Accordingly, the condensed interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since engaging in the business of providing banking and financial services pursuant to a license to operate as a bank and beginning its operations, the growth of accumulated losses is related to the implementation of step-by-step incentive programs aimed at attracting customers, as well as efforts to deliver customer-friendly products and services. In a short period, Bank has made significant changes in the banking sector, established its position, and created a distinctive image that has not been experienced before. Moving forward, the Bank will not be limited to just banking products and services, it will continue to introduce innovative, flexible, and easy-to-use products and services that support the financial well-being of our customers, tailored to people's lifestyles and financial situations.

Use of estimates and judgements. The Bank makes estimates and assumptions that affect the amounts recognised in these condensed interim financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were same as those described in the last annual financial statements.

4 Critical accounting adoption of new or revised standards and interpretations

The following amendments became effective from 1 January 2025:

Effective date	New accounting standards or amendments
1 January 2025	Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023 and effective for annual periods beginning on or after 1 January 2025).

The application of the above amendments has had no material impact on the Bank's condensed interim financial statements for the current period and on the disclosures set out in these condensed interim financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2026 or later, and which the Bank has not early adopted.

Effective date	New accounting standards or amendments
1 January 2026	Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 (issued on 30 May 2024 and effective for annual periods beginning on or after 1 January 2026).
1 January 2026	Annual Improvements to IFRS Accounting Standards (Issued in July 2024 and effective from 1 January 2026).
1 January 2027	IFRS 18 Presentation and Disclosure in Financial Statements (Issued on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027).
1 January 2027	IFRS 19 Subsidiaries without Public Accountability: Disclosures (Issued on 18 May 2024 and effective for annual periods beginning on or after 1 January 2027).
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

The above new and amended accounting standards are not expected to have a significant impact on the Bank's financial statements, except for IFRS 18 Presentation and Disclosure in Financial Statements.

6 Cash and cash equivalents

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Cash and balances with the Bank of Mongolia (other than mandatory reserve)	193,058,655	40,570,268
Due from banks - less than three months	15,415,970	321,539,567
BoM treasury bills - less than three months	139,176,938	311,689,887
Total cash and cash equivalents	347,651,563	673,799,722
Less: Credit loss allowance	(226,425)	(282,711)
Net cash and cash equivalents	347,425,138	673,517,011

a) Cash and balances with the Bank of Mongolia (other than mandatory reserve)

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Current accounts at BOM (MNT)	69,661,523	10,643,511
Current accounts at BOM (Foreign currency)	121,396,584	29,926,757
Overnight deposit accounts at BOM (MNT)	2,000,548	-
BoM treasury bills-less than three months	139,176,938	311,689,887
Less: Credit loss allowance	(207,694)	(252,241)
Total cash and balances with the Bank of Mongolia	332,027,899	352,007,914

b) Mandatory cash balances with Bank of Mongolia

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Mandatory cash balance with BOM (MNT)	72,794,543	36,737,005
Mandatory cash balance with BOM (Foreign currency)	30,147,203	12,117,117
Total mandatory reserve with the Bank of Mongolia	102,941,746	48,854,122

7 Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Due from other banks more than three months represent local currency deposits maintained with Trade and Development Bank. The placements held as of 30 September 2025 are denominated in USD with original maturity greater than six months and annual interest rate of 3.5%. Due from other banks is pledged under Senior Secured Term Loan Facility Agreement with SIMPL (Refer to Note 17).

For the purpose of ECL measurement, due from other banks are included in Stage 1 as of 30 September 2025.

8 Investments in debt securities

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Debt securities measured at AC - Corporate bonds	1,026,178	-
Debt securities measured at FVTPL - Government bonds	190,542,268	-
Debt securities measured at FVTPL - MIK Senior bonds	1,688,783	-
Debt securities measured at FVTPL - MIK Junior bonds	1,688,881	-
Less: Credit loss allowance	(16,335)	-
Total investments in debt securities	194,929,775	-

As of 30 September 2025, government bonds classified as debt securities at FVTPL amounting to MNT 107,069 million (USD 29.7 million) were pledged as collateral to Mopane Securities PLC (30 September 2024: nil). Refer to Note 17.

The following table discloses reconciliation of movements in debt securities measured at FVTPL within Level 3 of the fair value hierarchy during the period:

<i>In thousands of MNT</i>	MIK Senior bonds	MIK Junior bonds	Total
At 1 January 2025	-	-	-
New originated or purchased	14,982,800	1,664,800	16,647,600
Derecognised during the period	(13,318,100)	-	(13,318,100)
Accrual less interest received	24,083	24,081	48,164
Total carrying value at 30 September 2025	1,688,783	1,688,881	3,377,664

The following table discloses investments in debt securities carried at AC between the beginning and the end of the reporting period:

<i>In thousands of MNT</i>	Corporate bond
At 1 January 2025	-
New originated or purchased	52,539,500
Derecognised during the period	(51,824,340)
Changes in accrued interest	26,178
FX and other movements	284,840
Total gross carrying value at 30 September 2025	1,026,178

9 Loans and advances to customers

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Gross carrying amount of loans and advances to customers at AC	1,234,271,029	835,617,617
Less: Credit loss allowance	(51,132,348)	(19,176,918)
Total carrying amount of loans and advances to customers at AC	1,183,138,681	816,440,699
Loans and advances to employees at FVTPL	2,932,378	1,266,999
MIK mortgage loan to customers at FVTPL	27,286,821	12,942,119
Total loans and advances to customers	1,213,357,880	830,649,817

