MIK HOLDING JSC (PREVIOUSLY KNOWN AS SPV A LLC) AND ITS SUBSIDIARIES

(Incorporated in Mongolia)

Audited consolidated financial statements
31 December 2015

MIK HOLDING JSC AND ITS SUBSIDIARIES

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FOR THE YEAR ENDED 31 DECEMBER 2015

MIK HOLDING JSC AND ITS SUBSIDIARIES

CORPORATE INFORMATION

REGISTERED OFFICE	: Sukhbaatar district, 1st khoroo, Peace avenue-19, 10th floor P.O.Box – 14210 – 215 Ulaanbaatar City, Mongolia
BOARD OF DIRECTORS	: Mr. Munkhbaatar.M (Chairman) Mr. Boldbaatar.D Mr. Sugar.D Mr. Buyanmunkh.B Mr. Shijir.E Mr. Gantumur.L Mr. Khurelbaatar.G Mr. Bailikhuu.D Ms. Tsolmon.Ts
CORPORATE SECRETARY	: Ms. Saruul.G
AUDITORS	: Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY CHAIRMAN AND EXECUTIVES

We, Munkhbaatar Myagmar, being the Chairman of the Board of Directors of MIK Holding JSC (previously known as SPV A LLC), Gantugs Damdin, being the Chief Executive Officer and Gongor Gombosuren, being the Head of Financial and Accounting, Controlling Division primarily responsible for the financial statements of MIK Holding JSC and its subsidiaries, herein collectively referred to as the "Group", do hereby state that, in our opinion, the accompanying financial statements set out on pages 4 to 58 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and its financial performance and cash flows for year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

MIK HOLDING
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УЛААНБААТАР ХОТ

Munkhbaatar Myagmar Chairman of the Board of Directors	Gantugs Damdin Chief Executive Officer	Gongor Gombosuren Head of Financial and Accounting, Controlling Division

Ulaanbaatar, Mongolia
Date: 18 MAR 2016

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REPORT OF THE INDEPENDENT AUDITORS (CONTD.)

To the Shareholders of MIK Holding JSC

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Restriction on Use

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

PETER MARKEY
Director

Ulaanbaatar, Mongolia
Date: 18 MAR 2016

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REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of MIK Holding JSC

We have audited the accompanying consolidated financial statements of MIK Holding JSC (previously known as SPV A LLC) and its subsidiaries, herein collectively referred as the "Group", which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 MNT'000	2014 MNT'000
Interest income	3	125,520,407	41,840,929
Interest expense	4	(76,445,274)	(24,539,111)
Net interest income		**49,075,133**	**17,301,818**
Fee and commission expenses	5	(5,767,364)	(2,040,983)
Other operating income – net	6	18,873	51,161
Total operating income		**43,326,642**	**15,311,996**
Credit loss expense	13	(3,288,839)	(473,419)
Net operating income		**40,037,803**	**14,838,577**
Operating expenses	7	(8,335,836)	(2,351,270)
Profit before tax		**31,701,967**	**12,487,307**
Income tax expense	8	(1,327,083)	(381,772)
Profit for the year, representing total comprehensive income		**30,374,884**	**12,105,535**
Earnings per share (MNT)			
Basic and diluted earnings per share	9	1,744.32	746.49

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

MIK HOLDING JSC AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	2015 MNT'000	2014 MNT'000
ASSETS			
Cash and bank balances	10	128,132,221	50,105,168
Financial investments-held to maturity	11	2,899,001	–
Mortgage pool receivables with recourse	12	11,196,817	5,286,570
Purchased mortgage pool receivables	13	2,010,062,427	823,404,667
Other assets	14	188,215	262,384
Property and equipment	15	14,782,248	14,749,637
Intangible assets	16	92,334	140,393
TOTAL ASSETS		**2,167,353,263**	**893,948,819**
LIABILITIES			
Borrowed funds	17	8,866,368	8,782,916
Collateralized bonds	18	2,037,542,209	835,631,986
Other liabilities	19	7,413,507	3,131,691
Income tax payable		86,676	122,642
TOTAL LIABILITIES		**2,053,908,760**	**847,669,235**
EQUITY			
Ordinary shares	20	20,709,320	16,798,856
Share premium	20	52,225,115	15,724,835
Retained earnings		40,510,068	13,755,893
TOTAL EQUITY		**113,444,503**	**46,279,584**
TOTAL LIABILITIES AND EQUITY		**2,167,353,263**	**893,948,819**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Ordinary shares MNT'000	Share premium MNT'000	Retained earnings ## MNT'000	Total equity MNT'000
1 January 2014		14,298,856	8,224,835	1,650,358	24,174,049
Total comprehensive income		–	–	12,105,535	12,105,535
Issuance of ordinary shares	**20**	2,500,000	7,500,000	–	10,000,000
At 31 December 2014 and 1 January 2015		16,798,856	15,724,835	13,755,893	46,279,584
Total comprehensive income		–	–	30,374,884	30,374,884
Stock dividends declared	**20**	–	–	(3,620,709)	(3,620,709)
Issuance of ordinary shares	**20**	3,910,464	36,500,280	–	40,410,744
At 31 December 2015		**20,709,320**	**52,225,115** #	**40,510,068** ##	**113,444,503**

\# Included in share premium, share issuance cost amounting to MNT 124.7 million.

\## Included in retained earnings as at 31 December 2015 are restricted retained earnings of MNT 37,252,156 thousand (31 December 2014: MNT 8,534,347 thousand) that are attributable to the Group's special purpose vehicles (the "SPVs"). The restriction relates to the Residential Mortgage Backed Securities (referred to as "RMBS") (see note 1 below for further details), issued by the SPVs and its effect is that these retained earnings are restricted from distribution until the liquidation of the respective SPVs in accordance with their Articles of Charter and related Financial Regulatory Commission (referred to as "FRC") regulation.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 MNT'000	2014 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**31,701,967**	**12,487,307**
Adjustments for:			
Unrealised foreign exchange gain	6	(4,558)	(38,221)
Credit loss on purchased mortgage pool receivables	13	3,288,839	473,419
Loss on disposal of property and equipment	7	3,160	–
Depreciation of property and equipment	7	303,550	58,028
Write-off of property and equipment	7	1,802	–
Amortisation of intangible assets	7	58,619	22,664
Amortisation of deferred grants	6	(12,058)	(12,058)
Accrual of other payables		3,725,216	–
Interest accrual on mortgage pool receivables		(4,556,316)	(2,468,742)
Interest accrual on borrowed fund		83,452	5,109,277
Interest accrual on collateralized bonds		3,790,005	(21,471)
Interest accrual on financial investments-held to maturity		(321,570)	–
Operating profit before working capital changes		**38,062,108**	**15,610,203**
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months	21	(10,499,376)	(11,520,052)
Mortgage pool receivables		110,162,141	43,423,814
Other assets		74,169	1,147,675
Mortgage backed securities		(103,342,453)	(38,652,970)
Other liabilities		206,587	(328,950)
Cash generated from operations		**34,663,176**	**9,679,720**
Income tax paid		(1,363,049)	(298,254)
Net cash flows generated from operating activities		**33,300,127**	**9,381,466**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		1,566	–
Purchase of property and equipment		(342,689)	(12,437,933)
Purchase of intangible assets		(10,560)	(129,863)
Additions to financial investments-held to maturity		(2,577,431)	–
Net cash flows used in investing activities		**(2,929,114)**	**(12,567,796)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		37,152,106	10,000,000
Net cash flows generated from financing activities		**37,152,106**	**10,000,000**
Net increase in cash and cash equivalents		**67,523,119**	**6,813,670**
Effect of exchange rate changes on cash and cash equivalents		**4,558**	**38,221**
Cash and cash equivalents at 1 January		**38,585,116**	**31,733,225**
Cash and cash equivalents at 31 December	21	**106,112,793**	**38,585,116**

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

1. CORPORATE INFORMATION

Mongolian Mortgage Corporation HFC LLC ("MIK HFC") was incorporated on 04 September 2006 under the Company Law of Mongolia, under the name of "Housing Finance Corporation" and renamed on 6 October 2006 as "Mongolian Mortgage Corporation HFC LLC".

