M I K H O L D I N G J S C A N D I T S S U B S I D I A R I E S
(Incorporated in Mongolia)

Unaudited interim condensed consolidated financial statements
31 March 2019

MIK HOLDING JSC AND ITS SUBSIDIARIES

For the period ended 31 March 2019

Contents

STATEMENT BY EXECUTIVES

We, Gantulga Badamkhatan, being the Chief Executive Officer, and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the interim condensed consolidated 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 interim condensed consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019 and its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34 *Interim Financial Reporting* (IAS34).

MIK HOLDING
МИК ХОЛДИНГ ХК
1116216038 ... 5221978
УЛААНБААТАР ХОТ

Gantulga Badamkhatan Chief Executive Officer	Bat-Ulzii Molomjamts Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 7 May 2019

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the three months period ended 31 March 2019

	Notes	Unaudited three months ended 31 March 2019 MNT'000	31 March 2018 MNT'000
Interest income	**3**	66,012,764	57,415,914
Interest expense	**4**	(52,881,789)	(34,089,582)
Net interest income		13,130,975	23,326,332
Fee and commission expense	**5**	(2,973,103)	(2,701,920)
Other operating (expense)/income	**7**	(67,160)	13,786
Total operating income		10,090,712	20,638,198
Credit loss (expense)/reversal on financial assets	**6**	(1,559,300)	5,197
Net operating income		8,531,412	20,643,395
Operating expenses	**8**	(3,039,167)	(1,845,208)
Profit before tax		5,492,245	18,798,187
Income tax expense	**9**	(1,876,287)	(2,421,852)
Profit for the year, representing total comprehensive income		3,615,958	16,376,335
Earnings per share (MNT)			
Basic and diluted earnings per share	**10**	237.16	988.17

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim condensed sonsolidated statement of financial position

As at 31 March 2019

	Notes	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
ASSETS			
Cash and bank balances	**11**	871,669,476	86,438,794
Debt instruments at amortised cost	**12**	201,417,271	196,008,869
Mortgage pool receivables with recourse	**13**	18,845,896	20,317,980
Purchased mortgage pool receivables	**14**	2,777,322,076	2,840,112,824
Financial assets at fair value through profit or loss	**15**	5,000,000	5,000,000
Other assets	**16**	988,963	3,525,542
Property and equipment	**17**	33,221,022	33,479,567
Intangible assets		133,397	157,779
TOTAL ASSETS		3,908,598,101	3,185,041,355
LIABILITIES			
Borrowed funds	**18**	50,579,470	44,907,989
Debt securities issued	**19**	785,797,275	-
Collateralised bonds	**20**	2,825,763,132	2,898,320,103
Other liabilities	**21**	11,277,718	11,171,232
Income tax payable		464,451	1,195,430
Deferred tax liability	**22**	22,648,665	20,995,169
TOTAL LIABILITIES		3,696,530,711	2,976,589,923
EQUITY			
Ordinary shares	**23**	20,709,320	20,709,320
Share premium	**23**	52,225,115	52,225,115
Treasury shares	**23**	(62,143,136)	(62,143,136)
Reserve		201,276,091	197,660,133
TOTAL EQUITY		212,067,390	208,451,432
TOTAL LIABILITIES AND EQUITY		3,908,598,101	3,185,041,355

	Ordinary shares MNT'000	Share premium MNT'000	Treasury shares MNT'000	Retained earnings* MNT'000	Total equity MNT'000
At 1 January 2018	20,709,320	52,225,115	(47,055,136)	140,079,553	165,958,852
Total comprehensive income	-	-	-	16,376,335	16,376,335
At 31 March 2018 (unaudited)	20,709,320	52,225,115	(47,055,136)	156,455,888	182,335,187
At 31 December 2018 (audited)	20,709,320	52,225,115	(62,143,136)	197,660,133	208,451,432
Total comprehensive income	-	-	-	3,615,958	3,615,958
At 31 March 2019	20,709,320	52,225,115	(62,143,136)	201,276,091	212,067,390

* Included in retained earnings as at 31 March 2019 are restricted retained earnings of MNT 220,154,142 thousand (31 March 2018: MNT 154,164,136 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related FRC regulation.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim condensed consolidated statement of cash flows

