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)

Audited consolidated financial statements
31 December 2019

MIK HOLDING JSC AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 31 December 2019

CONTENTS

Registered Office	: Sukhbaatar district, 1st khoroo, Peace avenue-19, 13th floor P.O.Box – 14210 – 215 Ulaanbaatar City, Mongolia
Board of Directors	: Mr. Munkhbaatar M. (Chairman) Ms. Ayush D. Mr. Choijiljalbuu B. Mr. Davaajav T. Ms. Batchimeg S. Mr. Gantulga B. Mr. Khashchuluun Ch. Mr. Shijir E. Mr. Otgochuluu Ch.
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, Gantulga Badamkhatan, being the Chief Executive Officer, and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB").

Munkhbaatar Myagmar Chairman of the Board of Directors	Gantulga Badamkhatan Chief Executive Officer	Bat-Ulzii Molomjamts Chief Financial Officer

MIK HOLDING
МИК
1116210833 5221978
УЛААНБААТАР ХОТ

Ulaanbaatar, Mongolia
Date: 27 MAR 2020

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MIK Holding JSC

Opinion

We have audited the consolidated financial statements of MIK Holding JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and 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 for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC (cont'd.)

Key Audit Matters (cont'd.)

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td>
Impairment provision on financial assets
The impairment of financial assets including treasury assets, financial investments, mortgage pool receivables with recourse and purchased mortgage pool receivables is estimated by the management through the application of judgment and use of highly subjective assumptions.
Due to the significance of financial assets including treasury assets, financial investments, mortgage pool receivables with recourse and purchased mortgage pool receivables, representing about 98% of the Group's total assets as at 31 December 2019, and the related estimation uncertainty this is considered a key audit matter.
The impairment method is based on a forward-looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including:

Staging of financial assets;
Development of ECL models and the choice of inputs, including Probability of Default ("PD") and Loss Given Default ("LGD");
Determination of the Exposure at Default ("EAD").
Determination of associations between macroeconomic scenario, economic inputs, and the effect on inputs to the ECL calculation; and
Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs of the ECL model.

Relevant disclosures of the accounting policy and critical accounting estimates and judgments are included in Notes 2.3, 2.4, 11.1, 12.1, 13.1, 14.1, and 28.2 to the consolidated financial statements, respectively.
</td><td>
Our audit procedures included obtaining an understanding over the Group's credit risk management and practices in evaluating the methodology, the selection of inputs and assumptions used by the Group in its ECL model in calculation of impairment of treasury assets, financial investments, mortgage pool receivables with recourse and purchased mortgage pool receivables.
For assessment of impairment allowance of financial assets as of 31 December 2019, we evaluated the Group's ECL model including the assessment of basis for classification of exposures into the 3 stages, the methodology of PD, LGD and EAD determination, the forward-looking macroeconomic variables incorporated and the overall logic of the model given the trends and patterns of the industry.
In testing the appropriateness of the stage classifications, we have tested loan overdue information, credit ratings assigned to counter parties at initial recognition and as at the reporting date, and other related information.
We compared the key inputs to the ECL model to the Group's internal available historical data, externally available industry, financial and economic data. Our testing included the followings:

Tested the accuracy of internal data applied for the calculation of historical PD and LGD;
Checked the parameters to external data sources where available used in multiple scenario analysis; and
Checked completeness of the EAD including the accuracy of the credit conversion factors to the historical data.

We considered the consistency of judgment applied in the key inputs to the ECL model.
We also assessed the adequacy of the related disclosure in the notes to the financial statements.
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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC (cont'd.)

Key Audit Matters (cont'd.)

Structured finance related party transactions	
As at 31 December 2019, the Group had certain structured finance arrangements with related parties. The contractual terms of these arrangements are negotiated under a jurisdiction legal environment that governs respective parties' rights and obligations given the specific circumstances. Significant management judgement is required in interpreting the terms of these arrangements and the determination of the appropriate accounting treatments, such as considering power and variable returns for the assessment of control under IFRS 10, or the respective rights and obligations between the contracting parties for the classification of financial investments under IFRS 9. Relevant disclosures are included in Notes 2.3, 2.4, 12, 15, 16, 21 and 27 to the consolidated financial statements.	Our procedures included obtaining an understanding of the Group's policies and procedures in respect of the recording of related party transactions. We obtained an understanding of the details of these structured finance transactions, including reviewing key agreements relating to these transactions. We have obtained third party legal advice in assisting on certain interpretation of the agreement terms and the related governing law. Based on the above, we have evaluated management's assessment on the accounting of these structured finance related party transactions in accordance with IFRS. We also assessed the adequacy of the related disclosure in the notes to the consolidated financial statements.

Other information included in the Annual Report

The Directors are responsible for the other information. The other information comprises the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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

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

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Other Matter

This report is made solely to the shareholders of the Group, as a body, in connection with the audit requested by shareholders in accordance with agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Director

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 27 March, 2020

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 MNT'000	2018 MNT'000
Interest income	**3**	339,227,417	237,664,203
Interest expense	**4**	(259,291,261)	(143,679,467)
Net interest income		79,936,156	93,984,736
Fee and commission expense	**5**	(12,526,380)	(11,882,019)
Other operating income		90,451	222,241
Total operating income		67,500,227	82,324,958
Credit loss expense on financial assets	**6**	(9,194,529)	(737,144)
Net losses on financial assets at fair value through profit or loss	**15**	(300,069)	–
Net gains on derivative financial instruments	**16**	55,516,592	–
Net operating income		113,522,221	81,587,814
Operating expenses	**7**	(12,695,335)	(12,670,033)
Other operating expenses	**8**	(30,763,099)	(797,470)
Profit before tax		70,063,787	68,120,311
Income tax expense	**9.1**	(15,829,486)	(10,539,731)
Profit for the year, representing total comprehensive income		54,234,301	57,580,580
Earnings per share (MNT)			
Basic and diluted earnings per share	**10**	3,557.07	3,477.51

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 MNT'000	2018 MNT'000
ASSETS			
Cash and bank balances	**11**	228,337,007	86,438,794
Debt instruments at amortised cost	**12**	256,277,326	196,008,869
Mortgage pool receivables with recourse	**13**	705,561,246	20,317,980
Purchased mortgage pool receivables	**14**	2,894,437,216	2,840,112,824
Financial assets at fair value through profit or loss	**15**	4,699,931	5,000,000
Derivative financial instruments	**16**	55,516,592	–
Other assets	**17**	615,670	3,525,542
Property and equipment	**18**	32,532,212	33,479,567
Intangible assets	**19**	191,868	157,779
Deferred tax asset	**9.3**	3,078,910	–
TOTAL ASSETS		4,181,247,978	3,185,041,355
LIABILITIES			
Other liabilities	**20**	25,409,207	11,171,232
Borrowed funds	**21**	70,709,375	44,907,989
Debt securities issued	**22**	839,131,215	–
Collateralised bonds	**23**	2,949,029,174	2,898,320,103
Income tax payable	**9.2**	1,459,805	1,195,430
Deferred tax liability	**9.3**	32,823,469	20,995,169
TOTAL LIABILITIES		3,918,562,245	2,976,589,923
EQUITY			
Ordinary shares	**24**	20,709,320	20,709,320
Share premium	**24**	52,225,115	52,225,115
Treasury shares	**24**	(62,143,136)	(62,143,136)
Reserve		251,894,434	197,660,133
TOTAL EQUITY		262,685,733	208,451,432
TOTAL LIABILITIES AND EQUITY		4,181,247,978	3,185,041,355

	Notes	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		–	–	–	57,580,580	57,580,580
Repurchase of shares	**24**	–	–	(15,088,000)	–	(15,088,000)
At 31 December 2018 and 1 January 2019		20,709,320	52,225,115	(62,143,136)	197,660,133	208,451,432
Total comprehensive income		–	–	–	54,234,301	54,234,301
At 31 December 2019		20,709,320	52,225,115	(62,143,136)	251,894,434	262,685,733

* Included in retained earnings as at 31 December 2019 are restricted retained earnings of MNT 272,718,090 thousand (31 December 2018: MNT 207,827,030 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 Financial Regulatory Commission ("FRC") regulation.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 MNT'000	2018 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		70,063,787	68,120,311
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation of deferred grants		(1,151)	(75,099)
Gain on disposal of property and equipment		(6,810)	–
Interest on borrowed funds	**4**	5,627,047	2,087,559
Interest on debt securities	**4**	81,750,319	–
Credit loss expense	**6**	9,194,529	737,144
Depreciation of property and equipment	**7**	1,066,865	783,571
Amortisation of intangible assets	**7**	36,798	67,120
Write-off of property and equipment	**8**	2,383	100
Unrealised foreign exchange loss/(gain), net	**8**	30,489,031	(64,346)
Net losses on financial assets at FVPL	**15**	300,069	–
Net gains on derivative financial instruments	**16**	(55,516,592)	–
Operating profit before working capital changes		143,006,275	71,656,360
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		(6,942,647)	99,826,865
Debt instruments at amortised cost		(22,179,579)	(2,440,522)
Mortgage pool receivables with recourse		(690,634,405)	263,104,996
Purchased mortgage pool receivables		273,017,625	9,478,518
Other assets		2,944,872	(2,731,348)
Collateralised bonds		(275,519,549)	(258,669,632)
Other liabilities		14,114,115	1,518,624
Cash generated from/(used in) operations		(562,193,293)	181,743,861
Interest paid classified as operating activities		(46,613,722)	(1,876,467)
Income tax paid	**9.2**	(6,603,255)	(5,788,960)
Net cash flows from/(used in) operating activities		(615,410,270)	174,078,434
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in debt instruments at amortised cost		(42,000,000)	(195,000,000)
Proceeds from sale of property and equipment		–	24,084
Purchase of property and equipment		(150,083)	(14,846,196)
Purchase of intangible assets	**19**	(78,214)	(112,330)
Investment in financial assets at FVPL		–	(5,000,000)
Net cash flows used in investing activities		(42,228,297)	(214,934,442)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowed funds		24,748,228	29,198,053
Net proceeds from issuance of debt securities		768,016,826	–
Purchase of treasury shares		–	(15,088,000)
Net cash flows from financing activities		792,765,054	14,110,053
Net increase/(decrease) in cash and cash equivalents		135,126,487	(26,745,955)
Effect of exchange rate changes on cash and cash equivalents		62,265	64,346
Cash and cash equivalents at 1 January		85,412,110	112,093,719
Cash and cash equivalents at 31 December	**11**	220,600,862	85,412,110
OPERATIONAL CASH FLOW FROM INTEREST			
Interest received		303,901,886	236,312,625
Interest paid		(215,817,308)	(142,814,834)