MIK Holding JSC (the "Company") was incorporated on 23 April 2008 under the Company Law of Mongolia and was a wholly owned subsidiary of MIK HFC. The Company was previously known as SPV A LLC and renamed on 30 October 2015. The Company remained dormant since incorporation until the completion of the reorganisation as detailed below in which the principal activity of the Company became investment holding.

During 2015, the Group has undertaken a reorganisation, whereby the Company has conducted a share swap with MIK HFC (the "Reorganisation") according to a share swap agreement dated 9 November 2015 (the "Agreement"). The Company became the holding company of the companies now comprising the Group on 14 December 2015.

The issue of shares of the Company in exchange for the equity interest in MIK HFC, which previously was the holding company of the companies comprising the Group, resulted in the Company becoming the holding company of MIK HFC, and thereby became the holding company of the Group. The reorganization did not change the number of shares issued by the holding company of the Group and the shareholders.

The Group's objective is to develop a secondary market for mortgage loans in Mongolia by acquiring them from the commercial banks and thus providing the banking sector with additional liquidity, which can be used for further growth of mortgage lending. Its principal activities include purchases of mortgage loans issued by Mongolian commercial banks and the issuance of bonds, which are collateralized by the cash flows from the repayment of the mortgage pools.

The registered share capital of MNT 20,709,320 thousand (2014: MNT 16,798,856 thousand) consists of 20,709,320 (2014: 16,798,856) common shares at par value of MNT 1,000 (2014: MNT 1,000) each.

The Company is a joint stock company listed on the Mongolian Stock Exchange, incorporated and domiciled in Mongolia. The shareholders of the Group for the year ended 31 December 2015 are set out in Note 20.

The business activity of issuing asset backed securities became a licensed activity in Mongolia effective from 1 January 2011 in accordance with the Asset Backed Securities Law of Mongolia which was approved on 23 April 2010. On 14 March 2012, MIK HFC was granted, by the Financial Regulatory Commission of Mongolia ("FRC"), a special license for the issuance of asset backed securities.

In 2013, the Government of Mongolia together with Bank of Mongolia ("BoM") have initiated a price stabilization program which included a subsidy scheme for mortgage financing to create a stable environment for mortgage financing. Under the program, the commercial banks in Mongolia have been granted soft loans to fund the issuance of subsidized interest rate mortgage loans or refinance their existing loans with the subsidized interest rate mortgage financing.

1. CORPORATE INFORMATION (CONT'D.)

On 14 June 2013, MIK HFC, BoM and 14 commercial banks signed an agreement to participate in this government program and on 30 October 2013, the Group established a special purpose vehicle (the "SPV"), MIK Asset One SPC LLC, a wholly owned subsidiary, to purchase the subsidized interest rate mortgage pools bearing an interest rate of 8% from the commercial banks and in return to issue Residential Mortgage Backed Securities (RMBS), which are collateralized by the cash flows and collaterals of these mortgage pools. On 23 December 2013, MIK Asset One SPC LLC purchased MNT 322,902 million mortgage loans from the commercial banks of Mongolia and issued MNT 322,902 million RMBS.

On 31 March 2014 and 05 September 2014, the Group established MIK Asset Two SPC LLC and MIK Asset Three SPC LLC respectively. On 30 June 2014 and 31 October 2014, MIK Asset Two SPC LLC and MIK Asset Three SPC LLC purchased MNT 222,052 million and MNT 324,596 million of mortgage loans from the commercial banks of Mongolia and in return issued MNT 222,052 million and MNT 324,596 million RMBS, respectively. On 21 October 2014, the Group established MIK Asset Four SPC LLC which, on 21 January 2015, purchased MNT 452,278 million of mortgage loans from the commercial banks and issued MNT 452,278 million RMBS.

On 15 January 2015, 10 April 2015, 23 July 2015, 21 September 2015 and 17 November 2015, the Group established MIK Asset Five SPC LLC, MIK Asset Six SPC LLC, MIK Asset Seven SPC LLC, MIK Asset Eight SPC LLC and MIK Asset Nine SPC LLC, respectively. On 29 May 2015, 10 August 2015 and 30 November 2015, MIK Asset Five SPC LLC, MIK Asset Six SPC LLC and MIK Asset Seven SPC LLC purchased MNT 294,343 million, MNT 261,699 million and MNT 293,863 million of mortgage loans from the commercial banks of Mongolia and in return issued MNT 294,343 million, MNT 261,699 million and MNT 293,862 million RMBS, respectively.

All SPVs are incorporated in Mongolia and the principal activities of the SPVs are mainly restricted to the purchase of the mortgage loans, the issuance of RMBS and restricted investment activities as governed by the Articles of the Charter of each SPV and relevant FRC regulations.

The Company and MIK HFC do not have any branches as at 31 December 2015 and 31 December 2014.

The Group's principal place of business and the registered address is Sukhbaatar district, 1st khoroo, Peace Avenue-19, 10th floor, Ulaanbaatar City, Mongolia.

The consolidated financial statements of the Group were authorized for issue in accordance with the resolution of the Board of Directors on 18 March 2016.

2. ACCOUNTING POLICIES

2.1 BASIS OF PRESENTATION AND PREPARATION

The consolidated financial statements of the Group have been prepared on a historical cost basis. The consolidated financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

Statement of compliance

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

Basis of presentation

Pursuant to the Reorganisation as more fully explained in note 1 to the financial statements, the Company became the holding company of the companies now comprising the Group on 14 December 2015. As the Reorganisation only involved inserting a new holding entity at the top of an existing group and has not resulted in any change of economic substance, the consolidated financial statements for the year ended 31 December 2015 and 2014 have been presented as a continuation of the existing group using the pooling of interests method.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year are prepared as if the current group structure had been in existence throughout the year.

The consolidated statement of financial position of the Group as at 31 December 2014 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

All intra-group transactions and balances have been eliminated on combination.

2. ACCOUNTING POLICIES

2.1 BASIS OF PRESENTATION AND PREPARATION

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are fully consolidated from the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses are eliminated in full.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2015:

New and amended standards and interpretations

• Amendments to IAS 19	*Employee Benefits - Defined Benefit Plans: Employee Contributions* [1]
• IFRIC 15	*Agreements for the Construction of Real Estate* [1]
• Annual Improvements (2010-2012 cycle)	*Amendments to a number of IFRSs issued in December 2013*
• Annual Improvements (2011-2013 cycle)	*Amendments to a number of IFRSs issued in December 2013*

The adoption of the new and amended standards and interpretations did not have any significant impact on the financial performance or position of the Group.

2. ACCOUNTING POLICIES (CONT'D.)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONT'D.)

Standards issued but not yet effective

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

• IFRS 9 (2010 version)	*Financial Instruments*[3]
• Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
• Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
• Amendments to IAS 12	*Income taxes: Recognition of deferred tax assets for unrealized losses*[2]
• IFRS 14	*Regulatory Deferral Accounts*[5]
• IFRS 15	*Revenue from Contracts with Customers* [3]
• IFRS 16	*Leases*[4]
• Amendments to IAS 1	*Disclosure Initiative*[1]
• Amendments to IAS 7	*Disclosure Initiative*[2]
• Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
• Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
• Amendments to IAS 27	*Separate Financial Statements - Equity Method in Separate Financial Statements* [1]
• Annual Improvements (2012-2014 cycle)	*Amendments to a number of IFRSs issued in September 2014* [1]

[1] *Effective for annual periods beginning on or after 1 January 2016*
[2] *Effective for annual periods beginning on or after 1 January 2017*
[3] *Effective for annual periods beginning on or after 1 January 2018*
[4] *Effective for annual periods beginning on or after 1 January 2019*
[5] *Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*

The Group is in the process of assessing if the adoption of these Standards and Interpretations in the future periods will have material impact on its financial statements.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Foreign currency translation

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

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

USD/MNT exchange rate as at 31 December 2015 and 31 December 2014 were 1995.98 and 1,885.60, respectively.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group become a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial recognition of financial instruments

Financial instruments are recognised initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except in the case of financial assets and financial liabilities at fair value through profit or loss (FVPL), includes transaction cost.