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 30 September 2025 and 31 December 2024 are disclosed in the table below:

<i>In thousands of MNT</i>	30 September 2025		31 December 2024		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance
Consumer loans (individuals)	594,951,574	(46,559,927)	548,391,647	432,281,482	(15,443,721)
Business loans (corporate)	609,003,290	(4,558,570)	604,444,720	393,329,580	(3,728,604)
Mortgage loans (individuals)	30,316,165	(13,851)	30,302,314	10,006,555	(4,593)
Total loans and advances to customers at AC	1,234,271,029	(51,132,348)	1,183,138,681	835,617,617	(19,176,918)

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Consumer loans								
At 1 January 2025	3,912,948	3,313,886	8,216,887	15,443,721	392,168,836	25,230,414	14,882,232	432,281,482
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(431,256)	431,256	-	-	(27,939,136)	27,939,136	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(930,385)	(2,794,518)	3,724,903	-	(42,476,173)	(20,907,047)	63,383,220	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	328,578	(175,984)	(152,594)	-	1,740,716	(1,462,949)	(277,767)	-
- from Stage 3 to Stage 2	-	45,015	(45,015)	-	-	90,639	(90,639)	-
New originated or purchased	3,356,287	1,732,636	4,831,696	9,920,619	481,392,607	17,578,569	13,183,342	512,154,518
Derecognised during the period	(1,937,382)	(302,660)	(859,125)	(3,099,167)	(341,857,119)	(9,765,183)	(3,726,247)	(355,348,549)
Impact of changes in exposure, inputs and models	525,939	1,738,127	22,579,295	24,843,361	1,458,837	74,200	4,879,693	6,412,730
Total movements with impact on credit loss allowance charge for the period	911,781	673,872	30,079,160	31,664,813	72,319,732	13,547,365	77,351,602	163,218,699
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(548,607)	(548,607)	-	-	(548,607)	(548,607)
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 30 September 2025	4,824,729	3,987,758	37,747,440	46,559,927	464,488,568	38,777,779	91,685,227	594,951,574

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Consumer loans								
At 1 January 2024	1,619,094	625,437	1,537,846	3,782,377	95,569,313	2,758,022	2,036,539	100,363,874
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(82,484)	82,484	-	-	(2,642,785)	2,642,785	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(116,552)	(356,264)	472,816	-	(3,567,720)	(1,508,661)	5,076,381	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	169,901	(111,868)	(58,033)	-	583,034	(499,587)	(83,447)	-
- from Stage 3 to Stage 2	-	44,741	(44,741)	-	-	71,506	(71,506)	-
New originated or purchased	3,743,099	3,141,399	5,104,380	11,988,878	446,388,273	24,863,650	9,943,680	481,195,603
Derecognised during the period	(1,589,958)	(284,531)	(1,057,757)	(2,932,246)	(144,161,279)	(3,097,301)	(683,036)	(147,941,616)
Impact of changes in exposure, inputs and models	169,848	172,488	4,417,255	4,759,591	-	-	-	-
Write-off	-	-	(850,130)	(850,130)	-	-	(1,336,379)	(1,336,379)
Total movements with impact on credit loss allowance charge for the period	2,293,854	2,688,449	7,983,790	12,966,093	296,599,523	22,472,392	12,845,693	331,917,608
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1,304,749)	(1,304,749)	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2024	3,912,948	3,313,886	8,216,887	15,443,721	392,168,836	25,230,414	14,882,232	432,281,482

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Business loans								
At 1 January 2025	2,602,223	11,614	1,114,767	3,728,604	384,379,244	1,131,817	7,818,519	393,329,580
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(2,048)	2,048	-	-	(249,822)	249,822	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(95,194)	(11,292)	106,486	-	(9,148,814)	(729,989)	9,878,803	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	379,033	(379,033)	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	1,151,175	3,725	37,885	1,192,785	525,138,494	393,320	120,755	525,652,569
Derecognised during the period	(1,990,721)	(321)	(556,057)	(2,547,099)	(319,083,045)	(270,594)	(2,485,831)	(321,839,470)
Impact of changes in exposure, inputs and models	9,333	7,396	2,164,232	2,180,961	10,245,712	4,228	1,610,671	11,860,611
Total movements with impact on credit loss allowance charge for the period	(927,455)	1,556	1,752,546	826,647	207,281,558	(732,246)	9,124,398	215,673,710
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	3,319	-	-	3,319	-	-	-	-
At 30 September 2025	1,678,087	13,170	2,867,313	4,558,570	591,660,802	399,571	16,942,917	609,003,290

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Business loans								
At 1 January 2024	208,224	84,500	-	292,724	65,942,691	2,646,818	4,059,249	72,648,758
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	(104,634)	104,634	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,339)	(84,500)	86,839	-	(685,964)	(2,192,000)	2,877,964	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	2,602,147	11,614	39,617	2,653,378	421,344,419	1,058,493	167,219	422,570,131
Derecognised during the period	(186,588)	-	-	(186,588)	(102,117,268)	(486,128)	714,087	(101,889,309)
Impact of changes in exposure, inputs and models	(19,606)	-	988,311	968,705	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	2,393,614	(72,886)	1,114,767	3,435,495	318,436,553	(1,515,001)	3,759,270	320,680,822
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	385	-	-	385	-	-	-	-
At 31 December 2024	2,602,223	11,614	1,114,767	3,728,604	384,379,244	1,131,817	7,818,519	393,329,580