For the three months period ended 31 March 2019

	Notes	Unaudited three months ended 31 March 2019 MNT'000	31 March 2018 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,492,245**	**18,798,187**
Adjustments to reconcile profit before tax to net cash flows:			
Unrealised foreign exchange loss		78,730	1,556
Credit loss expense/(reversal)	**6**	1,559,300	(5,197)
Depreciation of property and equipment	**8**	271,899	129,324
Amortisation of intangible assets	**8**	17,055	15,254
Interest income	**3**	(66,012,764)	(57,415,914)
Interest expense	**4**	52,881,789	34,089,582
Write-off of property and equipment	**8**	2,383	95
Write-off of intangible assets	**8**	7,327	-
Operating profit before working capital changes		(5,702,036)	(4,387,113)
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		1,030,022	(203,573)
Mortgage pool receivables		64,791,727	63,967,502
Other assets		2,536,579	(625,536)
Debt securities issued		(17,379,115)	-
Collateralised bonds		(71,744,846)	(59,579,293)
Other liabilities		(171,789)	(69,784)
Cash generated from operations		(26,639,458)	(897,797)
Interest received		59,319,596	56,624,479
Interest paid		(38,288,720)	(33,619,888)
Income tax paid		(953,770)	(3,337,783)
Net cash flows (used in)/from operating activities		(6,562,352)	18,769,011
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(15,737)	(3,606)
Purchase of intangible assets		-	(147)
Net cash flows used in investing activities		(15,737)	(3,753)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt securities issued		789,200,902	-
Proceeds from borrowed funds	**18**	5,000,000	-
Repayment of borrowed funds		(64,966)	(1,750,000)
Net cash flows from/(used in) financing activities		794,135,936	(1,750,000)
Net decrease in cash and cash equivalents		787,557,847	17,015,258
Effect of exchange rate changes on cash and cash equivalents		173,368	(1,556)
Cash and cash equivalents at 1 January 2019		85,412,110	112,093,719
Cash and cash equivalents at 31 March 2019	**11**	873,143,325	129,107,421

1. Corporate and Group information

MIK Holding JSC (the "Company") is a joint stock company listed on the Mongolian Stock Exchange, incorporated and domiciled in Mongolia.

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 collateralised by the cash flows from the repayment of the mortgage pools.

All SPCs are incorporated in Mongolia and the principal activities of the SPCs are purchase of mortgage loans, issuance of RMBS, investment activities in securities issued by the government, central bank and legal entity and placement of term deposits with qualifying banks as governed by the Articles of the Charter of each SPC and relevant FRC regulations.

2. Significant accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 *Interim Financial Reporting.*

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

2.2. New standards, interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2. Significant accounting policies (cont'd)

2.2. New standards, interpretation and amendments adopted by the Group (cont'd)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

2. Significant accounting policies (cont'd)

2.2 New standards, interpretation and amendments adopted by the Group (cont'd)

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the consolidated financial statements as the Group does not have longterm interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

3. Interest income and segment information

During the period ended 31 March 2019 and 2018, the Group was engaged in a single business segment, which is the purchasing of mortgage pools and issuing RMBS securitised 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 period ended 31 March 2019 and 2018.

	Unaudited three months ended	
	31 March 2019 MNT'000	31 March 2018 MNT'000
Purchased mortgage pool receivables (without recourse)	54,656,138	50,604,762
Bank balances	4,632,823	5,962,135
Interest income from derivative financial assets	667,081	-
Mortgage pool receivables with recourse	634,534	849,017
Debt instruments at amortised cost		
Preference shares	4,068,493	-
Loan notes	1,353,695	-
	66,012,764	57,415,914

4. Interest expense

	Unaudited three months ended	
	31 March 2019 MNT'000	31 March 2018 MNT'000
Collateralised bonds	36,990,671	33,749,914
Debt securities issued	13,723,390	-
Borrowed funds	1,222,371	339,668
Derivative financial assets	945,357	-
	52,881,789	34,089,582