In terms of the IAS 39 classification, the Group's financial assets consist of financial investments classified as held to maturity and loans and receivables and its financial liabilities only consist of loans and borrowings.

(iii) Loans and receivables

The Group's loans and receivables consist mainly of the mortgage pool receivables. The mortgage pool receivables purchased from commercial banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, mortgage pool receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the consolidated statement of profit or loss and other comprehensive income.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

(iv) Loans and borrowings

The Group's loans and borrowings consist mainly of the issued collateralized bonds and other liabilities. The substance of the contractual agreement of loans and borrowings results in the Group having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of fixed amount of cash or other financial assets for a fixed number of own equity shares.

Loans and borrowing are carried at amortised cost using the effective interest method of amortization.

(v) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less any impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment of such investments are recognised in the 'Credit loss expense'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
    - the Group has transferred substantially all the risks and rewards of the asset, or
    - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Derecognition of financial assets and financial liabilities (cont'd.)

(i) Financial assets (cont'd.)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

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

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Determination of fair value

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Determination of fair value (cont'd.)

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 26.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Impairment of financial assets (cont'd.)

(i) Financial assets carried at amortised cost (cont'd.)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If writen-off loans and receivable are later recovered, the recovery is recognized as income in the consolidated statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective impairment evaluation, financial assets are grouped on the basis of the Group's credit risk grouping, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Group's collective impairment evaluation is computed based on historical loss experience of the each credit risk grouping. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in profit or loss. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(i) Fee and commission expenses

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

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

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Property and equipment

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are not depreciated. Depreciation of other property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Premises	40 years
Furniture and office equipment	10 years
Computers	3 years
Vehicles	10 years

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the consolidated statement of profit or loss and other comprehensive income.

Intangible assets

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

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

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software licenses	3 years

Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

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

Provisions

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

Taxes

(i) Current tax

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

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Taxes (cont'd.)

(ii) Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Taxes (cont'd.)

(ii) Deferred tax (cont'd.)

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

Grants

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

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Equity

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

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

Earnings per share

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

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

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Transactions with related parties

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

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

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

All material transactions and balances with the related parties are disclosed in the relevant notes to consolidated financial statements and the detail is presented in Note 24.

Segment information

The Group is engaged in purchasing of mortgage pools and issuing RMBS securitized by those mortgage pools in Mongolia. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Moreover, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Depreciation of property and equipment /amortization of intangible assets

Property and equipment are depreciated and intangible assets are amortised on straight-line basis over their estimated useful lives. Management estimates the useful lives of property and equipment and intangible assets to be within 3 to 40 years. These are common life expectancies applied in the industry in which the Group operates. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, which would lead to revision of charges in the future.

Impairment losses on loans and receivables

The Group reviews its individually significant loans and receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is recorded in the consolidated statement of profit or loss and disclosed in more detail in Notes 12 and 13.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 8 to the financial statements.

Significant management judgement is also required to determine the amount of withholding tax liability associated with the future dividend distribution of the Group's SPVs, based upon the likely timing and level of retained earnings.

3. INTEREST INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2015 and 2014, the Group was engaged in a single business segment, which is the purchasing of mortgage pools and issuing RMBS securitized by those mortgage pools in Mongolia. There has been no single external customer that has contributed revenue exceeding 10% or more of the Group's revenue during the year ended 31 December 2015 and 2014.

	2015 MNT'000	2014 MNT'000
Bank balances	6,723,647	4,353,184
Mortgage pool receivables with recourse	1,544,512	806,259
Purchased mortgage pool receivables (without recourse)	116,930,678	36,681,486
Government treasury bill	321,570	–
	125,520,407	**41,840,929**

4. INTEREST EXPENSE

	2015 MNT'000	2014 MNT'000
Collateralized bonds	75,993,106	23,876,286
Borrowed funds	452,168	662,825
	76,445,274	**24,539,111**

5. FEE AND COMMISSION EXPENSES

	2015 MNT'000	2014 MNT'000
Loan service fees	5,764,594	2,039,609
Bank service charges	2,770	1,374
	5,767,364	**2,040,983**

6. OTHER OPERATING INCOME - NET

	2015 MNT'000	2014 MNT'000
Grant income (Note 19)	12,058	12,058
Foreign exchange gain, net	4,558	38,221
Other income	2,257	882
	18,873	**51,161**

7. OPERATING EXPENSES

	2015 MNT'000	2014 MNT'000
Personnel expenses*	2,340,084	1,470,825
Depreciation expense (Note 15)	303,550	58,028
Amortisation of intangible assets (Note 16)	58,619	22,664
Write-off of property and equipment (Note 15)	1,802	–
Loss on disposal of property and equipment (Note 15)	3,160	–
Professional service fee	1,073,286	343,012
Others	4,555,335	456,741
	8,335,836	**2,351,270**
*** Personnel expenses**		
Salaries, wages and bonus	2,078,037	1,299,133
Contribution to social and health fund	209,470	142,979
Staff training	52,577	28,713
	2,340,084	**1,470,825**

Included in other expenses is the provision for future withholding tax liability against the future dividend distribution of the SPVs amounting to MNT 3,725,216 thousand.

8. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015 MNT'000	2014 MNT'000
Current tax		
Current income tax	**1,327,083**	**381,772**

The Group 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 Group are 10% (2014: 10%) for the first MNT3 billion (2014: MNT 3 billion) of taxable income, and 25% (2014: 25%) on the excess of taxable income over MNT 3 billion (2014: MNT 3 billion).

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group for the years ended 31 December are as follows:

	2015 MNT'000	2014 MNT'000
Profit before tax	**31,701,967**	**12,487,307**
Tax at statutory tax rate of 25% (2014: 25%)	7,925,492	2,720,600
Effect of change in bracket from 25% to 10%	(588,598)	(1,527,386)
Effect of principal repayment of collateralized bonds as tax deductible	(26,729,275)	(3,821,120)
Effect of expenses not deductible for tax purposes	1,811,123	111,283
Effect of prior year tax loss carryforward utilized	–	(105,303)
Effect of income not subject to tax	(80,393)	–
Deferred tax asset not recognized for tax losses	18,988,734	3,003,698
Tax expense for the year	**1,327,083**	**381,772**

The Group has tax losses of MNT 75,954,935 thousand (2014: MNT 30,145,751 thousand) that are available to offset against future taxable profits for the next two financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year. The Group's tax losses are mainly arising from the SPVs.

As per Mongolian Corporate Income Taxation Law, the principal repayment of asset backed bonds issued by a licensed company (in the Group's case, the collateralised bonds issued) is deductible for tax purpose. As a result, it is uncertain whether the SPVs will generate future taxable profits.

Deferred tax assets arising from tax losses are not recognized as the Group is uncertain whether there would be sufficient taxable profit in the next two years available against which the tax losses carried forward can be utilized.

The effective income tax rate for the Group for the year ended 31 December 2015 is 4.19 % (2014: 3.06%).

9. EARNINGS PER SHARE

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

	2015 MNT'000	2014 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Group	30,374,884	12,105,535
Weighted average number of ordinary shares for basic and diluted earnings per share	17,413,567	16,216,664
Earnings per share		
Equity holder of the Group for the year:	**MNT**	**MNT**
Basic and diluted earnings per share	1,744.32	746.49

10. CASH AND BANK BALANCES

	2015 MNT'000	2014 MNT'000
Cash on hand	**1,047**	**146**
Current accounts with banks	22,729,578	6,205,412
Collection accounts with banks	7,310,695	4,374,902
Trust accounts with banks	12,254,455	9,551,211
Term deposits	85,836,446	29,973,497
	128,131,174	**50,105,022**
	128,132,221	**50,105,168**

All bank accounts are placed in commercial banks operating in Mongolia, and most of these commercial banks are shareholders of the Company. The trust accounts with banks represent current accounts where the collections made by commercial banks on behalf of the Company on the purchased mortgage pool receivables are accumulated and are deposited into the current accounts on monthly basis. The collection account issued is used for repayment of the RMBS. The carrying amount of cash and cash equivalents approximates fair value.

