

MIK HOLDING JSC AND ITS SUBSIDIARIES
(Incorporated in Mongolia)

Unaudited interim condensed consolidated financial statements
30 September 2020

MIK HOLDING JSC AND ITS SUBSIDIARIES

For the period ended 30 September 2020

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STATEMENT BY EXECUTIVES

We, Gantulga Badamkhatan, being the Chief Executive Officer, and Bat-Ulzii Molomjams, being the Chief Financial Officer, primarily responsible for the interim condensed unaudited consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the "Group"), do hereby state that, in our opinion, the accompanying interim condensed consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2020 and its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34 *Interim Financial Reporting* (IAS34).



Gantulga Badamkhatan
Chief Executive Officer

Bat-Ulzii Molomjams
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 28 October 2020

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the nine months period ended 30 September 2020

		Unaudited nine months ended	
	Notes	30 September 2020	30 September 2019
		MNT'000	MNT'000
Interest income	3	226,632,560	236,991,887
Interest expense	4	(217,392,790)	(187,423,322)
Net interest income		9,239,770	49,568,565
Fee and commission expense	5	(7,368,954)	(9,403,979)
Other income	7	4,156,897	56,753
Total operating income		6,027,713	40,031,374
Credit loss expense on financial assets	6	(9,837,176)	(3,913,907)
Net gains on derivative financial instruments	16	25,291,180	10,738,964
Net operating income		21,481,717	36,117,467
Operating expenses	8	(8,004,207)	(8,711,163)
Other operating expenses	7	(23,782,631)	(10,946,348)
Profit before tax		(10,305,121)	27,388,885
Income tax expense	9	(6,620,811)	(9,864,340)
Profit for the year, representing total comprehensive income		(16,925,932)	17,524,545
Earnings per share (MNT)			
Basic and diluted earnings per share	10	1110.12	1,149.38

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2020

	Notes	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
ASSETS			
Cash and bank balances	11	186,319,157	228,337,007
Debt instruments at amortised cost	12	247,211,551	256,235,420
Mortgage pool receivables with recourse	13	619,025,828	705,561,246
Purchased mortgage pool receivables	14	3,007,045,416	2,894,437,216
Financial assets at fair value through profit or loss	15	4,699,931	4,699,931
Derivative financial instruments	16	80,807,772	55,516,592
Other assets	17	27,043,758	615,670
Income tax receivable		116,330	-
Property and equipment	18	31,571,347	32,532,212
Intangible assets		119,369	191,868
Deferred tax asset	23	6,473,443	3,078,910
TOTAL ASSETS		<u>4,210,433,902</u>	<u>4,181,206,072</u>
LIABILITIES			
Other liabilities	22	9,093,062	25,409,207
Borrowed funds	19	49,914,891	70,709,375
Debt securities issued	20	805,134,458	839,131,215
Collateralised bonds	21	3,064,387,915	2,949,029,174
Income tax payable		513,568	1,459,805
Deferred tax liability	23	35,672,106	32,823,469
TOTAL LIABILITIES		<u>3,964,716,000</u>	<u>3,918,562,245</u>
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		234,926,603	251,852,528
TOTAL EQUITY		<u>245,717,902</u>	<u>262,643,827</u>
TOTAL LIABILITIES AND EQUITY		<u>4,210,433,902</u>	<u>4,181,206,072</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Changes in Equity

For the nine months period ended 30 September 2020

	Ordinary shares MNT'000	Share premium MNT'000	Treasury shares MNT'000	Retained earnings* MNT'000	Total equity MNT'000
At 1 January 2019	20,709,320	52,225,115	(62,143,136)	197,660,133	208,451,432
Total comprehensive income	-	-	-	17,524,545	17,524,545
At 30 September 2019 (unaudited)	<u>20,709,320</u>	<u>52,225,115</u>	<u>(62,143,136)</u>	<u>215,184,678</u>	<u>225,975,977</u>
At 31 December 2019 (audited)	<u>20,709,320</u>	<u>52,225,115</u>	<u>(62,143,136)</u>	<u>251,852,528</u>	<u>262,643,827</u>
Total comprehensive income	-	-	-	(16,925,932)	(16,925,932)
At 30 September 2020	<u>20,709,320</u>	<u>52,225,115</u>	<u>(62,143,136)</u>	<u>234,926,603</u>	<u>245,717,902</u>

* Included in retained earnings as at 30 September 2020 are restricted retained earnings of MNT 260,645,124 thousand (30 September 2019: MNT 255,694,336 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related FRC regulation.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Cash Flows