	2019 MNT'000	2018 MNT'000
Non-cash transactions:		
Purchase of property and equipment	(75,000)	(4,914,112)
Disposal of property and equipment	110,000	–
Disposal of intangible assets	7,327	–

The reconciliation of liabilities arising from financing activities is shown below:

	Borrowed funds		Debt securities issued	
	2019 MNT'000	2018 MNT'000	2019 MNT'000	2018 MNT'000
As at 1 January	44,907,989	15,498,844	–	–
New disbursement/additions	25,000,000	36,355,296	789,200,902	–
Repayment classified as financing activity	(251,772)	(7,157,243)	–	–
Transaction costs	–	–	(21,184,076)	–
Net proceeds	24,748,228	29,198,053	768,016,826	–
Interest expense for the year	5,627,047	2,087,559	81,750,319	–
Interest paid	(4,573,889)	(1,876,467)	(42,039,833)	–
Foreign exchange movement	–	–	31,403,903	–
As at 31 December	70,709,375	44,907,989	839,131,215	–

1. Corporate and Group information

Mongolian Mortgage Corporation HFC LLC ("MIK HFC") was incorporated on 4 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 SPC A LLC and renamed on 30 October 2015. The Company remained dormant since incorporation until the completion of the reorganisation, in which the Company became the holding company of the companies now comprising the Group on 14 December 2015 and the principal activity of the Company became investment holding.

The Group's principal place of business and the registered address is Sukhbaatar district, 1st khoroo, Peace Avenue-19, 13th floor, Ulaanbaatar City, 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.

The registered share capital of MNT 20,709,320 thousand (2018: MNT 20,709,320 thousand) consists of 20,709,320 (2018: 20,709,320) common shares at par value of MNT 1,000 (2018: 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 2019 are set out in Note 24.

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 FRC, a special license for the issuance of asset backed securities.

In 2013, the Government of Mongolia together with Bank of Mongolia ("BoM") initiated a price stabilisation 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 subsidised interest rate mortgage loans or refinance their existing loans with the subsidised interest rate mortgage financing.

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 its first SPC, MIK Asset One SPC LLC, a wholly owned subsidiary, to purchase the subsidised interest rate mortgage loans bearing an interest rate of 8% from the commercial banks and in return to issue RMBS, which are collateralised by the cash flows and collaterals of these mortgage pools.

As of 31 December 2019, the Group had established twenty-three SPCs (2018: nineteen), of which twenty-one have purchased mortgage pools and issued RMBS (2018: eighteen).

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.

On 12 September 2018, the FRC approved a change in the principal activities of the SPCs, to include investing in securities of an entity.

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 have an annual coupon rate of 9.75% and are due to mature in 3 years in 2022.

The consolidated financial statements of the Group were authorised for issue in accordance with the resolution of the Board of Directors on 27 March 2020

2. Significant accounting policies

2.1. Basis of preparation

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

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and financial assets designated at fair value through profit or loss ("FVPL") all of which have been measured at fair value. These 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.

2. Significant accounting policies (cont'd.)

2.1. Basis of preparation (cont'd.)

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 26.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts 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 ("OCI") 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 comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. A subsidiary is an entity (including structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive incomes are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2. Changes in accounting policies 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 2019:

<u>New and amended standards and interpretations</u>

• IFRS 16	*Leases*
• IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment*
• Amendments to IFRS 9	*Prepayment Features in Negative Compensation*
• Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
• Annual Improvements (2015-2017 cycle)	*Amendments to a number of IFRSs issued in December 2017*
• Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*

2. Significant accounting policies (cont'd.)

2.2. Changes in accounting policies and disclosures (cont'd.)

New and amended standards and interpretations (cont'd.)

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard does not have any impact on the financial position or performance of the Group as the Group has no leases.

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

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to withholding tax on the interest paid to investors on its senior notes using the rate prescribed by the double tax treaties between Mongolia and the related countries, and these additional cash outflows effectively increase actual interest paid on the notes.

The Group determined, based on its tax compliance and assessment, that it is probable that its tax treatments 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 the 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.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments had no impact on the consolidated financial statements of the Group.

2. Significant accounting policies (cont'd.)

2.2. Changes in accounting policies and disclosures (cont'd.)

New and amended standards and interpretations (cont'd.)

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

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 the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an 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, the improvement did not have any effect on its consolidated financial statements.

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. 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, the improvement did not have any effect on its consolidated financial statements.

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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
• IFRS 17	*Insurance Contracts* [2]
• Amendments to IAS 1 and IAS 8	*Definition of Material* [1]
• Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform* [1]
• Amendments to References to the Conceptual Framework in IFRS Standards	*Conceptual Framework* [1]
• Amendments to IFRS 3	*Definition of a Business* [1]

[1] *Effective for annual periods beginning on or after 1 January 2020*
[2] *Effective for annual periods beginning on or after 1 January 2021*
[3] *The effective date of this amendment is indefinitely postponed by IASB, but an entity that early adopts the amendments must apply them prospectively.*

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies

Recognition of income and expense

i) The effective interest rate method

Under IFRS 9, interest income and interest expense are recorded using the effective interest rate ("EIR") method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured fair value through other comprehensive income ("FVOCI") under IFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount of the financial asset or liability.

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

If expectations regarding the cash flows on the financial instruments are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the instrument in the statement of financial position with an increase or reduction in interest income and interest expense. The adjustment is subsequently amortised through Interest income or interest expense in the statement of profit or loss.

ii) Interest income and interest expense

The Group calculates interest income or interest expense by applying the EIR to the gross carrying amount of financial instruments other than credit-impaired instruments.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the group reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in total operating income and net gains/(losses) on financial assets at fair value through profit or loss, respectively.

iii) Fee and commission expense

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

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

The Group's financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

2. Significant accounting policies (cont’d.)

2.3. Summary of significant accounting policies (cont’d.)

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

i) Financial assets (cont’d.)

Initial recognition and measurement (cont’d.)

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Business model assessment

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

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment

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

The SPPI test

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

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

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

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

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

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

i) Financial assets (cont'd.)

Debt instruments at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets are assessed in their substance over their legal form.

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes mortgage pool receivables with and without recourse, loan receivables, treasury assets and cash and bank balances.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group doesn't have any debt instruments at FVOCI as of 31 December 2019.

Equity instruments at FVOCI

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group doesn't have any equity instruments at FVOCI as of 31 December 2019.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

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

i) Financial assets (cont'd.)

Financial assets at FVPL (cont'd.)

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Included in this category is an investment in an investment fund, which the Group had irrevocably elected not to classify at FVOCI. Dividends on the investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Financial assets at FVPL also include a derivative relating to a cross-currency swap transaction entered into by the Group with a commercial bank during the year ended 31 December 2019.

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

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

The derivative is recorded at fair value and carried as assets when its fair value is positive and as liabilities when its fair value is negative.

The Group's financial assets designated at FVPL are explained in Notes 15 and 16.

Hedge accounting

A hedging relationship qualifies for hedge accounting under IFRS 9 only if all of the following criteria are met:

1. The hedging relationship consists only of eligible hedging instruments and eligible hedged items.
2. At the inception of the hedge there is formal designation and documentation both of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
3. The hedging relationship meets all of the following hedge effectiveness requirements:
    1. there is an economic relationship between the hedged item and the hedging instrument;
    2. the effect of credit risk does not dominate the value changes that result from that economic relationship;
    3. the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as future payments of borrowings denominated in foreign currencies) or a highly probable forecast transaction and could affect profit or loss

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in losses from financial derivatives in profit or loss. When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to profit or loss.

The Group chose not to apply hedge accounting on the cross-currency swap. Therefore, changes in the fair value of the derivative are recognised in losses from financial derivatives in profit or loss.

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

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

i) Financial assets (cont'd.)

Derecognition

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.

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.

Impairment of financial assets

The Group records the allowance for expected credit losses for all financial assets not held at FVPL.

Overview of ECL method. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Whether a financial instrument's credit risk has increased significantly since initial recognition is determined by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on that, the financial assets are grouped into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When financial assets are first recognised, an allowance is based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved, and the financial assets has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, an allowance is based on the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved, and the financial assets has been reclassified from Stage 3.
- Stage 3: Financial assets considered credit-impaired. An allowance is based on the LTECLs.

The Calculation of ECLs. The Group calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, a best case, and a worst case).

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

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

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

i) Financial assets (cont'd.)

Impairment of financial assets (cont'd.)

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

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

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

Forward-looking information. In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- Percent change of Dollar index
- Percent change of G7 GDP rate
- Percent change in Consumer Price Index
- Percent change in Unemployment rate

Write-offs. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the period.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, debt issued and other borrowed funds, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of debt issued and other borrowed funds and payables, net of directly attributable transaction costs.