The Group earns interest income at a rate of 9.0% to 16.6% per annum on term deposits.

11. FINANCIAL INVESTMENTS

	2015 MNT'000	2014 MNT'000
Held-to-maturity:		
Government treasury bills	**2,899,001**	–

Government treasury bills are interest bearing short term bills acquired at a discount.

12. MORTGAGE POOL RECEIVABLES WITH RECOURSE

The Group acquires mortgage pool receivables with recourse from commercial banks, most of whom are shareholders of the Group, through the process similar to the acquisition of mortgage pool receivables without recourse (Note 13). However, in the case of mortgage pool receivables with recourse, the Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, mortgage pool receivables with recourse represent, in substance, loans issued to commercial banks in Mongolia, which are collateralized by related mortgage loan receivables of those commercial banks, as well as by the related residential properties that are used as collateral, as additional guarantee.

12. MORTGAGE POOL RECEIVABLES WITH RECOURSE (CONT'D.)

The Group applies the similar procedure for assessment of individual mortgage loans, as in the case of mortgage pool receivables without recourse (Note 13). The Group performs credit quality analysis of the individual mortgage loans on each mortgage pool acquired. The Group also assesses the financial condition of the banks, as well as their general reputation in the Mongolian market.

	2015 MNT'000	2014 MNT'000
Mortgage pool receivables	11,192,061	5,224,968
Accrued interest receivables	4,756	61,602
	11,196,817	**5,286,570**

Past due but not impaired loan receivables are expected to be either fully paid by the respective commercial bank or replaced with another performing mortgage loan, if related loans become overdue more than 90 days. The ageing analysis of mortgage pool receivables is set out in Note 25.2.

In accordance with the Group's credit risk procedures, the ratio between the carrying amount of purchased loan and the fair value of collateral (apartment or other residential property) at the time of purchase of mortgage pools needs to be at least 70%. Collateral is analysed by the Group on an individual loan basis prior to inclusion of related loan in the acquired mortgage pool. In addition, the Group has first claim rights over all residential properties used as collateral (i.e. priority rights before other creditors).

13. PURCHASED MORTGAGE POOL RECEIVABLES

	2015 MNT'000	2014 MNT'000
Purchased mortgage pool receivables	2,006,174,052	820,840,614
Accrued interest receivables	7,650,633	3,037,472
	2,013,824,685	**823,878,086**
Allowance for impairment losses	(3,762,258)	(473,419)
Net purchased mortgage pool receivables	**2,010,062,427**	**823,404,667**

Purchased mortgage pool receivables represent mortgage loan receivables due from individual borrowers, purchased from Mongolian commercial banks, most of whom are shareholders of the Group. All significant risks and rewards related to these mortgage loans, including the rights to the related collateral, are fully transferred to the Group at acquisition of the mortgage pools.

For the purchase of these mortgage pool receivables, the Group follows credit risk procedures similar to the mortgage pool receivables with recourse (See Note 12). The Group performs credit quality analysis of the individual mortgage loans on each mortgage pool acquired. The Group also assesses the financial condition of the bank, as well as its general reputation in the Mongolian market. For credit risk policies and disclosures, please refer to Note 25.2.

Impairment allowance for purchased mortgage pool receivables

A reconciliation of the allowance for impairment losses for purchased mortgage pool receivables is as follows:

	2015 MNT'000	2014 MNT'000
At 1 January	473,419	–
Net charge for the year	3,288,839	473,419
At 31 December	**3,762,258**	**473,419**

14. OTHER ASSETS

	2015 MNT'000	2014 MNT'000
Prepayments	101,749	99,389
Consumables and office supplies	16,147	3,634
Other receivables	74,499	163,541
	192,395	**266,564**
Less: Impairment allowance on other receivables	(4,180)	(4,180)
	188,215	**262,384**

15. PROPERTY AND EQUIPMENT

At 31 December 2015	Premises MNT'000	Furniture and office equipment MNT'000	Computers MNT'000	Vehicle MNT'000	Deposit for premises MNT'000	Total MNT'000
At cost						
At 1 January 2015	478,433	97,067	155,002	105,001	14,103,240	14,938,743
Additions	–	214,140	128,549	–	–	342,689
Write-off (Note 7)	–	(3,293)	(3,544)	–	–	(6,837)
Disposal	–	(13,315)	–	–	–	(13,315)
Reclassification	13,926,794	–	–	–	(13,926,794)	–
At 31 December 2015	14,405,227	294,599	280,007	105,001	176,446	15,261,280
Accumulated depreciation						
At 1 January 2015	64,359	39,150	69,917	15,680	–	189,106
Charge for the year (Note 7)	215,140	17,783	60,127	10,500	–	303,550
Write-off (Note 7)	–	(1,648)	(3,387)	–	–	(5,035)
Disposal	–	(8,589)	–	–	–	(8,589)
At 31 December 2015	279,499	46,696	126,657	26,180	–	479,032
Net carrying amount	**14,125,728**	**247,903**	**153,350**	**78,821**	**176,446**	**14,782,248**

15. PROPERTY AND EQUIPMENT (CONT'D.)

At 31 December 2014	Premises MNT'000	Furniture and office equipment MNT'000	Computers MNT'000	Vehicle MNT'000	Deposit for premises MNT'000	Total MNT'000
At cost						
At 1 January 2014	478,433	87,253	90,722	105,001	–	761,409
Additions	–	9,814	64,280	–	14,103,240	14,177,334
At 31 December 2014	478,433	97,067	155,002	105,001	14,103,240	14,938,743
Accumulated depreciation						
At 1 January 2014	52,398	30,197	43,303	5,180	–	131,078
Charge for the year (Note 7)	11,961	8,953	26,614	10,500	–	58,028
At 31 December 2014	64,359	39,150	69,917	15,680	–	189,106
Net carrying amount	**414,074**	**57,917**	**85,085**	**89,321**	**14,103,240**	**14,749,637**

16. INTANGIBLE ASSETS

	Computer software 2015	2014
	MNT'000	MNT'000
At cost		
At 1 January	189,677	59,814
Additions	10,560	129,863
Write-off	(5,789)	–
Total	194,448	189,677
Accumulated amortization		
At 1 January	49,284	26,620
Charge for the year (Note 7)	58,619	22,664
Write-off	(5,789)	–
Total	102,114	49,284
Net carrying amount	**92,334**	**140,393**

17. BORROWED FUNDS

	2015	2014
	MNT'000	MNT'000
Ministry of Finance of Mongolia	**8,866,368**	**8,782,916**

The sub-lending agreement between the Ministry of Finance and the Group was made on 3 January 2011. The Group has fully drawn the full amount of the loan in 2012.

During the year ended 31 December 2015, the borrowing from the Ministry of Finance bore nominal interest rates ranging from 7.42% to 9.41% (2014: 7.42% to 9.41%). The interest on the borrowing is payable on 30 May and 30 November of each year, while the principal is payable in 2020.

The borrowing is not collateralized.