For the nine months period ended 30 September 2020

	Notes	Unaudited nine months ended	
		30 September 2020	30 September 2019
		MNT'000	MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		(10,305,121)	27,388,885
Adjustments to reconcile profit before tax to net cash flows:			
Unrealised foreign exchange loss		8,654,147	173,582
Credit loss expense/(reversal)	6	9,837,176	3,913,907
Depreciation of property and equipment		1,281,462	801,896
Amortisation of intangible assets		90,140	49,574
Interest income		(230,853,978)	(236,991,887)
Interest expense		217,392,790	187,423,322
Write-off of property and equipment	7	833	2,383
Write-off of intangible assets		-	7,326
Amortisation of deferred grants		(797)	(791)
Operating profit before working capital changes		(3,903,348)	(17,231,803)
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		7,972,669	(1,981,279)
Debt instruments at amortized cost		23,199,428	-
Mortgage pool receivables		269,744,179	183,780,667
Other assets		(25,717,533)	(3,944,523)
Collateralized bonds		(179,556,923)	(202,958,858)
Debt securities issued			(14,263,310)
Other liabilities		(8,717,186)	(189,689)
Cash generated from operations		83,021,286	(56,788,795)
Interest paid		(240,598,235)	(171,278,156)
Interest received		223,319,225	233,210,437
Income tax paid		(4,718,404)	(2,832,215)
Net cash flows used from operating activities		61,023,872	2,311,271
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(321,430)	(79,153)
Purchase of intangible assets		(17,641)	(4,279)
Net cash flows used in investing activities		(339,071)	(83,432)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt securities issued		-	789,200,902
Proceeds from debt instruments		1,000,000	-
Payment to acquire issued Senior Notes		(53,681,976)	-
Payments to purchase mortgage pool receivables with recourse		(20,462,445)	(600,581,592)
Payments to acquire notes receivable			(50,000,000)
Proceeds from notes receivable			2,200,000
Proceeds from borrowed funds	19	-	25,000,000
Repayment of borrowed funds		(20,208,327)	(184,390)
Net cash flows from financing activities		(93,352,748)	165,634,920
Net increase/(decrease) in cash and cash equivalents		(32,667,947)	167,862,759
Effect of exchange rate changes on cash and cash equivalents		761,018	178,552
Cash and cash equivalents at 1 January		220,600,862	85,412,110
Cash and cash equivalents at 30 September	11	188,693,933	253,453,421

1. Corporate and Group information

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

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

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

2. Significant accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2020 have been prepared in accordance with *IAS 34 Interim Financial Reporting*.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarified that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to *IFRS 9* and *IAS 39 Financial instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact of the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

3. Interest income and segment information

During the period ended 30 September 2020 and 2019, the Group was engaged in a single business segment, which is the purchasing of mortgage pools and issuing RMBS securitised by those mortgage pools in Mongolia. There has been no single external customer that has contributed revenue exceeding 10% or more of the Group's revenue during the period ended 30 September 2020 and 2019.

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Purchased mortgage pool receivables (without recourse)	113,770,266	165,115,063
Mortgage pool receivables with recourse	78,310,945	21,153,894
Bank balances	12,800,819	40,609,555
Debt instruments at amortised cost		
Preference shares	12,395,405	4,204,109
Loan notes	9,355,125	4,106,220
Notes receivable	-	1,803,046
	<u>226,632,560</u>	<u>236,991,887</u>

4. Interest expense

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Collateralised bonds	120,053,861	112,124,634
Debt securities issued	68,383,607	58,520,761
Derivative financial assets	23,104,011	12,520,825
Borrowed funds	5,489,743	4,257,102
Other payables	361,568	-
	<u>217,392,790</u>	<u>187,423,322</u>

5. Fee and commission expense

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Loan service fee	7,361,785	9,239,096
Bank service charge	7,169	164,883
	<u>7,368,954</u>	<u>9,403,979</u>

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

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Purchased mortgage pool receivables (without recourse) (Note 14)	(4,721,112)	(1,147,612)
Mortgage pool receivables with recourse (Note 13)	(3,685,516)	(1,223,369)
Cash and cash equivalents (Note 11)	(2,138,255)	(932,136)
Debt instruments at amortised cost (Note 12)	707,707	(610,790)
Net credit loss (expense)/reversal	<u>(9,837,176)</u>	<u>(3,913,907)</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

7. Other operating (expense)/income

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Unrealised foreign exchange (loss)/gain, net	(33,945,327)	(10,912,546)
Entertainment expense	(272,348)	(15,036)
Realised foreign exchange (loss)/gain, net	25,168	(16,383)
Write-off of property and equipment	(833)	(2,383)
Trading gain	10,410,709	-
Others	762,365	56,753
Deferred tax income	3,394,532	-
	<u>(19,625,734)</u>	<u>(10,889,595)</u>

8. Operating expenses

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Personnel expenses	4,683,246	4,370,835
Depreciation expense	1,281,462	801,896
Other operating expenses	973,385	680,529
Professional service fees	563,733	1,420,263
Business trip expense	73,638	459,556
Utility expense	198,489	196,601
Amortisation of intangible assets	90,140	34,221
Advertisement expense	140,114	49,574
	<u>8,004,207</u>	<u>8,711,163</u>

9. Income tax expense

The Group provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group are 10% (2019: 10%) for the first MNT 6 billion (2019: MNT 3 billion) of taxable income, and 25% (2019: 25%) on the excess of taxable income over MNT 6 billion (2019: MNT 3 billion). The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings.