The Group's financial liabilities include debt issued, collateralised bonds and other borrowed funds

Subsequent measurement

Debt issued, collateralised bonds and other borrowed funds

This is the category most relevant to the Group. After recognition, debt issued, collateralised bonds and other borrowed funds are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account at discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as "interest expense" in the statement of profit or loss. This category generally applies to interest-bearing debt, collateralised bonds and other borrowed funds. For more information, refer to Notes 21, 22 and 23.

Derecognition

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. Significant 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 consolidated financial statements are categorised 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:

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 recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (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 29.

Collateral repossessed

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the statement of financial position. Subsequently, repossessed assets are measured at the lower of cost and fair value less costs to sell and are included in 'Other assets'.

Cash and bank balances

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

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

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 profit or loss 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.

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

Property and equipment (cont'd.)

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 profit or loss.

Intangible assets

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

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

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

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

Impairment of non–financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

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 profit or loss 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.

(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 recognised for all taxable temporary differences, except for:

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

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

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

2. Significant accounting policies (cont'd.)

2.3. Summary of significant accounting policies (cont'd.)

Equity

(i) Share capital and share premium

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. When shares are sold at a premium, the excess over par value is credited to the share premium.

(ii) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

(iii) Retained earnings

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

Retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and FRC regulation.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent 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 Parent (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.

Segment information

The Group is engaged in purchasing of mortgage pools and issuing RMBS securitised 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.

Transactions with related parties

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

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

An entity is related to a Group if any of the following conditions applies:

- 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).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the 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.
- The entity is controlled or jointly controlled by a person.
- A person who has control or joint control of the Group has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the 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 27.

2. Significant 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 and the subsidiaries' 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 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.

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 consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Impairment losses on financial assets

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

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

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

The impairment loss on financial assets under IFRS 9 is recorded in the consolidated statement of profit or loss and disclosed in more detail in Notes 11.1, 12.1, 13.1 and 14.1.

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 judgment 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.

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

Further details are given in Note 9.3 to the consolidated financial statements.

Classification of financial assets

As disclosed in Note 15, the Group has investment in Asia Diversified Real Estate Fund One Private Investment Fund ("Fund") classified as financial assets at FVPL in accordance with IFRS 9. The Fund is a registered fund licensed by the FRC of Mongolia established in December 2018. As of 31 December 2019, the Group owns 33% of the total investment units of the Fund.

Significant management judgement is required in determining the classification of financial assets and 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 Mongolian Law on Investment Funds which requires the Fund to be independent and not controlled/influenced by its investors. Further details are given in Note 15.

2. Significant accounting policies (cont'd.)

2.4. Significant accounting judgments, estimates and assumptions (cont'd.)

Valuation of derivative financial instruments

As disclosed in Note 16, the Group entered into a cross-currency swap agreement with a commercial bank in order to hedge the risk of variability of cash flows denominated in USD from the long-term senior notes issued on the international capital market in the amounts of USD 250 million and USD 50 million on 29 January 2019 and 12 February 2019, respectively (see Note 22).

In determining the fair value of the derivative financial instruments, management applied the discounted cash flow method in their valuation.

The Group had recorded net gains on derivative financial instruments of MNT 55,516,592 thousand for the year ended 31 December 2019.

3. Interest income and segment information

During the year ended 31 December 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 year ended 31 December 2019 and 2018.

	2019 MNT'000	2018 MNT'000
Purchased mortgage pool receivables (without recourse)	221,478,247	210,376,263
Mortgage pool receivables with recourse	46,431,798	3,016,989
Bank balances	45,745,722	21,830,430
Debt instruments at amortised cost (Note 12)	25,571,650	2,440,521
	339,227,417	237,664,203

4. Interest expense

	2019 MNT'000	2018 MNT'000
Collateralised bonds	150,617,896	141,159,835
Debt securities issued	81,750,319	–
Cross-currency swap	20,615,238	–
Borrowed funds	5,627,047	2,087,559
Other payables	680,761	432,073
	259,291,261	143,679,467

5. Fee and commission expense

	2019 MNT'000	2018 MNT'000
Loan service fee	12,515,200	11,870,907
Bank service charge	11,180	11,112
	12,526,380	11,882,019

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

	2019 MNT'000	2018 MNT'000
Mortgage pool receivables with recourse (Note 13.1)	6,163,618	(31,652)
Debt instruments at amortised cost (Note 12.1)	3,911,122	1,431,653
Cash and cash equivalents (Note 11.1)	233,186	(944,538)
Purchased mortgage pool receivables (without recourse) (Note 14.1)	(1,113,397)	281,681
Net credit loss expense	9,194,529	737,144

7. Operating expenses

	2019 MNT'000	2018 MNT'000
Personnel expenses*	6,277,505	4,712,442
Professional service fees	1,982,776	2,760,845
Advertisement expense	1,441,710	1,944,894
Depreciation expense (Note 18)	1,066,865	783,571
Business trip expense	684,784	1,045,231
Utility expense	261,887	232,798
Amortisation of intangible assets (Note 19)	36,798	67,120
Other operating expenses	943,010	1,123,132
	12,695,335	12,670,033
* Personnel expenses		
Salaries, wages and bonus	5,296,956	3,960,665
Contribution to social and health fund	708,589	454,611
Staff training	122,519	161,577
Others	149,441	135,589
	6,277,505	4,712,442

8. Other operating expenses

	2019 MNT'000	2018 MNT'000
Unrealised foreign exchange loss/(gain), net	30,489,031	(64,346)
Entertainment expense	349,665	272,733
Realised foreign exchange loss/(gain), net	(79,422)	4,114
Write-off of property and equipment (Note 18)	2,383	100
Penalty expense	52	582,858
Others	1,390	2,011
	30,763,099	797,470

9. Income tax

9.1. Income tax expense

The components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 MNT'000	2018 MNT'000
Current tax		
Current income tax	6,867,630	3,344,964
Deferred tax		
Relating to origination of temporary differences (Note 9.3)	8,961,856	7,194,767
	15,829,486	10,539,731

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).

9.1. Income tax expense (cont'd.)

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:

	2019 MNT'000	2018 MNT'000
Profit before tax	70,063,787	68,120,311
Tax at statutory tax rate of 25% (2018: 25%)	17,515,947	17,030,078
Effect of principal repayment of collateralised bonds as tax deductible	(69,317,775)	(62,974,175)
Effect of expenses not deductible for tax purposes	2,621,647	1,157,818
Effect of income subject to lower tax rate	(10,872,522)	(3,640,643)
Deferred tax asset not recognised for tax losses	67,274,250	50,854,017
Deferred tax liability recognised (Note 9.3)	6,489,106	6,982,301
Adjustment in respect of current income tax of prior years	(330,051)	–
Others	2,448,884	1,130,335
Tax expense for the year	15,829,486	10,539,731

The Group has tax losses of MNT 499,580,962 thousand (2018: MNT 368,117,749 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 SPCs.

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 SPCs will generate future taxable profits.

Deferred tax assets arising from tax losses are not recognised 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 utilised.

The effective income tax rate for the Group for the year ended 31 December 2019 is 22.59% (2018: 15.47%).

9.2. Income tax payable

	2019 MNT'000	2018 MNT'000
At 1 January	1,195,430	3,639,426
Charge for the year	6,867,630	3,344,964
Income tax paid	(6,603,255)	(5,788,960)
At 31 December	1,459,805	1,195,430

9.3. Deferred tax

	2019 MNT'000	2018 MNT'000
Deferred tax liabilities, net		
At 1 January	20,995,169	13,800,402
Recognised in statement of comprehensive income (Note 9.1)		
Future dividend distribution of the SPCs	6,489,106	6,982,301
Fair value change of derivative financial instruments	5,551,660	–
Unrealised foreign exchange loss, net	(3,048,903)	–
Fair value change of financial assets at FVPL	(30,007)	–
Interest accrued on preference shares of UBC	–	212,466
	8,961,856	7,194,767
Deferred tax realised	(212,466)	–
At 31 December	29,744,559	20,995,169

9.3. Deferred tax (cont'd.)

	2019		2018
	Deferred tax asset MNT'000	**Deferred tax liability MNT'000**	**Deferred tax liability MNT'000**
Future dividend distribution of the SPCs	–	27,271,809	20,782,703
Fair value change of derivative financial instruments	–	5,551,660	–
Unrealised foreign exchange loss, net	3,048,903	–	–
Fair value change of financial assets at FVPL	30,007	–	–
Interest accrued on preference shares of UBC	–	–	212,466
	3,078,910	32,823,469	20,995,169

10. Earnings per share

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

	2019 MNT'000	2018 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Parent	54,234,301	57,580,580
Weighted-average number of ordinary shares for basic and diluted earnings per share*	15,246,891	16,558,002
Earnings per share		
	MNT	MNT
Equity holders of the Parent for the year:		
Basic and diluted earnings per share	3,557.07	3,477.51

* 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

	2019 MNT'000	2018 MNT'000
Cash on hand	35,488	22,317
Current accounts with banks	17,546,643	49,700,285
Trust accounts with banks	24,579,241	29,080,137
Collection accounts with banks	973,680	6,609,371
Term deposits	185,438,479	1,030,022
Gross carrying amount	228,573,531	86,442,132
Allowance for impairment losses	(236,524)	(3,338)
Net carrying amount	228,337,007	86,438,794

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.

The Group earns interest income at a rate of 3.5% to 14.0% (2018: 5.91% to 16.8%) per annum on term deposits.