18. COLLATERALIZED BONDS

	Interest rate	2015 MNT'000	2014 MNT'000
Senior bond	4.5%	1,817,781,811	747,643,308
Junior bond	10.5%	219,760,398	87,988,678
		2,037,542,209	**835,631,986**

The senior and junior bonds as at 31 December 2015 and 31 December 2014 represent bonds issued by MIK Active One SPC LLC, MIK Asset Two SPC LLC, MIK Asset Three SPC LLC, MIK Asset Four SPC LLC, MIK Asset Five SPC LLC, MIK Asset Six SPC LLC, and MIK Asset Seven SPC LLC to BoM and commercial banks on 23 December 2013, 30 June 2014, 31 October 2014, 21 January 2015, 29 May 2015, 10 August 2015 and 30 November 2015 respectively under the RMBS program of the government of Mongolia. The bonds are collateralized by purchased mortgage pool receivables (see Note 13). The interest on the junior bonds and the senior bonds are 10.5% and 4.5% per annum respectively and are payable on a quarterly basis. The principal payments of the senior bonds are payable on a quarterly basis and are equal to the quarterly principal repayment received from the purchased mortgage pool receivables acquired under the RMBS program. The principal of the junior bonds will only be redeemed after the full redemption of the principal of the senior bonds and the payments to junior bond holders are subordinate in right of payment and priority to the senior bonds. Commercial banks are to use the senior bonds to repay their loans from BoM. The junior bonds, per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years.

The bonds are not publicly traded on an active market (such as the stock exchange), but are sold directly to commercial banks. The Group did not have any defaults of principal, interest or other breaches with respect to the collateralized bonds during 2015 and 2014.

The carrying amount of purchased mortgage pool receivables used as collateral for the total collateralized bonds as of 31 December 2015 is MNT 2,010,062,427 thousand (2014: MNT 823,404,667 thousand), refer to Note 13.

19. OTHER LIABILITIES

	2015 MNT'000	2014 MNT'000
Deferred grant	89,309	101,367
Other payables	7,324,198	3,030,324
	7,413,507	**3,131,691**

Included in other payables are loan service fee payable to the banks for the collection of the purchased mortgage pool receivables and provision of the future withholding tax liabilities against the future dividend distribution of the SPVs.

Loan service fees are normally settled to the banks with the next quarterly coupon payment of the RMBS.

19. OTHER LIABILITIES (CONT'D.)

Movements in deferred grants are presented as follows:

	2015 MNT'000	2014 MNT'000
Balance at beginning of year	101,367	113,425
Recognised in profit or loss (Note 6)	(12,058)	(12,058)
	89,309	**101,367**

20. ORDINARY SHARES

The Company is a joint stock company established under the Company Law of Mongolia and listed on Mongolian Stock Exchange on 24 December 2015. The total authorized share capital of the Company represents 30,000,000 ordinary shares (2014: 30,000,000) with nominal value of MNT 1,000 per share. The total number of issued shares as of 31 December 2015 was 20,709,320 ordinary shares (2014: 16,798,856) with nominal value of MNT 1,000 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

On 26 March 2014, 2,500,000 shares of MNT 1,000 par value were issued by the Group to the Development Bank of Mongolia for a cash subscription price of MNT 4,000 per share. This issuance of shares resulted in the increase in share premium by MNT 7,500,000 thousand.

On 23 April 2015, the Group declared 804,066 stock dividends to shareholders in accordance to their percentage of ownership. The fair value of the additional shares issued was estimated to be MNT 4,503 per share. This stock dividend resulted in an increase in share premium by MNT 2,454,572 thousand.

On 24 December 2015, the Group was listed on the Mongolian Stock Exchange. As a part of the initial public offering, the Group issued an additional 3,106,398 new shares on the Mongolian Stock Exchange at a subscription price of MNT 12,000 per share, resulting in total cash proceeds of MNT 37,277 million. Share premium was thereby increased by MNT 34,045,708 thousand net of capitalized expenditure of MNT 124,670 thousand.

The movement in number of shares and amount of share capital during the years ended 31 December 2015 and 31 December 2014 are as follows:

	Number of shares of MNT 1,000 each		Amount	
	2015	2014	2015 MNT'000	2014 MNT'000
At 1st January	16,798,856	14,298,856	16,798,856	14,298,856
Issued during the year	3,106,398	2,500,000	3,106,398	2,500,000
Stock dividends	804,066	–	804,066	–
	20,709,320	**16,798,856**	**20,709,320**	**16,798,856**

20. ORDINARY SHARES (CONT'D.)

The shareholders of the Group as of 31 December 2015 and 31 December 2014 and percentages of ownership are as follows:

	2015	2014
Ulaanbaatar City Bank LLC	28.66%	28.38%
Trade and Development Bank of Mongolia LLC	25.64%	30.17%
Capital Bank LLC	8.12%	9.55%
TDB Capital LLC	7.53%	–
Golomt Bank LLC	5.57%	6.55%
United Securities LLC	1.79%	1.79%
Khan Bank LLC	1.02%	1.20%
XacBank LLC	1.02%	1.20%
Capitron Bank LLC	1.02%	1.20%
Chinggis Khaan Bank LLC	0.30%	0.30%
Others	0.03%	–
Total private sector share	**80.70%**	**80.34%**
Development Bank of Mongolia	14.88%	14.88%
Bank of Mongolia	2.03%	2.39%
State Bank LLC	2.39%	2.39%
Total state share:	**19.30%**	**19.66%**
Total	**100.00%**	**100.00%**

Financial and operating policy decisions, including strategic decisions, are made at the meetings of the Board of Directors (BOD). The members of the BOD are appointed at the Shareholders' Meeting. As of 31 December 2015, each bank has the ability to appoint one member to the BOD on rotation basis, which consists of 5 representatives of the commercial banks and stated owned banks. In addition, all bank shareholders have material transactions with the Group during 2015 and participated in the policy making procedures.

21. CASH AND CASH EQUIVALENTS

	Notes	2015 MNT'000	2014 MNT'000
Cash on hand	10	1,047	146
Bank balances	10	128,131,174	50,105,022
		128,132,221	50,105,168
Less: Placement with banks with original maturities of more than three months		(22,019,428)	(11,520,052)
Total cash and cash equivalents for the consolidated statement of cash flow		**106,112,793**	**38,585,116**

22. CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims

Litigation is a common occurrence in the financial services industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages can be reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Group had one significant outstanding litigation with tax authorities described below.

Tax legislation

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

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

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

22. CONTINGENT LIABILITIES AND COMMITMENTS (CONT'D.)

Tax legislation (cont'd.)

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

As a result of a tax inspection conducted during 2014 for the 2013 fiscal year, the Group is involved in litigation with the tax authorities, who have challenged the Group's tax position primarily with regard to corporate income tax and withholding tax. On 24 November 2014, the Group received a tax demand notice from the Sukhbaatar district Tax Inspection Department requiring the Group to pay MNT 128 million. The tax authorities claim the Group has a corporate income tax liability related to interest income generated from deposits with banks. Management believes that the Group is not liable since the Group placed these deposits as principal payment for the collateralized bonds. In 2015, the Group has appealed to the Tax Department of Capital City, Tax Dispute Settlement Council regarding this matter. On 17 April 2015 the Tax Department of Capital City, Tax Dispute Settlement Council resolved to affirm the tax demand notice dated on 24 November 2014. Then the Group filed a complaint to the General Department of Taxation and Customs, Tax Dispute Settlement Council on this matter. In February, 2016, the General Department of Taxation and Customs, Tax Dispute Settlement Council issued a resolution to affirm the decision of Tax Department of Capital City, Tax Dispute Settlement Council dated on 17 April 2015. However, the Group disagrees with this resolution and is planning to file a complaint to the Administrative Court. The litigation is still in progress, however based on the recent developments, the management estimates that the possible losses that could arise from this litigation, including fines, interest and penalties amounted to MNT 109 million. The Group recorded the provision for possible tax expenses of MNT 44 million and MNT 65 million in other payables in 2014 and 2015, respectively.

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

Assets pledged and restricted

Bonds issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 31 December 2015, the Group had mortgage pool receivables with the carrying value of MNT 2,010,062,427 thousand (2014: MNT 823,404,667 thousand) pledged as collateral for the bonds. The related liabilities amount is MNT 2,037,542,209 thousand as of 31 December 2015 (2014: MNT 835,631,986 thousand). Refer to Notes 13 and 18.

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 25.3 'Liquidity risk' for the Group's contractual undiscounted repayment obligations.