5. Fee and commission expense

	Unaudited three months ended	
	31 March 2019 MNT'000	31 March 2018 MNT'000
Loan service fee	27,325	27,693
Bank service charge	2,945,778	2,674,227
	2,973,103	2,701,920

6. Credit loss (expense)/reversal on financial assets

	Unaudited three months ended	
	31 March 2019 MNT'000	31 March 2018 MNT'000
Cash and cash equivalents (Note 11)	(1,470,511)	(20,163)
Mortgage pool receivables with recourse (Note 13)	(276,803)	931
Purchased mortgage pool receivables (without recourse) (Note 14)	201,803	24,429
Debt instruments at amortised cost (Note 12)	(13,789)	-
Net credit loss expense	(1,559,300)	5,197

7. Other operating (expense)/income

	Unaudited three months ended	
	31 March 2019 MNT'000	31 March 2018 MNT'000
Foreign exchange (loss)/gain	(80,765)	1,467
Other income	13,605	12,319
	(67,160)	13,786

8. Operating expenses

	Unaudited three months ended 31 March 2019 MNT'000	Unaudited three months ended 31 March 2018 MNT'000
Personnel expenses*	1,331,160	956,373
Other operating expenses	913,007	231,766
Depreciation expense	271,899	129,324
Business trip expense	258,199	79,376
Professional service fees	175,935	67,626
Utility expense	68,084	39,147
Amortisation of intangible assets	17,055	15,254
Advertisement expense	664	324,800
Write-off of property and equipment	2,383	95
Entertainment expense	781	421
Penalty expense	-	1,026
	3,039,167	1,845,208

9. Income tax expense

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% (2018: 10%) for the first MNT 3 billion (2018: MNT 3 billion) of taxable income, and 25% (2018: 25%) on the excess of taxable income over MNT 3 billion (2018: MNT 3 billion). The Group calculates the period income tax expense unsing the tax rate that would be applicable to the expected total annual earnings.

The components of income tax expense for the three months period ended 31 March 2019 and 2018 are:

	Unaudited three months ended 31 March 2019 MNT'000	Unaudited three months ended 31 March 2018 MNT'000
Current tax		
Current income tax	222,791	804,935
Deferred tax		
Relating to origination of temporary differences (Note 22)	1,653,496	1,616,917
	1,876,287	2,421,852

10. Earnings per share

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

	Unaudited three months ended 31 March 2019 MNT'000	Unaudited three months ended 31 March 2018 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Parent	3,615,958	16,376,335
Weighted-average number of ordinary shares for basic and diluted earnings per share*	15,246,891	16,572,530
Earnings per share		
Equity holders of the Parent for the year:		
Basic and diluted earnings per share	237.16	988.17

* The weighted-average number of shares take into account the weighted-average effect of movement in treasury shares during the year.

11. Cash and bank balances

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Cash on hand	8,846	22,317
Current accounts with banks	104,988,391	49,700,285
Trust accounts with banks	30,076,670	29,080,137
Collection accounts with banks	350,973	6,609,371
Term deposits	737,718,445	1,030,022
Gross carrying amount	873,143,325	86,442,132
Allowance for impairment losses	(1,473,849)	(3,338)
Net carrying amount	871,669,476	86,438,794

A reconciliation of the allowance for impairment losses of cash and bank balances is as follows:

	Unaudited 31 March 2019 MNT'000
At 1 January 2019 (Audited)	(3,338)
Charge for the period (See Note 6)	(1,470,511)
At 31 March 2019	(1,473,849)

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

Additional cash flow information

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Cash and bank balances	873,143,325	86,442,132
Less: Placement with banks with original maturities of more than three months	-	(1,030,022)
Total cash and cash equivalents for the consolidated statement of cash flow	873,143,325	85,412,110

12. Debt instruments at amortised cost

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Investment in preference shares	150,000,000	150,000,000
Loan notes receivable	45,000,000	45,000,000
Accrued interest receivables on preference shares	4,068,493	2,124,659
Accrued interest receivables on loan notes	3,794,220	315,863
Gross debt instruments	202,862,713	197,440,522
Allowance for impairment losses	(1,445,442)	(1,431,653)
Net debt instruments	201,417,271	196,008,869