11. Cash and bank balances (cont'd.)

Additional cash flow information

	2019 MNT'000	2018 MNT'000
Cash and bank balances	228,573,531	86,442,132
Less: Placement with banks with original maturities of more than three months	(7,972,669)	(1,030,022)
Total cash and cash equivalents for the consolidated statement of cash flow	220,600,862	85,412,110

11.1. Impairment allowance for cash and bank balances

	2018 MNT'000	2018 MNT'000
At 1 January	3,338	947,876
Credit loss expense/(reversal) (Note 6)	233,186	(944,538)
At 31 December	236,524	3,338

Details of the Group's stage classification and methodology for calculating ECL are explained in Note 28.2.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system and policies are set out in Note 28.2:

Internal rating grade	**2019 Stage 1 MNT'000**	**2018 Stage 1 MNT'000**
Performing		
B- to B+ rated	228,340,878	86,353,675
C to CCC+ rated	197,165	66,140
	228,538,043	86,419,815

Allowances for impairment losses for bank balances as at 31 December 2019 and 31 December 2018 are as follows:

Expected credit loss	**Exposure at default MNT'000**	**Average forward-looking PD**	**Average forward-looking LGD**	**Average period (days)**	**ECLs as part of bank balances MNT'000**
At 31 December 2019					
Stage 1	228,538,043	0.16%	63.09%	22	236,524
At 31 December 2018					
Stage 1	86,419,815	0.01%	63.04%	1	3,338

12. Debt instruments at amortised cost

	2019 MNT'000	**2018 MNT'000**
Investment in preference shares	150,000,000	150,000,000
Loan notes receivable	87,000,000	45,000,000
Accrued interest receivables on preference shares	18,908,547	2,124,659
Accrued interest receivables on loan notes	5,711,554	315,863
	261,620,101	197,440,522
Allowance for impairment losses	(5,342,775)	(1,431,653)
Net debt instruments at amortised cost	256,277,326	196,008,869

Investment in preference shares

On 14 November 2018, the Group purchased through its SPCs a total of 30,000 preference shares of United Banking Corporation LLC ("UBC"), a shareholder of Trade and Development Bank of Mongolia LLC ("TDB"), 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 (for further disclosure see Note 27).

On 31 January 2020, the Group entered into an agreement with UBC for settlement of the outstanding accrued interest. According to the agreement, the accrued interest receivable is repayable annually for five years.

Loan notes receivables

Bodi International LLC

On 11 December 2018, the Group purchased through MIK HFC and its SPCs 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. (for further disclosure see Note 27).

Capital Bank receivership

On 8 April 2019, in accordance with the Law of Central Bank and Banking Law, Capital Bank LLC was declared bankrupt by the BoM due to poor performance and failure to meet the prudential criteria. Following the announcement, the Capital Bank receivership ("Receivership") was appointed as the trustee by the BoM to act as the custodian of Capital Bank's assets for a term of one year.

In June 2019, the Group purchased through its SPCs loan notes issued by the Receivership with a total value of MNT 50 billion. The notes bear an interest rate of 13.0% per annum on a 13-month term and are fully repayable in July 2020. The loan notes are secured by collateral property of Capital Bank, which is controlled by the Receivership.

12.1. Impairment allowance for debt instruments at amortised cost

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 28.2.

	2019			**2018**
Internal rating grade	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Total MNT'000**	**Stage 1 MNT'000**
Performing				
B- to B+ rated	216,390,329	–	216,390,329	197,440,522
C to CCC+ rated	–	45,229,772	45,229,772	–
	216,390,329	45,229,772	261,620,101	197,440,522

12.1. Impairment allowance for debt instruments at amortised cost (cont'd.)

Allowances for impairment losses for debt instruments at amortised cost as at 31 December 2019 and 2018 are as follows:

Expected credit loss	**Exposure at default MNT'000**	**Average forward-looking PD**	**Average forward-looking LGD**	**ECLs as part of debt instrument at amortised cost MNT'000**
At 31 December 2019				
Stage 1	216,390,329	1.79%	63.09%	2,442,341
Stage 2	45,229,772	25.30%	25.35%	2,900,434
	261,620,101			5,342,775
At 31 December 2018				
Stage 1	197,440,522	1.17%	62.61%	1,431,653

The table below shows changes in the gross carrying amount and the corresponding ECLs. Details of the Group's stage classification and methodology for calculating ECL are explained in Note 28.2.

	2019			**2018**
	Stage 1 MNT'000	**Stage 2 MNT'000**	**Total MNT'000**	**Stage 1 MNT'000**
Gross carrying amount as at 1 January	197,440,521	–	197,440,521	–
New assets originated or purchased	75,571,650	–	75,571,650	197,440,522
Assets derecognised or repaid	(11,392,070)	–	(11,392,070)	–
Transfer to Stage 2	(45,229,772)	45,229,772	–	–
At 31 December	216,390,329	45,229,772	261,620,101	197,440,522
ECL allowance as at 1 January	1,431,653	–	1,431,653	–
New assets originated or purchased	1,199,317	–	1,199,317	1,431,653
Assets derecognised or repaid	(128,651)	–	(128,651)	–
Transfer to Stage 2	(2,900,434)	2,900,434	–	
Impact on year end ECL of exposures transferred between stages during the year	2,066,386	–	2,066,386	
Changes to inputs used for ECL calculations	774,070	–	774,070	
At 31 December	2,442,341	2,900,434	5,342,775	1,431,653

Movement analysis for impairment losses of debt instruments at amortised cost is as follows:

	2019 MNT'000	**2018 MNT'000**
At 1 January	1,431,653	–
Credit loss expense (Note 6)	3,911,122	1,431,653
At 31 December	5,342,775	1,431,653

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. 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, are 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.

	2019 **MNT'000**	**2018** **MNT'000**
Commercial mortgage pool receivables	429,235,625	–
Residential mortgage pool receivables	282,518,306	20,347,047
Gross mortgage pool receivables with recourse	711,753,931	20,347,047
Allowance for impairment losses	(6,192,685)	(29,067)
Net mortgage pool receivables with recourse	705,561,246	20,317,980

Following the issuance of debt securities on the international capital market in January and February 2019 (see Note 22), the Group used the net proceeds to purchase mortgages with recourse from commercial banks amounting to MNT 700.4 billion during the year (see Note 27).

On 17 September 2019, 108 individual mortgage loans with total outstanding balance of MNT 3.6 billion previously serviced by Capital Bank were transferred to the Group due to the bankruptcy of Capital Bank. Accordingly, the Group reclassed the balance from mortgage pool receivables with recourse to purchased mortgage receivables without recourse (see Note 14).

The following table represents the source of funding of the acquired outstanding mortgage pool receivables with recourse:

	2019 **MNT'000**	**2018** **MNT'000**
Senior notes	698,892,423	–
Own sources	7,380,588	12,648,610
The Ministry of Finance of Mongolia (“MoF”)	5,480,920	7,698,437
Gross mortgage pool receivables with recourse	711,753,931	20,347,047

13.1. Impairment allowance for mortgage pool receivables with recourse

Details of calculation and policies about ECL allowances are explained in Note 28.2.

The table below shows the credit quality and the maximum exposure to risk based on the Group’s internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group’s internal rating system are explained in Note 28.2.

Internal rating grade	**2019** **Stage 1** **MNT’000**	**2018** **Stage 1** **MNT’000**
Performing		
B- to B+ rated	711,753,931	20,347,047

13.1. Impairment allowance for mortgage pool receivables with recourse (cont'd.)

Allowances for impairment losses for mortgage pool receivables with recourse as at 31 December 2019 and 2018 are as follows:

Expected credit loss	Exposure at default MNT'000	Average forward-looking PD	Average forward-looking LGD	ECLs as part of loan balance MNT'000
At 31 December 2019				
Stage 1	711,702,421	2.15%	40.58%	6,189,915
Stage 2	23,803	3.27%	23.68%	125
Stage 3	27,707	100.00%	9.55%	2,645
	711,753,931			6,192,685
At 31 December 2018				
Stage 1	20,347,047	1.89%	7.70%	29,067

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to mortgage pool receivables with recourse is as follows:

	2019				2018
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000	Stage 1 MNT'000
Gross carrying amount as at 1 January	20,347,047	–	–	20,347,047	29,825,565
New assets originated or purchased	713,363,850	–	–	713,363,850	3,599,354
Assets derecognised or repaid	(18,290,090)	–	–	(18,290,090)	(13,077,872)
Reclassification to purchased mortgage pool receivables	(2,267)	(3,664,609)	–	(3,666,876)	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	(3,688,412)	3,688,412	–	–	–
Transfer to Stage 3	(27,707)	–	27,707	–	–
At 31 December	711,702,421	23,803	27,707	711,753,931	20,347,047
ECL allowance as at 1 January	29,067	–	–	29,067	60,719
New assets originated or purchased	6,168,558	–	–	6,168,558	5,975
Assets derecognised or repaid	(3,935)	–	–	(3,935)	(37,627)
Reclassification to purchased mortgage pool receivables	(475)	(4,195)	(91,098)	(95,768)	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	(4,320)	4,320	–	–	–
Transfer to Stage 3	(93,743)	–	93,743	–	–
Impact on year-end ECL of exposures transferred between stages during the year	94,763	–	–	94,763	–
At 31 December	6,189,915	125	2,645	6,192,685	29,067

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

	2019 MNT'000	2018 MNT'000
At 1 January	29,067	60,719
Credit loss expense/(reversal) (Note 6)	6,163,618	(31,652)
At 31 December	6,192,685	29,067

The Group sells back non-performing loans with more than 90 days past due to the loan originating commercial banks, hence mortgage loans classified under Stage 3 loans are expected to be returned in 2020.

14. Purchased mortgage pool receivables

	2019 MNT'000	2018 MNT'000
Purchased mortgage pool receivables	2,886,730,905	2,834,077,603
Accrued interest receivables	14,117,615	13,559,922
Total gross purchased mortgage pool receivables	2,900,848,520	2,847,637,525
Allowance for impairment losses	(6,411,304)	(7,524,701)
Net purchased mortgage pool receivables	2,894,437,216	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.