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2015			
Financial assets			
Cash and bank balances	128,132,221	–	128,132,221
Financial investment-held to maturity	2,899,001	–	2,899,001
Mortgage pool receivables with recourse	915,054	10,281,763	11,196,817
Purchased mortgage pool receivables	108,489,660	1,901,572,767	2,010,062,427
Other assets	70,319	–	70,319
	240,506,255	**1,911,854,530**	**2,152,360,785**
Non-financial assets			
Property and equipment	–	14,782,248	14,782,248
Intangible assets	–	92,334	92,334
Other assets	117,896	–	117,896
	117,896	**14,874,582**	**14,992,478**
Total	**240,624,151**	**1,926,729,112**	**2,167,353,263**
Financial liabilities			
Borrowed funds	425,596	8,440,772	8,866,368
Collateralized bonds	114,084,693	1,923,457,516	2,037,542,209
Other liabilities	3,489,583	3,725,216	7,214,799
	117,999,872	**1,935,623,504**	**2,053,623,376**
Non-financial liabilities			
Other liabilities	198,708	–	198,708
Income tax payable	86,676	–	86,676
	285,384	**–**	**285,384**
Total	**118,285,256**	**1,935,623,504**	**2,053,908,760**
Net	**122,338,895**	**(8,894,392)**	**113,444,503**

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

At 31 December 2014	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and bank balances	50,105,168	–	50,105,168
Mortgage pool receivables with recourse	201,238	5,085,332	5,286,570
Purchased mortgage pool receivables	53,083,535	770,321,132	823,404,667
Other assets	159,360	–	159,360
	103,549,301	**775,406,464**	**878,955,765**
Non-financial assets			
Property and equipment	–	14,749,637	14,749,637
Intangible assets	–	140,393	140,393
Other assets	103,024	–	103,024
	103,024	**14,890,030**	**14,993,054**
Total	**103,652,325**	**790,296,494**	**893,948,819**
Financial liabilities			
Borrowed funds	684,295	8,098,621	8,782,916
Collateralized bonds	60,284,369	775,347,617	835,631,986
Other liabilities	2,988,610	–	2,988,610
	63,957,274	**783,446,238**	**847,403,512**
Non-financial liabilities			
Other liabilities	143,081	–	143,081
Income tax payable	122,642	–	122,642
	265,723	–	**265,723**
Total	**64,222,997**	**783,446,238**	**847,669,235**
Net	**39,429,328**	**6,850,256**	**46,279,584**

24. RELATED PARTY DISCLOSURES

A number of the Group's transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

As all shareholders have the right to appoint a director, management considers them to be related parties.

As at 31 December 2015, the Group has the following balances and transactions with related parties:

As at 31 December 2015	**Bank Deposits**		**Collateralized Bonds**			
	Bank balances MNT'000	**Interest income MNT'000**	**Issuance of senior bonds MNT'000**	**Issuance of junior bonds MNT'000**	**Outstanding balance MNT'000**	**Interest expense MNT'000**
Trade and Development Bank LLC	43,375,774	1,462,053	210,956,700	23,439,600	52,400,618	3,735,067
Golomt Bank LLC	12,756,152	934,155	437,832,600	48,648,100	63,970,351	4,458,092
Ulaanbaatar City Bank LLC	24,231,435	1,708,377	39,969,000	4,441,000	7,452,558	844,092
Chinggis Khaan Bank LLC	23,222	555	10,143,300	–	418,570	43,693
Capital Bank LLC	1,817,011	78,836	29,715,000	3,301,500	6,436,499	468,996
State Bank LLC	6,063,509	826,492	95,689,700	10,632,200	17,059,242	1,372,846
Xac Bank LLC	7,912,519	668,294	95,712,600	11,708,600	18,765,240	1,488,051
Khan Bank LLC	31,747,149	1,040,687	248,042,400	27,560,200	50,559,229	3,764,524
Capitron Bank LLC	101,974	2,096	392,200	43,500	1,102,165	114,101
Total	**128,028,745**	**6,721,545**	**1,168,453,500**	**129,774,700**	**218,164,472**	**16,289,462**
Bank of Mongolia	–	–	–	–	1,817,781,811	59,563,680
Total	**128,028,745**	**6,721,545**	**1,168,453,500**	**129,774,700**	**2,035,946,283**	**75,853,142**

24. RELATED PARTY DISCLOSURES (CONT'D.)

As at 31 December 2015	Mortgage pool portfolio						
	Purchase of mortgage pool with recourse MNT'000	Purchase of mortgage pool without recourse MNT'000	Outstanding balance with recourse MNT'000	Outstanding balance without recourse MNT'000	Interest income from mortgage pool with recourse* MNT'000	Interest income from mortgage pool without recourse* MNT'000	Loan service fee MNT'000
Trade and Development Bank	–	234,396,501	–	470,904,521	–	28,913,582	1,504,399
Golomt Bank LLC	–	486,480,870	–	596,121,954	–	32,373,581	1,555,988
Ulaanbaatar City Bank	262,643	44,410,221	903,098	69,157,385	98,825	3,373,298	181,029
Chinggis Khaan Bank	–	–	–	3,822,289	–	316,244	13,887
Capital Bank LLC	2,025,954	33,016,720	1,971,460	59,828,399	79,554	3,378,931	157,349
State Bank LLC	–	106,322,140	3,224,646	158,663,321	530,406	9,217,708	432,633
Xac Bank LLC	5,841,604	117,086,713	5,010,167	172,112,838	768,684	11,276,776	543,011
Khan Bank LLC	–	275,602,864	49,234	459,680,184	8,187	26,309,448	1,279,808
Capitron Bank LLC	1,466,987	435,799	38,212	9,580,215	55,243	810,168	42,762
Total	**9,597,188**	**1,297,751,828**	**11,196,817**	**1,999,871,106**	**1,540,899**	**115,969,736**	**5,710,866**

* Interest income from mortgage pool with/without recourse represents the interest income from individual borrowers that are passed through to the Group via the banks.

24. RELATED PARTY DISCLOSURES (CONT'D.)

Related party transactions as of 31 December 2014:

As at 31 December 2014	Bank Deposits		Collateralized Bonds			
	Bank balances MNT'000	Interest income MNT'000	Issuance of senior bonds MNT'000	Issuance of junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
Trade and Development Bank	10,395,953	608,146	157,747,700	17,527,500	28,680,769	1,565,936
Golomt Bank LLC	11,368,178	134,460	106,712,500	11,857,000	14,767,521	620,412
Ulaanbaatar City Bank LLC	9,014,483	2,100,192	24,069,000	2,674,400	2,966,642	80,020
Chinggis Khaan Bank LLC	26,663	405	1,173,600	130,400	418,295	35,059
Capital Bank LLC	251,806	2,733	16,764,000	1,862,600	3,096,312	181,878
State Bank LLC	8,652,414	870,426	55,500,900	6,166,700	6,287,093	210,554
Xac Bank LLC	3,900,726	327,219	47,676,000	5,297,400	6,882,771	376,347
Khan Bank LLC	6,184,433	257,094	69,076,900	7,675,200	22,684,994	1,863,166
Capitron Bank LLC	197,109	1,006	6,222,700	691,500	1,056,895	51,543
	49,991,765	**4,301,681**	**484,943,300**	**53,882,700**	**86,841,292**	**4,984,915**
Bank of Mongolia	–	–	–	–	747,643,308	18,832,182
Total	**49,991,765**	**4,301,681**	**484,943,300**	**53,882,700**	**834,484,600**	**23,817,097**

24. RELATED PARTY DISCLOSURES (CONT'D.)

Related party transaction as of 31 December 2014 are as follows:

31 December 2014	Mortgage pool portfolio						
	Purchase of mortgage pool with recourse MNT'000	Purchase of mortgage pool without recourse MNT'000	Outstanding balance with recourse MNT'000	Outstanding balance without recourse MNT'000	Interest income for mortgage pool with recourse* MNT'000	Interest income for mortgage pool without recourse* MNT'000	Loan service fee MNT'000
Trade and Development Bank	–	175,275,267	–	267,770,436	–	11,301,891	670,151
Golomt Bank LLC	–	118,569,627	–	139,726,844	19,283	4,533,775	254,418
Ulaanbaatar City Bank LLC	–	26,743,461	768,095	28,380,557	98,600	587,487	41,684
Chinggis Khaan Bank	–	1,304,106	–	4,037,515	–	262,073	9,439
Capital Bank LLC	–	18,626,708	–	29,630,410	–	1,344,093	57,340
State Bank LLC	5,097,830	61,667,727	4,311,747	59,968,534	652,029	1,568,900	83,431
Xac Bank LLC	–	52,973,488	–	64,779,610	–	2,784,605	140,867
Khan Bank LLC	–	76,752,189	87,016	208,950,323	15,739	13,488,034	731,325
Capitron Bank LLC	–	6,914,265	66,205	9,959,590	8,180	387,228	23,632
Total	**5,097,830**	**538,826,838**	**5,233,063**	**813,203,819**	**793,831**	**36,258,086**	**2,012,287**

* Interest income from mortgage pool with/without recourse represents the interest income from individual borrows that are passed through to the Group via the banks.