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Mortgage loans								
At 1 January 2025	4,593	-	-	4,593	10,006,555	-	-	10,006,555
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	13,031	-	-	13,031	24,972,993	-	-	24,972,993
Derecognised during the period	(3,974)	-	-	(3,974)	(4,688,206)	-	-	(4,688,206)
Impact of changes in exposure, inputs and models	201	-	-	201	24,823	-	-	24,823
Total movements with impact on credit loss allowance charge for the period	9,258	-	-	9,258	20,309,610	-	-	20,309,610
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 30 September 2025	13,851	-	-	13,851	30,316,165	-	-	30,316,165

9 Loans and advances to customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Mortgage loans								
At 1 January 2024	2,483	-	-	2,483	2,924,591	-	-	2,924,591
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
- from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New originated or purchased	1,335	-	-	1,335	7,765,480	-	-	7,765,480
Derecognised during the period	(1,044)	-	-	(1,044)	(683,516)	-	-	(683,516)
Impact of changes in exposure, inputs and models	1,819	-	-	1,819	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	2,110	-	-	2,110	7,081,964	-	-	7,081,964
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2024	4,593	-	-	4,593	10,006,555	-	-	10,006,555

10 Reverse sale and repurchase agreements

As of 30 September 2025, the Bank had no reverse sale and repurchase agreements with any local banks. As of 31 December 2024, MNT 74,089,698 thousand of reverse sale and repurchase agreements relate to short term agreement with local banks, bearing interest rate ranging from 10% to 12% per annum, with original maturity from 2 to 17 days. The reverse sale and repurchase agreements were fully collateralized by the Bank of Mongolia treasury bills in which the Bank had the right, by contract to sell pledge in case of non-repayment.

11 Other assets

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
<i>Other financial assets at AC</i>		
Receivable on bank settlement service	10,167,441	3,383,359
Receivable from entities	1,488,391	239,598
Receivable from individuals	37,050	3,530
Less: Credit loss allowance	(7,173)	(4,015)
Total other financial assets at AC	11,685,709	3,622,472
<i>Other non-financial assets</i>		
Prepaid expenses	4,697,457	1,901,751
Prepayments for non-current assets	4,165,665	202,485
Deferred employee benefits	1,407,180	541,797
Supply materials	855,194	2,199,144
Other tax receivables	-	9,466
Total other non-financial assets	11,125,496	4,854,643
Total other assets	22,811,205	8,477,115

12 Property and equipment

<i>In thousands of MNT</i>	Fixtures Equipment and fittings	Office equipment	Vehicles	Other	Total
Cost					
At 1 January 2024	4,790,281	945,734	1,914,088	159,300	605,504
Additions	1,867,713	850,059	881,045	268,400	284,143
Disposals	(1,709)	(1,247)	(23,724)	(159,300)	-
Written-off	-	(27,249)	(63,671)	-	-
At 31 December 2024	6,656,285	1,767,297	2,707,738	268,400	889,647
Cost					
Additions	814,912	707,003	715,144	-	352,880
Transferred from inventory	-	-	1,359,176	-	-
Disposals	-	(1,690)	-	-	-
At 30 September 2025	7,471,197	2,472,610	4,782,058	268,400	1,242,527
Accumulated depreciation					
At 1 January 2024	1,639,516	225,837	1,026,311	19,670	229,034
Depreciation	563,528	128,336	804,508	24,387	231,265
Disposals	(888)	(741)	(19,980)	(31,925)	-
Written-off	-	(14,577)	(62,806)	-	-
At 31 December 2024	2,202,156	338,855	1,748,033	12,132	460,299
Accumulated depreciation					
Depreciation	533,000	151,372	636,819	18,911	96,923
Disposals	-	(703)	-	-	-
At 30 September 2025	2,735,156	489,524	2,384,852	31,043	557,222
Net book value					
At 31 December 2024	4,454,129	1,428,442	959,705	256,268	429,348
At 30 September 2025	4,736,041	1,983,086	2,397,206	237,357	685,305
					10,038,995

13 Intangible assets

<i>In thousands of MNT</i>	Software	Trademarks and License	Mobile application	System	Other	Total
Cost						
At 1 January 2024	242,389	1,047,186	1,591,616	15,439,361	-	18,320,552
Additions	900,761	-	2,963,336	2,382,856	13,967	6,260,920
Disposals	(123,542)	-	-	-	-	(123,542)
At 31 December 2024	1,019,608	1,047,186	4,554,952	17,822,217	13,967	24,457,930
Cost						
Additions	118,604	-	3,534,232	3,129,030	-	6,781,866
At 30 September 2025	1,138,212	1,047,186	8,089,184	20,951,247	13,967	31,239,796
Accumulated amortisation						
At 1 January 2024	49,271	162,375	187,555	4,542,929	-	4,942,130
Amortisation	142,598	104,934	167,115	1,636,244	235	2,051,126
Disposals	(1,521)	-	-	-	-	(1,521)
At 31 December 2024	190,348	267,309	354,670	6,179,173	235	6,991,735
Accumulated amortisation						
Amortisation	235,915	78,270	449,084	1,513,464	1,043	2,277,776
At 30 September 2025	426,263	345,579	803,754	7,692,637	1,278	9,269,511
Net book value						
As at 31 December 2024	829,260	779,877	4,200,282	11,643,044	13,732	17,466,195
As at 30 September 2025	711,949	701,607	7,285,430	13,258,610	12,689	21,970,285

14 Right-of-use assets and lease liability

The Bank leases offices for its operations. Rental contracts are typically made for fixed periods of 1 year to 4 years. On 7 February 2025, the Bank has entered into Cooperation Agreement with Urangan LLC for a five-year long-term period with an annual payment of MNT 1 billion. According to the Cooperation Agreement, UG Arena is rebranded as M Bank Arena (arena naming right).