Included in purchased mortgage pool receivables are mortgage loans previously serviced by Capital Bank which were transferred to the Group due the bankruptcy of Capital Bank. Accordingly, the Group reclassed the balance from mortgage pool receivables with recourse (see Note 13) to purchased mortgage pool receivables.

The Group performs a credit quality analysis of the individual mortgage loans on each mortgage pool acquired. For credit risk policies and disclosures, please refer to Note 28.2.

14.1. Impairment allowance for purchased mortgage pool receivables

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 28.2.

31 December 2019

Internal rating grade	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Performing				
High grade	409,538,694	–	–	409,538,694
Standard grade	2,268,956,552	–	–	2,268,956,552
Sub-standard grade	–	91,853,016	–	91,853,016
Past due but not impaired	–	97,272,453	–	97,272,453
	2,678,495,246	189,125,469	–	2,867,620,715
Non-performing				
Credit-impaired	–	–	33,227,805	33,227,805
Total	2,678,495,246	189,125,469	33,227,805	2,900,848,520

31 December 2018

Internal rating grade				
Performing				
High grade	403,378,872	–	–	403,378,872
Standard grade	2,270,556,832	–	–	2,270,556,832
Sub-standard grade	–	95,022,947	–	95,022,947
Past due but not impaired	–	45,981,423	–	45,981,423
	2,673,935,704	141,004,370	–	2,814,940,074
Non-performing				
Credit-impaired	–	–	32,697,451	32,697,451
Total	2,673,935,704	141,004,370	32,697,451	2,847,637,525

14.1. Impairment allowance for purchased mortgage pool receivables (cont'd.)

Allowances for impairment losses for purchased mortgage pool receivables as at 31 December 2019 and 2018 at each stage are as follows:

Expected credit loss	Exposure at default MNT'000	Average forward-looking PD	Forward-looking LGD	ECLs as part of loan balance MNT'000
31 December 2019				
Stage 1	2,678,495,246	0.46%	6.98%	850,863
Stage 2	189,125,469	24.58%	6.98%	3,242,409
Stage 3	33,227,805	100.00%	6.98%	2,318,032
	2,900,848,520			6,411,304
31 December 2018				
Stage 1	2,673,935,704	0.49%	7.70%	1,459,144
Stage 2	141,004,370	30.51%	7.70%	3,547,630
Stage 3	32,697,451	100.00%	7.70%	2,517,927
	2,847,637,525			7,524,701

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to purchased mortgage pool receivables is as follows:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2019 Total
Gross carrying amount as at 1 January	2,673,935,704	141,004,370	32,697,451	2,847,637,525
New assets originated or purchased	324,984,227	–	–	324,984,227
Reclassification from mortgage pool receivables with recourse	2,267	3,664,609	–	3,666,876
Assets derecognised or repaid	(259,664,276)	(11,869,283)	(3,906,549)	(275,440,108)
Transfer to stage 1	42,369,967	(35,949,968)	(6,419,999)	–
Transfer to stage 2	(92,917,976)	97,485,686	(4,567,710)	–
Transfer to stage 3	(10,214,667)	(5,209,945)	15,424,612	–
At 31 December	2,678,495,246	189,125,469	33,227,805	2,900,848,520
ECL allowance as at 1 January	1,459,144	3,547,630	2,517,927	7,524,701
New assets originated or purchased	347,614	–	–	347,614
Reclassification from mortgage pool receivables with recourse	475	4,195	91,098	95,768
Assets derecognised or repaid	(37,672)	(93,641)	(176,602)	(307,915)
Transfer to stage 1	1,431,856	(873,622)	(558,234)	–
Transfer to stage 2	(19,614)	415,315	(395,701)	–
Transfer to stage 3	(17,523)	(99,691)	117,214	–
Impact on year end ECL of exposures transferred between stages during the year	(1,673,454)	1,297,246	867,736	491,528
Changes to inputs used for ECL calculations	(639,963)	(955,023)	(145,406)	(1,740,392)
At 31 December	850,863	3,242,409	2,318,032	6,411,304

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

	2019 MNT'000	2018 MNT'000
At 1 January	7,524,701	7,243,020
Credit loss expense/(reversal) (Note 6)	(1,113,397)	281,681
At 31 December	6,411,304	7,524,701

15. Financial assets at fair value through profit or loss

	2019 MNT'000	2018 MNT'000
Fair value as at 1 January	5,000,000	–
Acquisitions	–	5,000,000
Net loss from change in fair value through profit or loss	(300,069)	–
Fair value as at 31 December	4,699,931	5,000,000

On 25 December 2018, the Group 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 December 2019, 500,000 units are held by the Group, 4,002 units are held by other parties, while the remaining 995,998 units have not been purchased by any other investor (for further disclosure, see Note 27).

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 FVPL in accordance with IFRS 9 requirements (see Note 2.2). 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 December 2019 and 2018, the Fund's underlying investment comprised of principally an investment portfolio of the Group's shares.

The Fund has a material bank loan that is securitized by its investment portfolio which is due in 2020, significant assumption has been applied by management in the valuation of the Fund that the bank loan will be extended.

16. Derivative financial instruments

On 28 March 2019, the Group entered into a cross-currency swap agreement with nominal amount of USD 295.4 million or MNT 777,151 million with commercial bank for foreign currency risk management purposes. The swap agreement is designed to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international market in January and February 2019 (see Notes 22 and 27). The USD/MNT swap has a maturity of three years, with interest payable semi-annually beginning 30 September 2019 to 30 March 2022 on a net basis.

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

For the fair value disclosure of derivative financial instruments, please refer to Note 29.

31 December 2019	**Notional amount MNT'000**	**Fair value of assets MNT'000**
Derivatives		
Cross currency swaps	777,151,290	55,516,592

	2019 MNT'000
Fair value as at 28 March 2019	–
Net gains on derivative financial instruments	55,516,592
Fair value as at 31 December 2019	55,516,592

16. Derivative financial instruments (cont'd.)

The table below sets out the fair value, at the end of the reporting period, of currencies receivable or payable under the foreign exchange swap contract entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	2019	
	Assets MNT'000	**Liabilities MNT'000**
Fair value of swap:		
- USD receivable on settlement (+)	837,371,117	–
- MNT payable on settlement (-)	(781,854,525)	–
Net fair value of swap	55,516,592	–

17. Other assets

	2019 MNT'000	**2018 MNT'000**
Financial assets		
Other receivables	121,539	152,134
Non-financial assets		
Prepayments	227,931	3,083,113
Foreclosed properties	228,419	254,691
Consumables and office supplies	30,555	35,604
Value-added tax receivables	7,226	–
	494,131	3,373,408
	615,670	3,525,542

Included in prepayments as at 31 December 2018 were transaction costs that relate to the debt securities issued on the international market in January and February 2019 (see Note 22).

18. Property and equipment

At 31 December 2019	Premises MNT'000	Furniture and office equipment MNT'000	Computers MNT'000	Vehicles MNT'000	Total MNT'000
At cost					
At 1 January 2019	33,609,646	445,181	544,019	1,098,303	35,697,149
Additions	–	55,206	94,877	75,000	225,083
Write-off	–	(4,010)	(21,063)	–	(25,073)
Disposal	–	–	–	(160,000)	(160,000)
At 31 December 2019	33,609,646	496,377	617,833	1,013,303	35,737,159
Accumulated depreciation					
At 1 January 2019	1,623,717	117,651	324,009	152,205	2,217,582
Charge for the year (Note 7)	851,669	44,411	67,662	103,123	1,066,865
Write-off	–	(1,627)	(21,063)	–	(22,690)
Disposal	–	–	–	(56,810)	(56,810)
At 31 December 2019	2,475,386	160,435	370,608	198,518	3,204,947
Net carrying amount	31,134,260	335,942	247,225	814,785	32,532,212
At 31 December 2018					
At cost					
At 1 January 2018	14,458,594	355,939	497,082	662,203	15,973,818
Additions	19,151,052	125,465	47,691	436,100	19,760,308
Write-off	–	(739)	(216)	–	(955)
Disposal	–	(35,484)	(538)	–	(36,022)
At 31 December 2018	33,609,646	445,181	544,019	1,098,303	35,697,149
Accumulated depreciation					
At 1 January 2018	1,003,018	94,272	263,529	85,985	1,446,804
Charge for the year (Note 7)	620,699	35,579	61,073	66,220	783,571
Write-off	–	(639)	(216)	–	(855)
Disposal	–	(11,561)	(377)	–	(11,938)
At 31 December 2018	1,623,717	117,651	324,009	152,205	2,217,582
Net carrying amount	31,985,929	327,530	220,010	946,098	33,479,567

As at 31 December 2019, premises with carrying amount of MNT 31,134,260 thousand (2018: MNT 13,320,479 thousand) are collateralised for borrowed funds (see Note 21).

Premises with net carrying amount of MNT 5,418,258 were under plan for significant remodelling into an event hall as at 31 December 2019. Management expects to capitalize costs of these capital improvements when they are incurred.

19. Intangible assets

	Computer software	
	2019	**2018**
	MNT'000	**MNT'000**
At cost		
At 1 January	442,787	330,457
Additions	78,214	112,330
Disposals	(7,327)	–
Total	513,674	442,787
Accumulated amortisation		
At 1 January	285,008	217,888
Charge for the year (Note 7)	36,798	67,120
Total	321,806	285,008
Net carrying amount	191,868	157,779

20. Other liabilities

	2019	**2018**
	MNT'000	**MNT'000**
Deferred grant	1,177	2,328
Interest payable on swap	8,144,911	–
Withholding tax liability	5,037,825	–
Other payables	12,225,294	11,168,904
	25,409,207	11,171,232

Interest payable on swap represents accrued interest not yet paid to TDB for the cross-currency swap. The interest is paid on a semi-annual basis (see Note 16).