24. RELATED PARTY DISCLOSURES (CONT'D.)

Other payables

Other payables include loan service fee payable to the banks for the collection of the purchased mortgage pool receivables as follows.

	2015 MNT'000	2014 MNT'000
Trade and Development Bank LLC	623,597	2,049,113
Golomt Bank LLC	796,222	161,114
Ulaanbaatar City Bank LLC	87,628	30,053
Chinggis Khaan Bank LLC	6,496	3,446
Capital Bank LLC	73,604	27,894
State Bank LLC	200,303	135,634
Xac Bank LLC	271,930	97,129
Khan Bank LLC	530,702	270,381
Capitron Bank LLC	16,604	13,140
Total	**2,607,086**	**2,787,904**

Included in payable to Trade and Development Bank LLC, is remaining payment for the purchase of office space.
Loan service fees are normally settled to the banks with the next quarterly coupon payment of the RMBS.

Compensation to key management personnel

	2015 MNT'000	2014 MNT'000
Compensation to key management personnel as follows:		
Short-term employees benefits		
- Salaries, incentives and allowances	530,195	441,261
- Contribution to social and health fund	35,707	28,698
	565,902	**469,959**

Other transaction with a related party

On 31 December 2014, the Group entered into a contract to purchase an office space from Trade and Development Bank, a shareholder of the Group, amounting to MNT 13,737,600 thousand. The Group obtained the ownership certificate of the office space on 02 June 2015.

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of the Group's business. The interest charged to and by related parties are at normal commercial rates in relation to bank deposits and mortgage pools and at the rates specified in the RMBS. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2015 and 31 December 2014, the Group has no provision for doubtful debts against the amounts due from related parties.

25. RISK MANAGEMENT

25.1 Introduction

The Group's business activities expose it to the following major categories of financial risk:

- Credit risk. Credit risk is the potential for financial loss resulting from the failure of a borrower or institutional counterparty to honor its financial or contractual obligations, resulting in a potential loss of earnings or cash flows.
- Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its funding obligations in a timely manner.
- Market risk. Market risk is the exposure generated by adverse changes in the value of the Group's financial assets caused by a change in interest rates or foreign exchange rates.
- Operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, corporate governance, or from external events.

The Group seeks to manage those risks by using an established risk management framework that continues to evolve as the Group grows and expands its business. This risk management framework is intended to provide the basis of the principles that govern the Group's risk management activities.

Risk management structure

The Company has its dedicated Board of Directors (BOD) appointed by its shareholders. The BOD is responsible for the oversight of asset management and execution of responsibility through the board committee system, which includes the following standing committees: the Risk Committee (RC), the Finance and Audit Committee (FAC), and the Operations and Legal Committee (OLC).

The RC oversees general risk–related policies, including review of the Group–level risk policies and limits, performance against these policies and limits, and the sufficiency of risk management capabilities. In addition to overseeing liquidity risk and market risk in association with the RC, the FAC reviews the Group's system of internal controls, and approves purchases of pools of mortgage loan receivables. The OLC oversees operational risk and legal compliance.

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

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk

The Group's credit risk exists primarily from the pools of mortgage loan receivables that it has purchased. In regards to mortgage loan receivables, the credit risk is the risk of not receiving principal or interest on a timely basis due to the borrowers not making payments on time.

The procedures include thorough due diligence to ensure that the commercial banks comply with certain minimum quality standards based on those established by the BoM and the use of a proprietary scoring model that utilises both qualitative and quantitative measurements related to the overall quality of the commercial banks and their policies and procedures.

The Group also has developed eligibility criteria for the loan receivables that they can acquire. The criteria are set for the borrower, loan, collateral asset and loan documents based on Mongolian Law and requirements set by BoM. The loan files for every loan receivable to be purchased are checked for completeness for each borrower, and management also ensures that the eligibility criteria are met.

After pools of loan receivables are purchased, the Group receives daily settlement reports and reconciles the information, on a monthly basis. A consolidated quality report is obtained from the loan origination banks. These reports are used to closely monitor the performance of the loan origination banks in collecting loan payments on behalf of the Group. In addition, a follow up is made with the loan origination banks on any loans with slow repayment history. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the Board RC.

Maximum exposure to credit risk without taking account of any 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.

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk (cont'd.)

	Gross maximum exposure 2015 MNT'000	Gross maximum exposure 2014 MNT'000
Bank balances	128,131,174	50,105,022
Financial investments-held to maturity	2,899,001	–
Mortgage pool receivables with recourse	11,196,817	5,286,570
Purchased mortgage pool receivables	2,013,824,685	823,878,086
Other assets	74,499	163,540
Total credit risk exposure	**2,156,126,176**	**879,433,218**

Collateral and other credit enhancements

Purchased mortgage pool receivables are collateralized by residential properties pledged under the mortgage loan agreements between the originating financial institutions and the individual mortgage loan borrowers.

Balances with banks and other receivables are not collateralized.

The original purchase price of the properties held as collateral by the Group as at 31 December 2015 was MNT 3,733,195,496 thousand (31 December 2014: MNT 1,448,043,715 thousand).

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk (cont'd.)

Credit quality per class of financial assets (cont'd.)

	Note	Neither past due nor impaired	Past due but not impaired			More than 91 days and impaired	Total
			Less than 30 days	31 to 60 days	61 to 90 days		
		MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2015							
Bank balances	10	128,131,174	–	–	–	–	128,131,174
Financial investments-held to maturity	11	2,899,001	–	–	–	–	2,899,001
Mortgage pool loan receivables with recourse	12	9,905,232	879,917	130,958	176,208	104,502*	11,196,817
Purchased mortgage pool receivables	13	1,932,204,071	66,957,314	8,212,661	3,650,917	2,799,722	2,013,824,685
Other assets	14	70,319	–	–	–	4,180	74,499
Total		**2,073,209,797**	**67,837,231**	**8,343,619**	**3,827,125**	**2,908,404**	**2,156,126,176**
At 31 December 2014							
Bank balances	10	50,105,022	–	–	–	–	50,105,022
Mortgage pool loan receivables with recourse	12	3,549,961	1,641,211	52,486	42,912	–	5,286,570
Purchased mortgage pool receivables	13	804,437,430	17,387,680	1,515,565	208,416	328,995	823,878,086
Other assets	14	159,360	–	–	–	4,180	163,540
Total		**858,251,773**	**19,028,891**	**1,568,051**	**251,328**	**333,175**	**879,433,218**

* The Group has the right to enforce the selling commercial banks to purchase back the loans which were overdue or to replace with other performing loans of similar nature. Currently, the management is closely monitoring those loans and accordingly will consider if the Group would exercise its right.

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk (cont'd.)

The credit quality of the portfolio is primarily monitored based on ageing reports and is analysed through monitoring delays in payment (particularly over 90 days) in subsequent periods.

The Group purchases only performing mortgage loans (i.e. loans without delays). Thus, management believes that credit quality of purchased mortgage pools is adequate, as evidenced by an insignificant proportion of past due loans of more than 90 days as at 31 December 2015.