12. Debt instruments at amortised cost (cont'd)

On 14 November 2018, MIK Asset One SPC LLC to MIK Asset Twelve SPC LLC purchased a total of 30,000 preference shares of United Banking Corporation LLC ("UBC with par value of MNT 5 million per share. The preference shares have an 11% annual fixed dividend rate which could be deferred at the option of UBC which would be accumulated and the deferred dividend bears an interest rate of 11% per annum. The preference shares have no fixed maturity terms and are not secured, however, in the opinion of management, the Group has the right to request for redemption and UBC has an obligation to repurchase the shares upon maturity of respective SPCs. The proceeds were used by UBC to invest in additional shares in its associate.

On 11 December 2018, MIK HFC and MIK Asset One SPC LLC to MIK Asset Fifteen SPC LLC purchased loan notes from Bodi International LLC ("Bodi") for MNT 25.0 billion and MNT 20.0 billion, respectively. The loan notes bear an interest rate of 12.2% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 July 2023 and principal repayable in three instalments beginning from 20 January 2023 to 12 December 2023. The loan notes held by MIK Asset One SPC LLC to MIK Asset Fifteen SPC LLC are secured by premises valued at MNT 40 billion, while the loan notes held by MIK HFC are not secured.

A reconciliation of the allowance for impairment losses of debt instruments at amortised cost is as follows:

	Unaudited 31 March 2019 MNT'000
At 1 January 2019 (Audited)	(1,431,653)
Charge for the period (See Note 6)	(13,789)
At 31 March 2019	(1,445,442)

13. 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 14). 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 collateralised 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.

The Group applies similar procedure for assessment of individual mortgage loans, as in the case of mortgage pool receivables without recourse (Note 14). 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.

	Unaudited 31 March 2019 MNT'000	**Audited 31 December 2018 MNT'000**
Mortgage pool receivables	19,108,321	20,306,526
Accrued interest receivables	43,445	40,521
Gross mortgage pool receivables with recourse	19,151,766	20,347,047
Allowance for impairment losses	(305,870)	(29,067)
Net mortgage pool receivables with recourse	18,845,896	20,317,980

Movement analysis for impairment losses of mortgage pool receivables with recourse is as follows:

	Unaudited 31 March 2019 MNT'000
At 1 January 2019 (Audited)	(29,067)
Reversal of credit loss (Note 6)	(276,803)
At 31 March 2019	(305,870)

14. Purchased mortgage pool receivables

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Purchased mortgage pool receivables	2,770,484,081	2,834,077,603
Accrued interest receivables	14,160,893	13,559,922
Total gross purchased mortgage pool receivables	2,784,644,974	2,847,637,525
Allowance for impairment losses	(7,322,898)	(7,524,701)
Net purchased mortgage pool receivables	2,777,322,076	2,840,112,824

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.

A movement analysis for impairment losses of purchased mortgage pool receivables is as follows:

	Unaudited 31 March 2019 MNT'000
At 1 January 2019 (Audited)	(7,524,701)
Charge for the period (Note 6)	201,803
At 31 March 2019	(7,322,898)

15. Financial assets at fair value through profit or loss

On 25 December 2018, MIK HFC purchased 500,000 investment units of Asia Diversified Real Estate Fund One Private Investment Fund LLC (the "Fund") at 10,000 per unit at a total amount of MNT 5.0 billion. The Fund is a registered fund licensed by the FRC and has issued 1,500,000 investment units and is due for liquidation upon maturity in 10 years since its establishment in 2018. As of 31 March 2019, the Group owns 500,000 units, while the remaining units have not been purchased by any other investor.

Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, as the Fund is governed by the Investment Fund Law of Mongolia which requires the Fund to be independent and not controlled/influenced by its investors. The Fund is classified as a financial investment at FVTPL in accordance with IFRS 9 requirements. In making this judgment, management has also considered the followings:

- The Fund is managed by a managing company which is independent of the Group, and the Group has no right or ability to nominate or replace the managing company;
- By contract and the relevant law, the Group or other investors are prohibited from influencing the decision, including investing decisions and operation of the managing company.

As at 31 March 2019, the Fund's underlying investment comprises of principally an investment portfolio of the Company's shares.