The right of use assets by class of underlying items is analysed as follows:

<i>In thousands of MNT</i>	Total
Carrying amount at 1 January 2024	880,041
Additions	5,549,222
Disposals	(930,388)
Depreciation charge for the year	(2,341,020)
Depreciation related to disposals	720,450
Carrying amount at 31 December 2024	3,878,305
Additions	7,007,184
Disposals	(1,002,227)
Depreciation charge for the year	(2,993,409)
Depreciation related to disposals	67,013
Carrying amount at 30 September 2025	6,956,866

15 Due to other banks

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Current accounts from other banks	195,186	27,162
Deposit accounts from other banks	-	308,807,818
Total due to other banks	195,186	308,834,980

16 Due to customers

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Private sector deposits:	621,054,225	493,360,030
- Current accounts	190,958,153	190,316,496
- Term deposits	430,096,072	303,043,534
Individuals:	686,846,958	487,354,367
- Current accounts	66,928,708	39,031,350
- Term deposits	564,156,914	423,595,952
- Demand deposits	55,761,336	24,727,065
State and public organisations:	137,516,065	124,585,893
- Current accounts	4,177,196	90,897
- Term deposits	133,338,869	124,494,996
Total customer accounts	1,445,417,248	1,105,300,290

17 Other borrowed funds

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Borrowed funds from foreign financial institutions		
International Finance Corporation	106,920,959	68,788,137
Saison Investment Management Private Limited	16,852,790	23,951,240
Mopane Securities Private Limited	73,271,770	-
Delphos Securities Sarl	42,770,836	-
Borrowed funds from government organization		
Bank of Mongolia	13,767,586	8,250,852
Total other borrowed funds	253,583,941	100,990,229

a) Borrowed funds from foreign financial institutions

International Finance Corporation (“IFC”): On 28 March 2024, the Bank entered into a total of USD 30 million loan agreement with International Finance Corporation in its capacity as Implementing Entity for the Managed Co-Lending Portfolio Program in respect of the Trust Loan. The purpose of the loan is to support small and medium enterprises, of which at least 25% of the proceeds of the loan should be used to support women-owned small and medium enterprises. The loan has two tranches, in which each tranche has tenor of 36 months after the disbursement. The Bank received a first tranche total of USD 20 million from IFC on 19 September 2024, and a second tranche of USD 10 million on 21 January 2025. The loan is guaranteed by MCS Mongolia LLC, an ultimate parent company, which MCS Mongolia LLC unconditionally and irrevocably agreed to guarantee and pay on-demand the obligations of the Bank until the full payment of the loan and payment of all amounts owing to IFC.

Saison Investment Management Private Limited (“SIMPL”): On 27 May 2024, the Bank entered into a total of USD 5 million Senior Unsecured Term Loan Facility Agreement and a total of USD 2 million Senior Secured Term Loan Facility Agreement with SIMPL. The purpose of the loans is to support women-owned and women-led micro, small, and medium business clients and to support green loan issuance. Both loans have tenor of 24 months following the first utilization date. The Bank received USD 7 million from SIMPL on 31 May 2024. The senior secured loan is pledged by the Bank’s corporate USD bank account with TDB as a security (Refer to Note 7).

Mopane Securities Public Limited Company (“PLC”): On 3 June 2025, the Bank entered into a MNT denominated secured loan agreement with Mopane Securities PLC for MNT 71.4 billion, being the fixed MNT equivalent of USD 20 million under the contractually agreed exchange rate. The Bank received the full proceeds in MNT on 12 June 2025. The purpose of the loan is to support general corporate activities and lending to SME clients. The loan has tenor of 78 months following the agreement date. The loan is pledged by the Bank’s debt securities as a security (Refer to Note 8).

Delphos Securities Sarl: On 25 August 2025, the Bank entered into an USD denominated unsecured loan agreement with Delphos Securities Sarl for a total loan facility of USD 75.0 million. The Bank received the first disbursement of USD 13.0 million on 4 September 2025. The purpose of the loan is to support SME customers. The loan has tenor of 36 months after the first closing date.

b) Borrowed funds from Bank of Mongolia

Mortgage funding program: Under the Mortgage funding program, the Bank receives funding from BoM, which bears interest rate of 2% per annum and the Bank then issues mortgage loans at the interest rate of 6% per annum.

c) Loan covenants and waivers

International Finance Corporation (“IFC”): As at 30 September 2025, the Bank has breached of certain financial covenants under its loan agreement with International Finance Corporation, relating to the interest rate risk exposure ratio requiring the Bank not to exceed 10% and an aggregate interest rate risk ratio not exceed 20%. As of the reporting date, no waiver had been obtained for these breaches.