In accordance with the Group's credit risk procedures, the ratio between the carrying amount of purchased loans and the fair value of collateral (apartment or other residential property) at the time of purchase of the mortgage pools needs to be at least 70% and the Group has the first claim over all residential properties used as collateral.

25.3 Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group does not have formalised procedures for managing liquidity risk, though certain methods outlined below have been implemented.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to current liabilities. However, the Group's repayment schedule of bonds is directly related to the collection of the repayments from the purchased mortgage pools; the Group has assessed that its exposure to liquidity risk is insignificant.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations.

25. RISK MANAGEMENT (CONT'D.)

25.3 Liquidity risk (cont'd.)

	On demand	Less than 3months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total undiscounted financial assets and liabilities
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2015							
Cash and bank balances	42,335,716	82,211,380	4,886,915	–	–	–	129,434,011
Financial investments-held to maturity	–	3,000,000	–	–	–	–	3,000,000
Mortgage loan pool receivables	–	735,492	734,528	1,451,860	10,913,295	8,537,859	22,373,034
Purchased mortgage pool	–	65,165,905	65,153,295	129,930,816	1,007,343,092	2,194,062,902	3,461,656,010
Other assets	70,319	–	–	–	–	–	70,319
Total financial assets	**42,406,035**	**151,112,777**	**70,774,738**	**131,382,676**	**1,018,256,387**	**2,202,600,761**	**3,616,533,374**
Borrowed funds	–	–	293,153	168,815	9,791,296	–	10,253,264
Collateralised bonds	–	51,258,187	50,849,271	102,054,428	821,862,703	2,039,416,820	3,065,441,409
Other liabilities	3,489,583	–	–	–	–	3,725,216	7,214,799
Total financial liabilities	**3,489,583**	**51,258,187**	**51,142,424**	**102,223,243**	**831,653,999**	**2,043,142,036**	**3,082,909,472**
Net liquidity gap	**38,916,452**	**99,854,590**	**19,632,314**	**29,159,433**	**186,602,388**	**159,458,725**	**533,623,902**
At 31 December 2014							
Cash and bank balances	24,913,573	22,358,686	3,222,773	–	–	–	50,495,032
Mortgage loan pool receivables	–	244,459	244,494	489,096	3,906,123	4,798,806	9,682,978
Purchased mortgage pool	–	29,340,259	29,243,689	60,117,974	436,822,611	868,982,415	1,424,506,948
Other assets	159,360	–	–	–	–	–	159,360
Total financial assets	**25,072,933**	**51,943,404**	**32,710,956**	**60,607,070**	**440,728,734**	**873,781,221**	**1,484,844,318**
Borrowed funds	–	–	355,321	355,321	2,842,571	9,151,415	12,704,628
Collateralised bonds	–	25,151,606	24,680,807	48,851,523	392,906,063	661,921,690	1,153,511,689
Other liabilities	2,988,609	–	–	–	–	–	2,988,609
Total financial liabilities	**2,988,609**	**25,151,606**	**25,036,128**	**49,206,844**	**395,748,634**	**671,073,105**	**1,169,204,926**
Net liquidity gap	**22,084,324**	**26,791,798**	**7,674,828**	**11,400,226**	**44,980,100**	**202,708,116**	**315,639,392**

25. RISK MANAGEMENT (CONT'D.)

25.3 Liquidity risk (cont'd.)

The above tables show the Group's exposure to liquidity risk based on the contractual maturities of financial assets and liabilities; however, if prepayments are made by the individual borrowers, it shortens the contractual maturity. In this case, the contractual maturity of the bonds is proportionally affected as the contractual principal repayment of the bond is equal to the principal repayment of mortgage pools and ultimately will not have significant impact on the overall liquidity of the Group.

25.4 Market risk

As noted previously, market risk is the risk that changes in market conditions, such as changes in interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group is currently in the process of developing formalised procedures and improving its risk management practices regarding market risks.

Operational risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Group cannot expect to eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back office functions, controlled access to systems, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Group seeks to manage operational risk.

25. RISK MANAGEMENT (CONT'D.)

25.4 Market risk

Currency risk

Currency risk is the possibility of financial loss to the Group arising from adverse movements in foreign exchange rates. The Group's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis.

The Group has no significant foreign currency denominated assets and liabilities.

Interest rate risk

Given that interest rates of the financial assets and liabilities are fixed due to the nature of the Group's operation, the Group's exposure to interest rate risk is limited.

As at 31 December 2015 and 31 December 2014, the Group's interest bearing assets (cash and bank balances, financial investments-held to maturity, mortgage pool receivables with recourse and purchased mortgage pool receivables without recourse) and interest bearing liabilities (borrowed funds and collateralised bonds) have fixed interest rates and are not subject to repricing until they mature.

The table presents the aggregated amounts of the Group's interest bearing financial assets and liabilities at carrying amounts, categorised by their maturity dates.

At 31 December 2015	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Total financial assets	161,462,910	27,281,086	51,690,890	463,289,272	1,448,565,261	2,152,289,419
Total financial liabilities	38,231,709	25,025,788	51,252,792	468,876,252	1,463,022,036	2,046,408,577
Net interest sensitivity gap	**123,231,201**	**2,255,298**	**438,098**	**(5,586,980)**	**(14,456,775)**	**105,880,842**
At 31 December 2014						
Total financial assets	34,311,771	12,772,462	27,300,787	208,717,056	561,559,831	844,661,907
Total financial liabilities	17,331,069	14,456,800	28,496,500	256,219,600	519,128,017	835,631,986
Net interest sensitivity gap	**16,980,702**	**(1,684,338)**	**(1,195,713)**	**(47,502,544)**	**42,431,814**	**9,029,921**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements. The estimated fair values fall under Level 2 since the inputs used to estimate the fair value are all market observable.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The carrying value of the Group's fixed rate financial assets and liabilities approximates the fair value by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

27. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and fulfil its obligations to the investors of the RMBS by effectively managing the subsidiaries. In order to maintain or adjust the capital structure, the Group may issue new shares, obtain borrowings, invest in permitted investments or issue bonds. The amount of equity capital that the Group managed as of 31 December 2015 was MNT 113,444,503 thousand (as of 31 December 2014: MNT 46,279,584 thousand).

Included in retained earnings as at 31 December 2015 are restricted retained earnings of MNT 37,252,156 thousand (31 December 2014: MNT 8,534,347 thousand) that are attributable to the Group's SPVs and are restricted from distribution until the liquidation of the respective SPVs in accordance with the Articles of Charter of each SPV and FRC regulation.

Since establishment of its subsidiaries, MIK Asset One SPC LLC, MIK Asset Two SPC LLC, MIK Asset Three SPC LLC, MIK Asset Four SPC LLC, MIK Asset Five SPC LLC, MIK Asset Six SPC LLC, MIK Asset Seven SPC LLC, MIK Asset Eight SPC LLC and MIK Asset Nine SPC LLC, the Group's capital management structure focused on the management of the assets of the subsidiaries. Each year, upon settlement of the obligations of the Group, the BoD has resolved that any surplus funds are to be invested as follows:

(a) securities issued or guaranteed by the Government of Mongolia or BoM;
(b) accounts maintained with a bank regulated by BoM and having a rating by any of the rating agencies commonly known as Standard & Poor's, Fitch or Moody's.

The BoD has also resolved that any such investments will be of short term maturity and denominated in Tugrug.

The Group was not subject to any externally imposed capital requirements throughout 2015 and 2014.

28. SUBSEQUENT EVENTS

In January 2016, MIK Asset Eight SPC LLC, a wholly owned subsidiary of the Group has purchased mortgage pools from the commercial banks amounting to MNT 186,330.6 million. As consideration for the purchase of these mortgage pools, MIK Asset Eight SPC LLC has issued senior and junior residential mortgage backed bonds to these banks amounting to MNT 186,330 million.

29. MONGOLIAN TRANSLATION

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