16. Other assets

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Prepayments	546,677	3,083,113
Foreclosed properties	348,214	254,691
Consumables and office supplies	35,464	35,604
Other receivables	58,608	152,134
	988,963	3,525,542

Included in prepayments are transaction costs that relate to the notes issuance in the international market.

17. Property and equipment

As at 31 March 2019, premises with carrying amount of MNT 13,327,353 thousand are collateralised for borrowed funds (see Note 18).

18. Borrowed funds

		Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Golomt Bank LLC (Note 25)	(a)	25,760,274	25,143,836
Trade and Development Bank of Mongolia LLC (Note 25)	(b)	16,265,880	11,295,245
The Ministry of Finance of Mongolia	(c)	8,553,316	8,468,908
		50,579,470	44,907,989

(a) The Group obtained a loan of MNT 25 billion from Golomt Bank LLC on 11 December 2018 to finance its purchase of loan notes issued by Bodi International LLC (see Note 12). The loan bears an interest rate of 10.0% per annum and the interest is repayable semi-annually beginning from 20 July 2019 to 20 January 2024, while the principal is repayable in full on 20 January 2024. The loan is secured by gross mortgage pool receivables with recourse of MNT 30 billion and cash in current accounts held with Golomt Bank.

(b) The Group obtained a loan of MNT 11.4 billion from Trade and Development Bank of Mongolia LLC on 17 May 2018 to finance its purchase of an office space which is held for collateral (see Note 17). The loan bears an interest rate of 14.4% per annum and the loan principal is repayable monthly beginning from 17 May 2018 to 17 May 2033.

On 2 January 2019, the Group obtained a loan of MNT 5 billion from Trade and Development Bank of Mongolia LLC to finance its current assets. The loan bears an interest rate of 11.0% per annum and the interest is repayable on monthly basis beginning from 8 February 2019 to 8 January 2022, while the principal is repayable in full on 8 January 2022.

(c) A sub-lending agreement between the Ministry of Finance ("MoF") and the Group was made on 3 January 2011. The Group has fully drawn the full amount of the loan in 2012. The loan bears a nominal interest rate of 4% per annum (2018: 4%) and the interest is repayable on 30 May and 30 November of each year, while the principal is repayable in full in 2020. The borrowing is not collateralised.

19. Debt securities issued

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Debt securities issued	785,797,275	-

On 29 January and 12 February 2019, the Group issued USD 250.0 million and USD 50.0 million Senior Notes ("Notes"), respectively, on the international capital market. The Notes bear interest at 9.75% per annum and are due to mature in 3 years in 2022. The interest is repayable semi-annually beginning from 29 January 2019 to 29 July 2022. The first interest payment date is 29 July 2019. Notes issuance costs are amortised over the period of notes.

20. Collateralised bonds

	Interest rate	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Senior bonds	4.5%	2,456,065,786	2,445,252,312
Junior bonds	10.5%	369,697,346	453,067,791
		2,825,763,132	2,898,320,103

The senior and junior bonds as at 31 March 2019 and 31 December 2018 represent bonds issued by MIK Asset One SPC LLC to MIK Asset Eighteen SPC LLC to BoM, MoF and commercial banks under the RMBS program of the government of Mongolia. The bonds are collateralised by the purchased mortgage pool receivables (see Note 14). The interest rates on the junior bonds and the senior bonds are 10.5% and 4.5% per annum respectively and are payable on a quarterly basis.

20. Collateralised bonds (cont'd)

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.

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 collateralised bonds during the three months period ended 2019 and 2018.

21. Other liabilities

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
Other payables*	5,651,284	11,168,904
Long term payable	5,346,185	-
Hedging instrument**	278,275	-
Deferred grant	1,974	2,328
	11,277,718	11,171,232

* Other payables are loan service fee payables to the banks for the collection of the purchased mortgage pool receivables. Loan service fee is normally settled to the banks with the next quarterly coupon payment of the RMBS.

Also included in other payables is a payable of MNT 5,346,185 thousand due to United Finance Corp LLC, to be paid in three equal instalments beginning from 31 December 2019 to 31 December 2021, for the purchase of premises.