17 Other borrowed funds (Continued)**c) Loan covenants and waivers (Continued)**

As the waiver from IFC was not received at the reporting date, the loan was treated as on demand in the financial statements in accordance with IAS 1. The Bank has requested the waiver from the IFC and the approval process is in progress as of date of issuing these condensed interim financial statements. The management is uncertain whether the Bank will meet the required covenant for the next 12 months after the report date.

In accordance with the IFC loan agreement, quarterly financial covenant reporting period occurs 45 days after the end of the reporting period. If a financial breach has occurred, the Bank must notify IFC as soon as it becomes aware, take timely action to rectify the breach, and obtain a waiver of the financial covenant breach. If the Bank fails to take appropriate action to remedy the financial covenant for 30 days, or if IFC refuses to issue a waiver, it shall constitute an Event of Default.

Management believes that does not mean that the loan will require immediate repayment. The reason is that it is not in IFC's interest to demand immediate repayment, especially given that the Bank is in constant contact with IFC, has been entirely transparent, and has continually worked to comply with IFC's requirements, including the quarterly financial covenants. If the Bank does not take any remedial action and the waiver request is deemed insufficient, IFC has the right to initiate the acceleration process.

Regarding the other lenders, a cross-default typically occurs when a loan is declared due and payable before its specified maturity date.

18 Other liabilities

Other liabilities comprise the following:

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
<i>Other financial liabilities</i>		
Liabilities for bank settlements of transactions	10,599,958	3,355,405
Payables and accrued expenses	252,319	688,484
Total other financial liabilities	10,852,277	4,043,889
<i>Other non-financial liabilities</i>		
Salary payables	15,464	877,507
Tax payables other than income tax	6,368,470	2,043,305
Receipt in advance	184,838	-
Provision for credit related commitments	36,401	90,559
Total non- financial liabilities	6,605,173	3,011,371
Total other liabilities	17,457,450	7,055,260

19 Share capital and other reserve**a) Share capital**

<i>In thousands of MNT except for number of shares</i>	Number of outstanding shares	Ordinary shares	Total
At 1 January 2024	100,000,000	100,000,000	100,000,000
Issued for cash	70,000,000	70,000,000	70,000,000
At 31 December 2024	170,000,000	170,000,000	170,000,000
Issued for cash	70,000,000	70,000,000	70,000,000
At 30 September 2025	240,000,000	240,000,000	240,000,000

In April 2025, shareholders approved the issue of 70,000 thousand ordinary shares at a price of MNT 1,000 per share (2024: 70,000 thousand ordinary shares at a price of MNT 1,000 per share). The nominal registered amount of the Bank's issued share capital is MNT 240,000,000 thousand (2024: MNT 170,000,000 thousand). The total authorised number of ordinary shares is 240,000 thousand shares (2024: 170,000 thousand shares), with a par value of MNT 1,000 per share (2024: MNT 1,000 per share). All issued ordinary shares are fully paid.

b) Other reserve

As of 30 September 2025, other reserve mainly consists of the regulatory reserve required by the Bank of Mongolia (BOM). In accordance with the regulation of the BOM, it is required to recognize the excess difference of credit loss allowance and provision for repossessed collaterals determined in accordance with the regulations of BOM ("BOM impairment provision") in comparison to credit loss allowance and repossessed collaterals determined under IFRS Accounting Standards as a reserve in the statement of changes in equity. This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS Accounting Standards and the accounting regulations of the Bank of Mongolia and represents regulatory reserve.

20 Interest income and expense

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	151,866,395	52,530,365
Debt securities at AC	14,282,745	13,427,197
Due from other banks at AC	2,247,075	4,321,900
Cash balances with Bank of Mongolia at AC	1,386,770	3,457,220
Repurchase sale and repurchase agreements at AC	835,349	124,287
Total interest income calculated using the effective interest method	170,618,334	73,860,969
Other similar income		
Loans and advances to customers at FVTPL	379,033	142,391
Debt securities at FVTPL	3,317,269	-
Total other similar income	3,696,302	142,391
Total interest income	174,314,636	74,003,360
Interest and other similar expense		
Due to customers	95,971,800	34,398,125
Due to other banks	3,836,520	7,017,668
Other borrowed funds	13,942,092	1,070,684
Repurchase agreements	155,436	2,447,074
Total interest expense	113,905,848	44,933,551
Other similar expense		
Interest expense on swaps	5,554,004	160,908
Lease liabilities	633,844	337,886
Total other similar expense	6,187,848	498,794
Total interest expense	120,093,696	45,432,345
Net margin on interest and similar income	54,220,940	28,571,015

21 Net fees and commission income

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Fee and commission income		
Card related fee and commissions	1,729,396	1,019,301
Credit related fee and commissions	3,919,247	489,184
Account service fee and commissions	1,847,853	891,901
Total fee and commission income	7,496,496	2,400,386
Fee and commission expense		
Card related fee and commissions	662,465	325,875
Account service charges	1,969,675	857,565
Card transaction charges	274,707	49,377
Other	106,773	21,803
Total fee and commission expense	3,013,620	1,254,620
Net fee and commission income	4,482,876	1,145,766

22 Personnel expenses

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Salaries, wages and bonuses	11,686,044	9,490,586
Contribution to social and health insurance fund	1,473,772	1,172,065
Total personnel expenses	13,159,816	10,662,651