Other payables include payables due to United Finance Corp LLC pertaining to a purchase of office space in 2018 amounting to MNT 7,520 million, with MNT 752 million paid on the date of purchase and the remainder to be paid in three equal instalments beginning from 31 December 2019 to 31 December 2021 (see Note 18). The fair value of the payable at the inception was assessed to be MNT 4,914,112 thousand based on the market interest rate of 14.4% per annum.

Also included in other payables are loan service fee payables to the banks for the collection of the mortgage pool receivables. Loan service fee is normally settled to the banks with the next quarterly coupon payment of the RMBS (see Note 23).

21. Borrowed funds

	2019	**2018**
	MNT'000	**MNT'000**
TDB (Note 27)	36,110,330	11,295,245
Golomt Bank LLC ("Golomt") (Note 27)	26,130,137	25,143,836
MoF	8,468,908	8,468,908
	70,709,375	44,907,989

TDB:

(a) On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion to finance its purchase of an office space which is held for collateral (see Note 18). 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. The outstanding borrowings amounted to MNT 11,041,289 thousand and MNT 11,295,245 thousand at 31 December 2019 and 2018, respectively.

(b) On 8 January 2019, the Group obtained a loan of MNT 5 billion from TDB to finance its working capital. The loan bears an interest rate of 11.0% per annum and the interest is repayable monthly beginning from 8 February 2019 to 8 January 2022, while the loan principal is repayable in full on 8 January 2022. The loan is secured by premises owned by the Group (see Note 18). The outstanding borrowings amounted to MNT 5,036,164 thousand at 31 December 2019.

21. Borrowed funds (cont'd.)

TDB (cont'd.)

(c) On 25 September 2019, the Group obtained another loan of MNT 20 billion from TDB to finance its working capital. The loan bears an interest rate of 12.0% per annum and the interest is repayable monthly beginning from 25 October 2019 to 25 September 2020, while the loan principal is repayable in full on 25 September 2020. The loan is secured by premises owned by the Group (see Note 18), as well as future transaction administration fee income and receivables valued at MNT 13,320 million to be earned by MIK HFC from providing transaction administration services to MIK Asset One SPC LLC to MIK Asset Nineteen SPC LLC. The outstanding borrowings amounted to MNT 20,032,877 thousand at 31 December 2019.

Golomt

(d) The Group obtained a loan of MNT 25 billion from Golomt on 11 December 2018 to finance its purchase of loan notes issued by Bodi (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 a current account held with Golomt.

MoF

(e) A sub-lending agreement between 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.

22. Debt securities issued

	2019 MNT'000	2018 MNT'000
Debt securities at amortised cost	839,131,215	–

On 29 January and 12 February 2019, the Group issued Senior Notes ("Notes") with nominal value of USD 250 million and USD 50 million, respectively, on the international capital market. The Notes bear an interest of 9.75% per annum payable semi-annually in arrears starting from 29 January 2019 to 29 January 2022. The Notes are unconditionally and irrevocably guaranteed by the Company.

Qualifying transaction costs are capitalised and to be amortised over the life of the financial instruments using EIR.

To comply with the restrictive covenants on use of proceeds from the Notes, the Group is required to use at least 90.0% of the net proceeds for purchasing mortgages with recourse and the remaining portion for general corporate purposes.

23. Collateralised bonds

	Interest rate	2019 MNT'000	2018 MNT'000
Senior bonds	4.5%	2,545,933,710	2,445,252,312
Junior bonds	10.5%	403,095,464	453,067,791
		2,949,029,174	2,898,320,103

The senior and junior bonds as at 31 December 2019 and 31 December 2018 represent bonds issued by MIK Asset One SPC LLC to MIK Asset Twenty-One 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.

On 15 March 2019, junior bonds of MIK Group previously held by Capital Bank were transferred to the MoF due to the bankruptcy of Capital Bank.

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 and MoF.

23. Collateralised bonds (cont'd.)

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 2019 and 2018.

24. Ordinary shares

The Company is a joint stock company established under the Company Law of Mongolia and listed on the Mongolian Stock Exchange on 24 December 2015. The total authorised share capital of the Company represents 30,000,000 ordinary shares (2018: 30,000,000) with nominal value of MNT 1,000 per share.

The movement in number of shares and amount of share capital during the years ended 31 December 2019 and 31 December 2018 are as follows:

	Number of outstanding shares of MNT 1,000 each	Issued ordinary shares MNT'000	Share premium MNT'000
At 1 January/31 December 2018 and 1 January/31 December 2019	20,709,320	20,709,320	52,225,115

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

In 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 dated 27 December 2018 for a total amount of MNT 15,088,000 thousand (see Note 27).

There were no dividends declared to its shareholders during the years ended 31 December 2019 and 31 December 2018.

The shareholders of the Group as of 31 December 2019 and 31 December 2018 and percentages of ownership are as follows:

	2019	**2018**
Asia Diversified Real Estate Fund One Private Investment Fund	11.16%	9.05%
Ulaanbaatar City Bank LLC	10.00%	17.08%
Trade and Development Bank of Mongolia LLC	9.99%	9.99%
TDB Capital LLC	9.21%	7.49%
Golomt Bank LLC	4.94%	4.94%
CNB Consulting LLC	2.61%	–
CEC Group	2.36%	–
Khan Bank LLC	1.02%	1.02%
XacBank LLC	1.02%	1.02%
Capitron Bank LLC	1.02%	1.02%
Nexus Finance Investment NBFI LLC	0.63%	0.63%
Chinggis Khaan Bank LLC	0.30%	0.30%
Capital Bank LLC	–	1.72%
Others	0.10%	0.10%
Total private sector share	54.36%	54.36%
Development Bank of Mongolia	14.88%	14.88%
Bank of Mongolia	2.03%	2.03%
State Bank LLC	2.35%	2.35%
Total state shares	19.26%	19.26%
Treasury shares	26.38%	26.38%
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 2019, each shareholder that has more than 1% of total shares of the Group, has the ability to nominate one member to the BOD, which consists of 9 members, including 2 independent members, one representative of the Bank of Mongolia and representatives of the commercial banks and state-owned banks. In addition, all bank shareholders have material transactions with the Group during 2019 and participated in the policy making procedures.

25. 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

RMBS issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 31 December 2019, the Group had mortgage pool receivables with the gross amount of MNT 2,900,848,520 thousand (2018: MNT 2,847,637,525 thousand) pledged as collateral for the RMBS (see Note 14). The related liabilities amount is MNT 2,949,029,174 thousand as of 31 December 2019 (2018: MNT 2,898,320,103 thousand).

26. 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 28.3 '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 2019			
Financial assets			
Cash and bank balances	228,337,007	–	228,337,007
Debt instrument at amortised cost	63,863,184	192,414,142	256,277,326
Mortgage pool receivables with recourse	109,479,969	596,081,277	705,561,246
Purchased mortgage pool receivables	184,809,711	2,709,627,505	2,894,437,216
Financial investments at fair value through profit or loss	–	4,699,931	4,699,931
Derivative financial instruments	–	55,516,592	55,516,592
Other assets	121,539	–	121,539
	586,611,410	3,558,339,447	4,144,950,857
Non-financial assets			
Property and equipment	–	32,532,212	32,532,212
Intangible assets	–	191,868	191,868
Other assets	494,131	–	494,131
Deferred tax asset	–	3,078,910	3,078,910
	494,131	35,802,990	36,297,121
Total	587,105,541	3,594,142,437	4,181,247,978
Financial liabilities			
Borrowed funds	30,048,819	40,660,556	70,709,375
Debt securities issued	19,075,215	820,056,000	839,131,215
Collateralised bonds	199,938,569	2,749,090,605	2,949,029,174
Other liabilities	18,113,758	2,256,000	20,369,758
	267,176,361	3,612,063,161	3,879,239,522
Non-financial liabilities			
Other liabilities	5,039,450	–	5,039,450
Income tax payable	1,459,804	–	1,459,804
Deferred tax liability	–	32,823,469	32,823,469
	6,499,254	32,823,469	39,322,723
Total	273,675,615	3,644,886,630	3,918,562,245
Net	313,429,926	(50,744,193)	262,685,733

26. Maturity analysis of assets and liabilities (cont'd.)

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2018			
Financial assets			
Cash and bank balances	86,438,794	–	86,438,794
Debt instrument at amortised cost	2,440,521	193,568,348	196,008,869
Mortgage pool receivables with recourse	2,402,701	17,915,279	20,317,980
Purchased mortgage pool receivables	175,738,749	2,664,374,075	2,840,112,824
Financial investments at fair value through profit or loss	–	5,000,000	5,000,000
Other assets	152,134	–	152,134
	267,172,899	2,880,857,702	3,148,030,601
Non-financial assets			
Property and equipment	–	33,479,567	33,479,567
Intangible assets	–	157,779	157,779
Other assets	3,373,408	–	3,373,408
	3,373,408	33,637,346	37,010,754
Total	270,546,307	2,914,495,048	3,185,041,355
Financial liabilities			
Borrowed funds	520,937	44,387,052	44,907,989
Collateralised bonds	199,375,609	2,698,944,494	2,898,320,103
Other liabilities	7,395,160	3,773,744	11,168,904
	207,291,706	2,747,105,290	2,954,396,996
Non-financial liabilities			
Other liabilities	2,328	–	2,328
Income tax payable	1,195,430	–	1,195,430
Deferred tax liability	–	20,995,169	20,995,169
	1,197,758	20,995,169	22,192,927
Total	208,489,464	2,768,100,459	2,976,589,923
Net	62,056,843	146,394,589	208,451,432

27. 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, the Group purchased through its SPCs a total of 30,000 preference shares of UBC, a shareholder of TDB, 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. The proceeds were used by UBC to invest in additional shares in its associate

27. Related party disclosures (cont'd.)

Loans from/to shareholder of related party

The Group obtained a loan of MNT 25 billion from 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 21).