** The Group applied cash flow hedges amount at USD 295,351 thousand by using derivatives (cross currency swaps) to hedge the foreign currency risks arising from its issuance of Notes denominated in USD since 28 March 2019.

22. Deferred tax liability

	Unaudited 31 March 2019 MNT'000	Audited 31 December 2018 MNT'000
At 1 January 2019	20,995,169	13,800,402
Recognised in statement of comprehensive income (Note 10)		
Interest accrued on preference shares of UBC	406,849	212,466
Future dividend distribution of the SPCs	1,246,647	6,982,301
At 31 March 2019	22,648,665	20,995,169

Deferred tax liability represents future withholding tax liabilities against the future dividend distribution of the SPCs upon liquidation.

23. Ordinary shares

There were 5,462,429 shares held as treasury shares as at 31 March 2019 (31 March 2018: 4,136,790). Excluding these shares, the total number of issued shares as at 31 March 2019 was 15,246,891 shares (31 March 2019: 16,572,530 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

On 27 December 2018, MIK Asset One SPC LLC and MIK Asset Two SPC LLC repurchased 892,927 and 432,712 shares, respectively, from Capital Bank LLC at MNT 11,381.68 per share under the share pledge and deposit agreements for a total amount of MNT 15,088,000 thousand. There was no repurchase of shares during the three months period ended 31 March 2019.

24. 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 no significant outstanding litigation.

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.

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.

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 March 2019, the Group had mortgage pool receivables with the gross amount of MNT 2,777,322,076 thousand (2018: MNT 2,847,637,525 thousand) pledged as collateral for the bonds (see Note 14). The related liabilities amount is MNT 2,825,763,132 thousand as of 31 March 2019 (2018: MNT 2,898,320,103 thousand).

25. Related party disclosures

A number of transactions were entered into by the Group with related parties in the course of business. As all shareholders have the right to appoint a director, management considers them to be related parties.

Purchase of preference shares from shareholder of related party

As disclosed in Note 12, MIK Asset One SPC LLC to MIK Asset Twelve SPC LLC purchased a total of 30,000 preference shares of UBC with par value of MNT 5 million per share on 14 November 2018. The preference shares have an 11% annual fixed dividend rate which could be deferred at the option of UBC which would be accumulated and the deferred dividend bears an interest rate of 11% per annum. The preference shares have no fixed maturity terms, however, in the opinion of management, the Group has the right to request for redemption and UBC has an obligation to repurchase the shares upon maturity of respective SPCs. Management assessed that the substance of the preference shares represents a debt instrument.

As per the preference shares purchase and sale agreement, UBC would use the consideration received to invest in additional shares in its associate.

25. Related party disclosures (cont'd.)

Loans from/to shareholder of related party

MIK HFC obtained a loan of MNT 25 billion from Golomt Bank LLC ("Golomt") on 11 December 2018 with an interest rate of 10.0% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 January 2024 and principal repayable in full on 20 January 2024. The loan is secured by gross mortgage pool receivables with recourse of MNT 30 billion and cash in current accounts held with Golomt (see Note 18).

On 11 December 2018, MIK HFC and MIK Asset One SPC LLC to MIK Asset Fifteen SPC LLC purchased loan notes from Bodi International LLC ("Bodi") for MNT 25.0 billion and MNT 20.0 billion, respectively, using the loan received from Golomt and additional cash. The loan notes bear an interest rate of 12.2% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 July 2023 and principal repayable in three instalments beginning from 20 January 2023 to 12 December 2023 (see Note 12). Golomt holds 4.95% shares of the Group as of 31 March 2019.

Investment made in the Investment Fund

On 25 December 2018, MIK HFC purchased 500,000 investment units of Asia Diversified Real Estate Fund One Private Investment Fund LLC (the "Fund") at 10,000 per unit at a total amount of MNT 5.0 billion (Note 15). The Fund has issued 1,500,000 investment units and is due for liquidation upon maturity in 10 years since its establishment in 2018. As of 31 March 2019, the Group owns 500,000 units, while the remaining units have not been purchased by any other investor.