23 Other operating expenses

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
IT and communications	3,955,116	2,983,327
Marketing and advertisement expenses	3,211,784	3,408,538
Deposit insurance fee	2,043,746	945,604
Professional service fee	1,036,549	244,349
Events expense	866,413	567,272
Low value and short-term expense	629,540	344,416
Collection expenses	454,339	71,544
Stationary	310,054	416,997
Insurance	242,779	2,594
Taxes other than income tax	102,526	65,678
Supply materials	224,788	126,038
Security expense	187,005	139,448
Training expense	192,148	239,725
Business trip expense	186,338	167,795
Sanitation and cleaning	173,288	130,886
Repairs and maintenance expense	138,087	61,274
Transportation expense	60,650	43,787
Utility expense	53,222	37,329
Occupational safety	6,278	167,305
Total other operating expenses	14,074,650	10,163,906

24 Net non-operating expenses

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Other income	20,625	13,496
Gain on disposal of right-of-use assets	6,463	-
Penalty income	4,151	-
Gains on written-off of property and equipment	-	310
Total non-operating income	31,239	13,806
Other expense	45,936	47,793
Penalty expense	48,625	676
Donation	6,250	33,535
Losses on disposal of property and equipment	487	-
Losses on disposal of intangible assets	-	1,926
Total non-operating expense	101,298	83,930
Net non-operating expense	(70,059)	(70,124)

25 Impairment losses/ (reversal) on financial instruments

<i>In thousands of MNT</i>	<i>Note</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Loans and advances to customers	9	32,500,718	6,629,144
Off balance sheet commitments	29	(54,158)	17,134
Cash and cash equivalents	6	(56,286)	340,753
Due from other banks		(56,009)	18,334
Reverse sale and repurchase agreements		(24,760)	-
Investments in debt securities	8	16,335	85,985
Other assets	11	3,158	2,311
Total impairment losses on financial instruments		32,328,998	7,093,661

26 Income tax

Components of income tax benefit

(a) Income tax benefit recorded in profit or loss for the year comprises the following:

<i>In thousands of MNT</i>	Nine months ended 30 September 2025	(Unreviewed) Nine months ended 30 September 2024
Current tax:		
Current income tax	51,693	520,692
Deferred tax:		
Deferred tax arising from temporary differences	(249,334)	(864,051)
Income tax benefit for the year	(197,641)	(343,359)

(b) Net deferred tax assets for the period:

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Deferred tax assets	6,009,627	2,736,020
Deferred tax liabilities	(4,600,762)	(1,576,489)
Net deferred tax assets	1,408,865	1,159,531

(c) Current tax receivables / (payables) for the period:

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Balance at beginning of the year	(446,265)	9
Current tax expense for the year	(51,693)	(907,862)
Payments for income tax	499,021	461,588
Corporate income tax receivables / (payables)	1,063	(446,265)

27 Financial risk management

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

28 Management of capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank (Bank of Mongolia) and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Bank of Mongolia is monitored daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chairman of the Board of Directors and Chief Accountant of the Bank.

Under the current capital requirements set by the Bank of Mongolia, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level (Tier 1 ratio and Total capital ratio).

29 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. The Bank has an established protocol for dealing with such legal claims. The Bank does not have any significant legal claims as at 30 September 2025 and 31 December 2024.

Capital expenditure commitments. As at 30 September 2025, the outstanding contractual capital commitments for the core banking system upgrade were USD 500 thousand (2024: USD 750 thousand). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Credit related contingencies and commitments. To meet financial needs of customers, the Bank enters in irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the condensed interim statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

<i>In thousands of MNT</i>	At 30 September 2025			At 31 December 2024		
	Gross carrying amount	Credit loss allowance	Carrying mount	Gross carrying amount	Credit loss allowance	Carrying mount
Contingent liabilities						
Undrawn credit lines	41,178,065	(36,401)	41,141,664	28,241,765	(90,559)	28,151,206
Total	41,178,065	(36,401)	41,141,664	28,241,765	(90,559)	28,151,206

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

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

29 Contingencies and commitments (Continued)

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

30 Derivative financial instruments

Derivative financial instruments, including currency swaps, are carried at their fair value.

The Bank entered into a long-term cross currency interest rate SWAP agreements with the Bank of Mongolia with periods ranging from 2024 to 2028.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the period (gains less losses on derivatives). The Bank does not apply hedge accounting.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) within the same contract and covers the contracts with settlement dates after the end of the respective reporting period.

In thousands of MNT	30 September 2025	31 December 2024
Foreign exchange swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	169,595,675	84,778,763
- MNT payable on settlement (-)	(157,429,355)	(80,430,383)
Net fair value of foreign exchange swaps	12,166,320	4,348,380

31 Fair value disclosures

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

31 Fair value disclosures (Continued)

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of MNT	30 September 2025			31 December 2024				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE FINANCIAL ASSETS								
Debt securities measured at FVTPL -								
Government bonds	190,542,268	-	-	190,542,268	-	-	-	-
Debt securities measured at FVTPL - MIK								
Senior bonds	-	-	1,688,783	1,688,783	-	-	-	-
Debt securities measured at FVTPL - MIK								
Junior bonds	-	-	1,688,881	1,688,881	-	-	-	-
Loans and advances to customers at FVTPL	-	-	30,219,199	30,219,199	-	-	14,209,118	14,209,118
Derivative financial instruments – asset	-	12,166,320	-	12,166,320	-	4,348,380	-	4,348,380
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	190,542,268	12,166,320	33,596,863	236,305,451	-	4,348,380	14,209,118	18,557,498

31 Fair value disclosures (Continued)

(a) Recurring fair value measurements (continued): The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 30 September 2025 and 31 December 2024:

<i>In thousands of MNT</i>	30 September 2025	31 December 2024	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
			MNT discount rate based on risk-free rate, country risk premium, currency risk premium, credit spread,	
Derivative financial instruments	12,166,320	4,348,380	Interest rate parity analysis/ Modified discount curve	USD discount rate based on risk-free rate, country risk premium,
				USD leg based on SOFR and Z spread,
				MNT leg based on repo rate.
Total recurring fair value measurements at level 2	12,166,320	4,348,380		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 30 September 2025 (31 December 2024: none).