On 11 December 2018, the Group purchased through MIK HFC and SPCs loan notes from Bodi, a shareholder of Golomt, 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 December 2019 (31 December 2018: 4.95%).

Investment made in the Investment Fund

On 25 December 2018, the Group 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.

On the same day, the Fund acquired 1,875,000 shares (2019: 437,500 shares) of the Company from Ulaanbaatar City Bank LLC ("UBCB") as part of its investment portfolio. As of 31 December 2019, 500,000 units are held by the Group , 4,002 units are held by other parties, while the remaining 995,998 units have not been purchased by any other investor

Purchase of treasury shares from shareholder

In 2018, the Group repurchased through its SPCs 1,325,639 shares of the Company, from Capital Bank LLC at MNT 11,381.68 per share under the share pledge and deposit agreements dated 27 December 2018 for a total amount of MNT 15,088,000 thousand (see Note 24).

Borrowings

The Group obtained a loan of MNT 5 billion from TDB on 8 January 2019 with an interest rate of 11.0% per annum. Interest on the loan is repayable monthly beginning from 8 February 2019 to 8 January 2022 while the loan principal is repayable in full on 8 January 2022 (see Note 21).

On 25 September 2019, the Group acquired another loan of MNT 20 billion from TDB with a maturity of 25 September 2020. The loan bears an interest rate of 12.0% per annum and the interest is repayable monthly and the loan principal is repayable in full at maturity (see Note 21).

Other payables

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

	2019 MNT'000	**2018 MNT'000**
TDB	1,308,393	1,253,973
Golomt	1,453,019	1,359,292
UBCB	384,016	234,720
Chinggis Khaan Bank LLC	20,193	17,890
Capital Bank LLC	–	134,722
State Bank LLC	398,258	387,414
XacBank LLC	464,107	448,755
Khan Bank LLC	1,250,877	1,155,939
Capitron Bank LLC	42,578	37,294
Total	5,321,441	5,029,999

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

27. Related party disclosures (cont'd.)

Compensation to key management personnel

	2019 MNT'000	2018 MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	1,519,241	700,500
Contribution to social and health fund	183,816	81,707
	1,703,057	782,207

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

As at 31 December 2019

	Bank Deposits		Collateralised Bonds			
			Issued during the year			
	Outstanding balance MNT'000	Interest Income MNT'000	senior bonds MNT'000	junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
TDB	102,934,511	34,242,997	87,575,500	9,730,700	96,968,417	9,353,199
Golomt	6,390,400	1,111,958	88,851,100	9,872,500	106,291,163	10,318,063
UBCB	97,956,887	8,769,764	15,347,700	1,705,300	17,659,584	1,714,505
Chinggis Khaan Bank LLC	272,453	4,014	5,610,700	623,400	1,797,326	146,218
Capital Bank LLC	–	–	–	–	–	673,152
State Bank LLC	3,480,726	124,157	25,694,400	2,855,100	32,619,340	3,154,178
XacBank LLC	8,682,235	1,176,657	18,488,400	2,054,300	33,993,314	3,359,642
Khan Bank LLC	4,346,024	196,081	40,070,800	4,452,400	95,571,319	9,591,256
Capitron Bank LLC	4,253,366	111,959	4,386,400	487,300	3,076,232	285,555
TDB Capital LLC	18,656	–	–	–	–	–
	228,335,258	45,737,587	286,025,000	31,781,000	387,976,695	38,595,768
BoM	–	–	–	–	2,378,866,726	106,573,201
MoF	–	–	–	–	177,623,718	5,080,804
	–	–	–	–	2,556,490,444	111,654,005
Total	228,335,258	45,737,587	286,025,000	31,781,000	2,944,467,139	150,249,773

As at 31 December 2019

	Mortgage pool portfolios						
	Purchase of mortgage pool		Outstanding balance*		Interest income from mortgage pool*		
	with recourse MNT'000	without recourse** MNT'000	with recourse MNT'000	without recourse MNT'000	with recourse MNT'000	without recourse MNT'000	Loan service fee MNT'000
TDB	426,309,985	97,306,350	435,023,805	678,317,117	33,392,974	51,022,018	3,012,760
Golomt	70,036,713	98,723,655	72,338,249	758,427,540	651,002	57,657,101	3,339,830
UBCB	150,449,419	17,053,132	148,362,044	196,080,546	8,996,632	14,402,536	752,498
Chinggis Khaan Bank LLC	9,959,453	6,234,222	9,460,389	15,207,351	433,030	938,856	41,951
Capital Bank LLC	–	–	–	–	279,742	1,503,967	141,961
State Bank LLC	21,766,667	28,549,642	23,813,137	241,706,623	1,466,114	17,954,244	937,838
XacBank LLC	15,050,133	20,542,868	15,449,630	246,701,220	854,987	19,062,695	1,064,150
Khan Bank LLC	1,034,513	44,523,293	1,027,421	701,308,568	7,165	54,801,266	3,027,883
Capitron Bank LLC	7,035,416	4,873,904	6,279,256	23,847,750	350,152	1,678,816	87,495
Total	701,642,299	317,807,066	711,753,931	2,861,596,715	46,431,798	219,021,499	12,406,366

27. 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
TDB	11,517,406	7,257,788	98,454,500	10,939,400	103,931,534	8,451,385
Golomt	8,451,705	1,954,202	114,945,500	12,771,800	111,916,898	9,240,540
UBCB	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
BoM	–	–	–	–	2,377,143,831	104,870,314
MoF	–	–	–	–	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		Outstanding balance*		Interest income from mortgage pool*		Loan
	with recourse MNT'000	without recourse** MNT'000	with recourse MNT'000	without recourse MNT'000	with recourse MNT'000	without recourse MNT'000	service fee MNT'000
TDB	309,670	109,394,123	4,156,106	650,280,312	668,605	49,758,122	2,949,291
Golomt	–	127,717,509	3,119,478	735,380,772	604,055	55,544,187	3,157,864
UBCB	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 1,420 thousand (2018: MNT 2,154 thousand).

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.

28. Risk management

28.1. 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 honour 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 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.

28.2. Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations. Credit risk is monitored by the Risk Management Department of the Group. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Group has established a credit quality review process, which assigns each counterparty a risk rating to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Risk ratings are subject to regular review. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Treasury assets

The Group's treasury assets consist of current, trust, savings and collection accounts in ten different commercial banks and one financial organisation operating in Mongolia. Credit risk arising from treasury assets is the risk of the originating bank or financial organisation entering bankruptcy.

Debt instruments

The Group purchased debt instruments of counterparties operating in Mongolia. Credit risk arising from debt instruments lies on the probability of originating counterparties entering bankruptcy.

28. Risk management (cont'd.)

28.2. Credit risk (cont'd.)

Mortgage loans without recourse

The Group purchases mortgage loan receivables from the commercial banks of Mongolia. Credit risk for mortgage loan receivables lies on the probability of not receiving principal or interest on a timely basis due to the borrowers not making payments on time.

The mortgage pool portfolio purchase procedures include thorough due diligence to ensure that the commercial banks comply with the quality standards based on those established by the BoM and the use of an assessment model that utilises both qualitative and quantitative measurements related to the overall quality of mortgage loans to be purchased.

The Group has also 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 the requirements set by BoM. The loan files for every loan receivable to be purchased are checked for completeness for each borrower, and management has procedures and policy in place to ensure that the eligibility criteria are met.

After the pool 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, follow ups are 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 RC.

Mortgage loans with recourse

In addition to mortgage loans without recourse, the Group also purchases mortgage loans with recourse from commercial banks of Mongolia. 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. Therefore, the credit risk for mortgage loan receivables with recourse lies on the probability of the originating bank or financial organisation entering bankruptcy.

The mortgage loan purchase procedures are similar to those of mortgage pools without recourse for mortgage loans sourced by the MoF or the Group's own funds. For outstanding mortgage pool receivables with recourse balances based on their source of funding, please see Note 13.

For mortgage loans purchased with the Senior Note proceeds, the Group has developed eligibility criteria and loan purchase procedures that are different than those set for mortgage loans without recourse. Due diligence review procedures include obtaining loan details from the banks and checking them against the eligibility criteria, but do not include review of borrower loan files. The final composition and size of the portfolio to be purchased is approved by the Asset and Liability Committee ("ALCO") of the Group.

After the pool of loan receivables are purchased, the Group receives the settlement reports and reconciles the information on a monthly basis. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the RC.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury assets defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- significant financial difficulty of the counterparty or the borrower
- a breach of contract, such as a default or past due event
- it is becoming probable that the counterparty or the borrower will enter bankruptcy or other financial reorganisation

It is the Group's policy to consider financial assets as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present at the end of the reporting period. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

28. Risk management (cont'd.)

28.2. Credit risk (cont'd.)

The Group's internal rating and PD estimation process

The Group's Risk Management Department operates its internal rating models. For treasury assets, debt instruments and the mortgage loan receivables with recourse Risk Management Department analyses publicly available information such as financial information and other external data, e.g., the Moody's Rating Agency ratings.

For the mortgage loan receivables without recourse, the Risk Management Department first runs an A-score model for its key portfolios in which its customers are rated from 1 to 5 based on the borrower's application information. The Group then runs a B-score model which assigns a rating from 1 to 5 based on the borrower's payment behaviour. The models incorporate both qualitative and quantitative. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

In order to calculate the LGD ratio for treasury assets and debt instruments the Group uses Thomson Reuters study where they determined the average LGD rate for global corporates based on their credit rating.