Borrowings

The Group obtained a loan of MNT 11.4 billion from TDB on 17 May 2018 with an interest rate of 14.4% per annum, with principal repayable monthly beginning from 17 May 2018 to 17 May 2033 (see Note 18).

In addition, the Group obtained a loan of MNT 5 billion from TDB on 2 January 2019 to finance its current assets (see Note 18).

Other payables

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

	Unaudited 31 March 2019 MNT'000	**Audited 31 December 2018 MNT'000**
Trade and Development Bank of Mongolia LLC	1,183,672	1,253,973
Golomt Bank LLC	1,587,650	1,359,292
Khan Bank LLC	1,133,609	1,155,939
XacBank LLC	442,146	448,755
State Bank LLC	381,970	387,414
Ulaanbaatar City Bank LLC	235,438	234,720
Capital Bank LLC	138,787	134,722
Capitron Bank LLC	33,216	37,294
Chinggis Khaan Bank LLC	16,830	17,890
Total	5,153,318	5,029,999

Loan service fee is normally settled with the banks with the next quarterly coupon payment of the RMBS.

Compensation to key management personnel

	Unaudited for the three months ended	
	31 March 2019 MNT'000	**31 December 2018 MNT'000**
Short-term employee benefits		
• Salaries, incentives and allowances	194,963	103,162
• Contribution to social and health fund	22,852	12,289
	217,815	115,451

25. Related party disclosures (cont'd.)

As at 31 March 2019, the Group has the following balances and transactions with related parties:

As at 31 March 2019

	Bank Deposits		Collateralised Bonds			
	Outstanding balance MNT'000	Interest Income** MNT'000	Issued during the year senior bonds MNT'000	Issued during the year junior bonds MNT'000	Outstanding balance MNT'000	Interest Expense** MNT'000
Trade and Development			–	–		
Bank of Mongolia LLC	710,582,128	267,636			87,025,680	2,224,551
Golomt Bank LLC	22,941,857	343,274	–	–	96,193,416	2,457,772
Ulaanbaatar City Bank LLC	103,185,133	434,335	–	–	15,909,639	406,412
Chinggis Khaan Bank LLC	50,025	448	–	–	1,162,365	29,748
Capital Bank LLC	2,297,891	5,884	–	–		74,674
State Bank LLC	2,394,986	13,669	–	–	29,706,958	758,548
XacBank LLC	25,054,905	212,597	–	–	31,888,497	814,631
Khan Bank LLC	5,931,062	47,179	–	–	90,977,184	2,328,804
Capitron Bank LLC	172,932	748	–	–	2,578,332	65,834
	872,610,919	1,325,770	–	–	355,442,071	9,160,974
Bank of Mongolia	–	–	–	–	2,456,065,787	26,745,687
The Ministry of Finance	–	–	–	–	10,546,026	941,355
	–	–			2,466,611,813	27,687,042
		–	–	–		
Total	872,610,919	1,325,770	–	–	2,822,053,884	36,848,016

As at 31 March 2019

	Mortgage pool portfolios						
	Purchase of mortgage pool		Outstanding balance*		Interest income from mortgage pool*		Loan service fee** MNT'000
	with recourse MNT'000	without recourse MNT'000	with recourse MNT'000	without recourse MNT'000	with recourse MNT'000	without recourse MNT'000	
Trade and Development Bank of Mongolia LLC	–	–	3,934,776	635,111,026	140,905	12,492,121	696,658
Golomt Bank LLC	–	–	2,893,744	718,016,633	112,955	13,710,088	790,803
Ulaanbaatar City Bank LLC	–	–	2,011,564	121,977,418	63,195	2,430,182	142,291
Chinggis Khaan Bank LLC	–	–		9,508,019	–	188,488	9,818
Capital Bank LLC	–	–	3,720,853	83,428,569	85,263	1,990,316	86,998
State Bank LLC	–	–	4,540,974	228,009,037	145,703	4,427,977	220,493
XacBank LLC	–	–	1,715,028	243,945,465	64,565	4,766,770	256,306
Khan Bank LLC	–	–		695,484,215	–	13,636,987	705,987
Capitron Bank LLC	–	–	469,606	20,398,658	17,454	452,377	19,351
Total	–	–	19,286,545	2,755,879,040	630,040	54,095,306	2,928,705

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

** Interest income, interest expense and loan service fee represent the unaudited amount for the three months period ended 31 March 2019.