The following table sets out information about unobservable inputs used in measuring financial instruments categorised at Level 3 in the fair value hierarchy.

Financial assets at 30 September 2025:

<i>In thousands of MNT</i>	Fair value	Valuation technique	Inputs used	Range of inputs	Reasonable change	Sensitivity of fair value measurement
Assets at fair value financial assets						
Debt securities measured at FVTPL - MIK Senior bonds	1,688,783	Market value approach	Market price	-	1.00%	+/-16,888
Debt securities measured at FVTPL - MIK Junior bonds	1,688,881	Market value approach	Market price	-	1.00%	+/-16,889
Loans and advances to employees at FVTPL MIK mortgage loan to customers at FVTPL	2,932,378	Discounted cashflow	Discount rate	8.00%- 13.20%	10.00%	+/-293,238
	27,286,821	Discounted cashflow	Discount rate	6.00%	10.00%	+/-2,728,682
Total recurring fair value measurements at level 3	33,596,863					

31 Fair value disclosures (Continued)

(a) Recurring fair value measurements (continued)

Financial assets at 31 December 2024:

<i>In thousands of MNT</i>	Fair value	Valuation technique	Inputs used	Range of inputs	Reasonable change	Sensitivity of fair value measurement
Assets at fair value financial assets						
Loans and advances to employees at FVTPL	1,266,999	Discounted cashflow	Discount rate	8.00% - 13.20%	10.00%	+/-126,700
MIK mortgage loan to customers at FVTPL	12,942,119	Discounted cashflow	Discount rate	6.00%	10.00%	+/-1,294,212
Total recurring fair value measurements at level 3	14,209,118					

(b) Valuation processes for recurring and non-recurring level 3 fair value measurements

Loans at FVTPL, which are classified at level 3 for fair value measurement purposes, in the amount of MNT 30,219,199 thousand (31 December 2024: MNT 14,209,118 thousand, which were classified as level 3) are related to Mortgage portfolio of loans.

Debt securities at FVTPL, which are classified at level 3 for fair value measurement purposes, in amount of MNT 3,377,664 thousand (31 December 2024: nil) are related to MIK Senior and junior bonds.

Level 3 valuations are reviewed on an annual basis by the Bank's financial management department who report to the Board of Directors on an annual basis. The management of the Bank considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the management performs back testing and considers which model's results have historically aligned most closely to actual market transactions. The level 3 debt instruments are valued at the net present value of estimated future cash flows. The Bank also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

31 Fair value disclosures (Continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

<i>In thousands of MNT</i>	30 September 2025			31 December 2024						
	Level 1	Level 2	Level 3	Fair value	Carrying value	Level 1	Level 2	Level 3	Fair value	Carrying value
FINANCIAL ASSETS										
Cash and cash equivalents	-	347,425,138	-	347,425,138	347,425,138	-	673,517,011	-	673,517,011	673,517,011
Mandatory cash balances with Bank of Mongolia	-	102,941,746	-	102,941,746	102,941,746	-	48,854,122	-	48,854,122	48,854,122
Reverse sale and repurchase agreements	-	-	-	-	-	-	74,089,698	-	74,089,698	74,089,698
Due from other banks	7,397,247	-	-	7,397,247	7,397,247	-	6,797,069	-	6,797,069	6,797,069
Investments in debt securities	-	1,026,178	-	1,026,178	1,026,178	-	-	-	-	-
Loans and advances to customers	-	-	1,183,138,681	1,183,138,681	1,183,138,681	-	-	816,440,699	816,440,699	816,440,699
Other financial assets	-	11,685,709	-	11,685,709	11,685,709	-	3,622,472	-	3,622,472	3,622,472
TOTAL	470,476,018	1,183,138,681	1,653,614,699	1,653,614,699	1,653,614,699	-	806,880,372	816,440,699	1,623,321,071	1,623,321,071

31 Fair value disclosures (Continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

<i>In thousands of MNT</i>	30 September 2025				31 December 2024				<i>Carrying value</i>
	Level 1 fair value	Level 2 fair value	Level 3 fair value	Total fair value	Carrying value	Level 1 fair value	Level 2 fair value	Level 3 fair value	
FINANCIAL LIABILITIES									
Due to other banks	-	195,186	-	195,186	195,186	-	308,834,980	-	308,834,980
Due to customers	-	1,445,417,248	-	1,445,417,248	1,445,417,248	-	1,105,300,290	-	1,105,300,290
Other borrowed funds	-	253,583,941	-	253,583,941	253,583,941	-	100,990,229	-	100,990,229
Lease liabilities	-	6,646,435	-	6,646,435	6,646,435	-	3,257,966	-	3,257,966
Other financial liabilities	-	10,852,277	-	10,852,277	10,852,277	-	4,043,889	-	4,043,889
TOTAL	-	1,716,695,087	-	1,716,695,087	1,716,695,087	-	1,522,427,354	-	1,522,427,354