The Group uses the same LGD for both residential mortgage loan receivables with recourse and without recourse since both portfolios consist of identical loans. The Group considered the recoverability rate of defaulted loans from foreclosed collateral property and eventual sale of the property. The Group initially calculated the present value of future cash inflows for each category of loans – to be settled in court, to be settled outside court, closed in court, closed outside court – and calculated the LGD rate for each category and the weighted-average LGD ratio for all historically defaulted loans. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs include Mongolian housing price index, GDP, etc. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 asset classes. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

Credit conversion factor

The Group only purchases mortgage pools from the commercial banks, hence there is no consideration of the credit conversion factor.

Significant increase in credit risk ("SICR")

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

The Group considers there is a SICR for the treasury assets and debt instruments when the PD rate of the asset as of the reporting date increased more than 15% compared to the PD rate when the asset was initially recognised or there is clear indication that the counterparty is facing financial difficulties. For mortgage pool receivables with recourse, the Group considers there is a SICR when the PD rate of the assets as of the reporting date increased more than 15% compared to the PD rate when the asset was initially recognised or over 30 days past due.

28. Risk management (cont'd.)

28.2. Credit risk (cont'd.)

Significant increase in credit risk ("SICR") (cont'd.)

The Group makes an assessment if there is a SICR for the purchased mortgage pool receivables without recourse by comparing the application rating (A-score model) that was calculated for borrowers at their recognition date with the behavioural rating (B-score model) calculated at the reporting date. The Group considers a purchased mortgage pool receivable without recourse to have experienced a SICR when a borrower with an application rating of 1, 2 or 3 has moved to the behavioural rating of 5 on the reporting date. Borrowers with application ratings of 4 and 5, are considered high credit risk borrowers when the Company initially purchased these loans from the banks. For these assets, the Company uses the 30-day backstop in assessing that there is a significant increase in credit risk since initial recognition.

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

Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.3 Summary of significant accounting policies and in Note 2.4 Significant accounting judgments, estimates and assumptions. To ensure completeness and accuracy, the Group obtains the data used from third party sources (S&P, Moody's or Fitch Rating Agency) and the Risk Management Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The Group incorporates three different economic scenarios in ECL model based on the base case, plus the effect of the use of multiple economic scenarios on the upside and downside cases as at 31 December 2019 and 1 January 2019.

Analysis of risk concentration

The Group's concentrations of risk are managed by counterparty or borrower. There has been no single external counterparty or borrower that has contributed revenue exceeding 10% or more of the Group's revenue during the year ended 31 December 2019 and 2018.

Collateral and other credit enhancements

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

The fair value of the properties held as collateral by the Group as at 31 December 2019 was MNT 6,153,593,749 thousand (31 December 2018: MNT 4,928,325,796 thousand).

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.

	Gross maximum exposure	
	2019 **MNT'000**	**2018** **MNT'000**
Bank balances	228,538,043	86,419,815
Debt instrument at amortised cost	261,620,101	197,440,522
Financial assets at FVPL	4,699,931	5,000,000
Mortgage pool receivables with recourse	711,753,931	20,347,047
Purchased mortgage pool receivables	2,900,848,520	2,847,637,525
Other assets	121,539	152,134
Total credit risk exposure	4,107,582,065	3,156,997,043

28. Risk management (cont'd.)

28.2. Credit risk (cont'd.)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings.

It is the Group's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all financial assets. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk.

The credit quality of bank balances, mortgage pool receivables with recourse and purchased mortgage pool receivables is summarised based on S&P, Moody's or Fitch ratings or ratings benchmarked based on Moody's official bank rating methodology.

The credit quality of debt instruments at amortised cost was determined using Moody's methodology for rating investment holding companies and conglomerates.

Disclosure of credit quality and the maximum exposure for credit risk as at 31 December 2019 and 2018 under IFRS 9 per categories based on the Group's internal credit rating system and year-end stage classification are further disclosed in Notes 11.1, 12.1, 13.1 and 14.1.

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.

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 with and without recourse should not be greater than 100% and 70%, respectively, and the Group has the first claim over all residential properties used as collateral.

28.3. 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. For managing the Group's liquidity risk, 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 RMBS 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.

28. Risk management (cont'd.)

28.3. Liquidity risk (cont'd.)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations.

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2019							
Borrowed funds	–	2,457,740	1,374,363	31,660,821	46,748,769	15,553,542	97,795,235
Collateralised bonds	–	94,428,500	87,126,444	173,588,961	1,353,180,289	3,013,747,814	4,722,072,008
Other liabilities	7,625,605	8,156,029	10,715	2,189,693	2,345,064	44,276	20,371,382
Debt securities		39,977,730	–	39,755,632	939,322,895	–	1,019,056,257
Total	7,625,605	145,019,999	88,511,522	247,195,107	2,341,597,017	3,029,345,632	5,859,294,882
At 31 December 2018							
Borrowed funds	–	461,986	630,802	2,606,487	26,177,035	43,661,761	73,538,071
Collateralised bonds	–	102,237,247	83,839,123	165,815,582	1,306,336,783	2,973,310,733	4,631,539,468
Other liabilities	5,779,432	–	–	2,256,000	4,512,000	–	12,547,432
Total	5,779,432	102,699,233	84,469,925	170,678,069	1,337,025,818	3,016,972,494	4,717,624,971

The above tables show the Group's exposure to liquidity risk based on the contractual maturities of financial liabilities; however, for collateralised bonds, if prepayments are made by the individual borrowers, it shortens the contractual maturity. In this case, the contractual maturity of the RMBS 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 a significant impact on the overall liquidity of the Group.

28.4. 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.

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 entered into a cross-currency swap contract for the Senior Notes issued to eliminate the currency risk (see Note 16.

28. Risk management (cont'd.)

28.4. Market risk (cont'd.)

The table below summarizes the Group's exposure to foreign exchange risk as at 31 December 2019 and 2018. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by currencies.

Financial assets and financial liabilities by currency	2019			2018		
	USD MNT'000	EUR MNT'000	Total MNT'000	USD MNT'000	EUR MNT'000	Total MNT'000
Assets						
Cash and balances	25,545,036	535,238	26,080,274	1,557,988	529,807	2,087,795
Mortgage pool receivables with recourse	30,719,606	–	30,719,606	–	–	–
	56,264,642	535,238	56,799,880	1,557,988	529,807	2,087,795
Liabilities						
Debt securities	853,814,972	–	853,814,97	–	–	–
Other liabilities	289,352	–	289,352	43,608	–	43,608
	854,104,324	–	854,104,32	43,608	–	43,608
Derivatives (notional amount)	777,151,290	–	777,151,29	–	–	–

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 2019 and 31 December 2018, the Group's interest-bearing assets (bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse and purchased mortgage pool receivables without recourse) and interest-bearing liabilities (borrowed funds, collateralised bonds and senior notes) 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.

	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
At 31 December 2019						
Interest-bearing financial assets	257,016,311	176,131,249	153,306,823	1,525,192,077	1,972,930,847	4,084,577,307
Interest-bearing financial liabilities	91,403,493	42,772,809	117,057,247	1,592,804,751	2,019,258,410	3,863,296,710
Net interest sensitivity gap	165,612,818	133,358,440	36,249,576	(67,612,674)	(46,327,563)	221,280,597
At 31 December 2018						
Interest-bearing financial assets	141,534,764	40,379,063	85,084,621	762,554,811	2,113,302,891	3,142,856,150
Interest-bearing financial liabilities	78,002,141	40,771,071	82,695,776	720,635,237	2,026,470,052	2,948,574,277
Net interest sensitivity gap	63,532,623	(392,008)	2,388,845	41,919,574	86,832,839	194,281,873

28.5. 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, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Group seeks to manage operational risk.

29. Fair value of financial instruments

Determination of fair value and fair value hierarchy

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

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Financial assets	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2019				
Financial assets measured at FVPL				
Unquoted investment in Fund	–	–	4,699,931	4,699,931
Derivative financial instruments	–	55,516,592	–	55,516,592
	–	55,516,592	4,699,931	60,216,523
At 31 December 2018				
Financial assets measured at FVPL				
Unquoted investment in Fund	–	–	5,000,000	5,000,000
	–	–	5,000,000	5,000,000

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 measurements at 31 December 2019 is as shown below:

31 December 2019	Fair value MNT'000	Valuation technique	Inputs
Financial assets			
Derivative financial instruments	55,516,592	Discounted Cash Flow model	USD – MNT foreign exchange rate, Central Bank policy rate, USD 12M LIBOR rate, adjusted forward rate

The fair value of unquoted investment in Fund is categorised under level 3, whereby management assesses the fair value of the underlying investment portfolio by taking into account a liquidity discount to the portfolio.

The following table demonstrates the sensitivity of the unquoted investment in Fund to a reasonably possible change in the unobservable input, with all other variables held constant.

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value MNT'000
31 December 2019				
Unquoted investment in Fund	Adjusted net asset method (Finnerty model)	Finnerty model discount %	+/-10%	128,470/(128,470)
		Interest rate	+/-10%	299,729/(299,729)
		Volatility	+/-10%	127,707/(127,707)
31 December 2018				
Unquoted investment in Fund	Liquidity discount method	Liquidity discount %	+/-10%	3,878/(3,878)

29. Fair value of financial instruments (cont'd.)

Transfers between level 1, 2 and 3

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

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 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.

30. 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 and the Senior Note holders 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 December 2019 are restricted retained earnings of MNT 272,718,090 thousand (31 December 2018: MNT 207,827,030 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 2019 and 2018.

31. Subsequent events

The expected credit loss as of 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across nearby countries and beyond, causing disruption to business and economic activity. The impact on GDP and other key economic indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under IFRS 9 in 2020.

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