25. Related party disclosures (cont'd.)

As at 31 December 2018

	Bank Deposits		Collateralised Bonds			
	Outstanding balance MNT'000	Interest income MNT'000	Issued during the year senior bonds MNT'000	Issued during the year junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
Trade and Development Bank of Mongolia LLC	11,517,406	7,257,788	98,454,500	10,939,400	103,931,534	8,451,385
Golomt Bank LLC	8,451,705	1,954,202	114,945,500	12,771,800	111,916,898	9,240,540
Ulaanbaatar City Bank LLC	52,940,589	7,805,878	46,833,000	5,203,700	21,086,633	1,352,761
Chinggis Khaan Bank LLC	56,402	1,709	2,639,900	293,300	1,643,623	107,589
Capital Bank LLC	1,318,871	1,361,455	14,006,400	1,556,300	12,081,836	1,007,167
State Bank LLC	2,096,748	2,491,600	38,899,500	4,322,300	34,863,300	2,823,405
XacBank LLC	3,044,344	307,279	40,382,400	4,487,000	40,341,173	3,048,651
Khan Bank LLC	6,471,616	639,291	155,332,200	17,259,100	118,328,051	8,442,834
Capitron Bank LLC	201,907	6,251	5,717,000	635,400	3,366,489	228,677
	86,099,588	21,825,453	517,210,400	57,468,300	447,559,537	34,703,009
Bank of Mongolia	–	–	–	–	2,377,143,831	104,870,314
The Ministry of Finance	–	–	–	–	68,108,482	1,238,215
	–	–	–	–	2,445,252,313	106,108,529
Total	86,099,588	21,825,453	517,210,400	57,468,300	2,892,811,850	140,811,538

As at 31 December 2018

	Mortgage pool portfolios						
	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 of Mongolia LLC	309,670	109,394,123	4,156,106	650,280,312	668,605	49,758,122	2,949,291
Golomt Bank LLC	–	127,717,509	3,119,478	735,380,772	604,055	55,544,187	3,157,864
Ulaanbaatar City Bank LLC	420,587	52,036,921	2,099,249	125,174,779	313,508	8,187,398	481,506
Chinggis Khaan Bank LLC	–	2,933,411	–	9,712,270	–	707,212	37,681
Capital Bank LLC	–	15,563,009	3,839,324	85,198,588	400,620	6,273,684	331,311
State Bank LLC	2,929,876	43,221,975	4,805,392	232,281,701	568,656	17,015,940	897,555
XacBank LLC	–	44,869,750	1,854,557	249,341,905	349,487	18,536,633	1,015,352
Khan Bank LLC	–	172,591,617	–	710,294,578	–	50,819,218	2,801,650
Capitron Bank LLC	–	6,352,539	472,941	20,764,386	112,058	1,407,110	77,513
Total	3,660,133	574,680,854	20,347,047	2,818,429,291	3,016,989	208,249,504	11,749,723

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

** Difference between issuance of RMBS (senior and junior) and the purchased mortgage pool (without recourse) is the cash payment of the Group to the respective commercial banks amounting to MNT 2,154 thousand.

25. Related party disclosures (cont'd.)

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, borrowings 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.

26. 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.

Included in retained earnings as at 31 March 2019 are restricted retained earnings of MNT 220,154,142 thousand (31 December 2018: MNT 154,164,136 thousand) that are attributable to the Group's SPCs and are restricted from distribution until the liquidation of the respective SPCs in accordance with the Articles of Charter of each SPC and FRC regulation.

The Group was not subject to any externally imposed capital requirements throughout the three months period/year of 2019 and 2018.

27. Subsequent events

There were no subsequent events that need disclosure.

28. Financial assets and financial liabilities

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 consolidated financial statements. The estimated fair value fall under Level 2 since the inputs to estimate the fair value are all market observable.

Financial instruments 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. 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 rates 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 recognized with current market rates offered for similar financial instruments available in Mongolia.