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

32 Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 30 September 2025, the main related parties to the Bank are as follows:

Ultimate shareholders	Odjargal.J and Od.J
Ultimate parent company	MCS Mongolia LLC
Immediate parent company	MCS Holding LLC
Entities under common control	Subsidiaries of parent company
Key management personnel	Executive management and Board of Directors

At 30 September 2025, the outstanding balances with related parties were as follows:

<i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Loans and advances to customers (contractual interest rate: 8% – 20.4%)	-	-	87,984,404	2,772,350	90,756,754
Prepaid expense	-	-	1,690,759	-	1,690,759
Other receivables	-	-	133	-	133
Customer accounts (contractual interest rate: 0% - 17.0%)	48,373,397	37,277,664	436,058,727	8,904,569	530,614,357
Other liabilities	-	-	9,732	-	9,732

The income and expense items with related parties for the nine months period ended 30 September 2025 were as follows:

<i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Interest income	-	-	7,051,339	119,303	7,170,642
Interest expense	1,575,362	335,260	20,198,868	247,728	22,357,218
Administrative and other operating expenses	-	132,293	3,013,095	-	3,145,388
Non-operating income	-	-	402	-	402
Non-operating expense	-	-	71	-	71

At 31 December 2024, the outstanding balances with related parties were as follows:

<i>In thousands of MNT</i>	Ultimate shareholder	Immediate parent company	Entities under common control	Key management personnel	Total
Loans and advances to customers (contractual interest rate: 8% – 24%)	-	-	40,299,279	1,295,835	41,595,114
Prepaid expense	-	-	54,208	-	54,208
Customer accounts (contractual interest rate 0% - 20.0%)	11,847,154	4,799,243	368,295,784	2,717,395	387,659,576
Other liabilities	-	-	24,866	-	24,866

32 Related party disclosures (Continued)

The income and expense items with related parties for the nine months period ended 30 September 2024 were as follows:

(Unreviewed) <i>In thousands of MNT</i>	Ultimate shareholder and parent	Immediate parent company	Entities under common control	Key management personnel	Total
Interest income	-	-	903,810	55,198	959,008
Interest expense	-	134,698	10,190,190	70,809	10,395,697
Administrative and other operating expenses	-	126,655	2,137,025	-	2,263,680
Non-operating income	-	-	1,937	-	1,937

At 30 September 2025 and 31 December 2024, the outstanding balances of credit related commitments with related parties were as follows:

<i>In thousands of MNT</i>	30 September 2025	31 December 2024
Undrawn credit lines	1,611,209	6,000,000
Total credit related commitments	1,611,209	6,000,000
Less: provision for impairment of credit related commitments	(3,208)	-
Total credit related commitments	1,608,001	6,000,000

Key management compensation for the nine months period ended 30 September 2025 and 2024 is presented below:

<i>In thousands of MNT</i>	2025		(Unreviewed) 2024	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	1,222,339	-	1,246,909	-
- Short-term bonuses	122,844	-	1,051,236	-
- Contribution to social and health fund	166,919	-	286,149	-
Total	1,512,102	-	2,584,294	-

33 Subsequent events

On 23 October 2025, the Bank entered into a USD 30 million loan facility agreement with Mopane Securities PLC and received the full proceeds in USD on 5 November 2025. The purpose of the loan is to support general corporate activities, and the loan matures on 14 July 2031.

On 23 October 2025, the Bank entered into a USD 30 million repurchase agreement with Meru Ventures Limited and received the proceeds on 28 October 2025, with the repo settlement transaction involving USD-denominated bonds issued by the Government of Mongolia, and a repurchase date of 14 July 2031.

33 Subsequent events (Continued)

Management is not aware of any other events that occurred after the end of the reporting period, which would have any material impact on these condensed interim financial statements.

34 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
BoM	Bank of Mongolia
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IASB	International Accounting Standards Board
IFRS	IFRS Accounting Standard
ROU asset	Right-of-use asset
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest

ISSUER

M Bank Closed JSC
Central Tower 15th floor, 8th
Sukhbaatar District, Ulaanbaatar – 14200, Mongolia

TRUSTEE

The Bank of New York Mellon, London Branch
160 Queen Victoria Street
London EC4V 4LA
United Kingdom

SETTLEMENT AGENT

Kroll Issuer Services Limited
The News Building
3 London Bridge Street
London SE1 9SG
United Kingdom

PRINCIPAL PAYING AGENT

The Bank of New York Mellon, London Branch
160 Queen Victoria Street
London EC4V 4LA
United Kingdom

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon SA/NV, Dublin Branch
The Shipping Office
20-26 Sir John Rogerson's Quay
Dublin 2, D02 Y049
Ireland

LEGAL ADVISERS

*To the Issuer
as to English law*

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

*To the Trustee
as to English law*

Linklaters
11th Floor Alexandra House
18 Charter Road
Hong Kong

INDEPENDENT AUDITOR TO ISSUER

KPMG Audit LLC
#602, Blue Sky Tower
Peace Avenue 17, 1st khoroo
Sukhbaatar District
Ulaanbaatar 14240, Mongolia