The components of income tax expense for the nine months period ended 30 September 2020 and 2019 are:

	Unaudited nine months ended	
	30 September 2020	30 September 2019
	MNT'000	MNT'000
Current tax		
Current income tax	3,772,174	5,350,185
Deferred tax		
Relating to origination of temporary differences (Note 23)	2,848,637	4,514,155
	<u>6,620,811</u>	<u>9,864,340</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

10. Earnings per share

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

	Unaudited nine months ended 30 September 2020 MNT'000	30 September 2019 MNT'000
Profit for the period and total comprehensive income for the period (net of tax) attributable to equity holder of the Parent	<u>(16,925,932)</u>	<u>17,524,545</u>
Weighted-average number of ordinary shares for basic and diluted earnings per share*	<u>15,246,891</u>	<u>15,246,891</u>

Earnings per share

Equity holders of the Parent for the period: Basic and diluted earnings per share	<u>(1,110.12)</u>	<u>1,149.38</u>
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* The weighted-average number of shares take into account the weighted-average effect of movement in treasury shares during the period.

11. Cash and bank balances

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Cash on hand	<u>296,576</u>	<u>35,488</u>
Current accounts with banks	49,855,346	17,546,643
Trust accounts with banks	6,173,537	24,579,241
Collection accounts with banks	292,028	973,680
Term deposits	<u>132,076,446</u>	<u>185,438,479</u>
Gross carrying amount	<u>188,693,933</u>	<u>228,573,531</u>
Allowance for impairment losses	<u>(2,374,776)</u>	<u>(236,524)</u>
Net carrying amount	<u>186,319,157</u>	<u>228,337,007</u>

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

	Unaudited 30 September 2020 MNT'000
At 1 January 2020	(236,524)
Credit loss (expense)/reversal (See Note 6)	<u>(2,138,252)</u>
At 30 September 2020	<u>(2,374,776)</u>

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

Additional cash flow information

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Cash and bank balances	188,693,933	228,573,531
Less: Placement with banks with original maturities of more than three months	-	<u>(7,972,669)</u>
Total cash and cash equivalents for the consolidated statement of cash flow	<u>188,693,933</u>	<u>220,600,862</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

12. Debt instruments at amortised cost

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Investment in preference shares	150,000,000	150,000,000
Loan notes receivable	86,000,000	87,000,000
Accrued interest receivables on preference shares	12,670,177	18,866,641
Accrued interest receivables on loan notes	3,176,442	5,711,554
Gross debt instruments	<u>251,846,619</u>	<u>261,578,195</u>
Allowance for impairment losses	<u>(4,635,068)</u>	<u>(5,342,775)</u>
Net debt instruments	<u>247,211,551</u>	<u>256,235,420</u>

Investment in preference shares

On 14 November 2018, the Group purchased a total of 30,000 preference shares of its related party 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 the related party which would be accumulated and the deferred dividend bears an interest rate of 11% per annum. The preference shares are not secured, however, in the opinion of management, the Group has the right to request for redemption and the related party has an obligation to repurchase the shares upon maturity.

Loan notes receivables

On 11 December 2018, the Group purchased loan notes for MNT 45.0 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.

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

	Unaudited 30 September 2020 MNT'000
At 1 January 2020	(5,342,775)
Credit loss (expense)/reversal (See Note 6)	<u>707,707</u>
At 30 September 2020	<u>(4,635,068)</u>

13. Mortgage pool receivables with recourse

The Group acquires mortgage pool receivables with recourse from commercial banks, most of whom are shareholders of the Group, through the process similar to the acquisition of mortgage pool receivables without recourse (Note 14). However, in the case of mortgage pool receivables with recourse, the Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, mortgage pool receivables with recourse represent, in substance, loans issued to commercial banks in Mongolia, which are collateralised by related mortgage loan receivables of those commercial banks, as well as by the related residential properties that are used as collateral, as additional guarantee.

The Group applies similar procedure for assessment of individual mortgage loans, as in the case of mortgage pool receivables without recourse (Note 14). The Group performs credit quality analysis of the individual mortgage loans on each mortgage pool acquired. The Group also assesses the financial condition of the banks, as well as their general reputation in the Mongolian market.

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Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

13. Mortgage pool receivables with recourse (cont'd)

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Mortgage pool receivables	628,959,905	699,478,766
Accrued interest receivables	979,720	12,275,165
Gross mortgage pool receivables with recourse	<u>629,939,625</u>	<u>711,753,931</u>
Allowance for impairment losses	<u>(10,913,797)</u>	<u>(6,192,685)</u>
Net mortgage pool receivables with recourse	<u>619,025,828</u>	<u>705,561,246</u>

Following the issuance of debt securities on the international capital market in January and February 2019 (see Note 20), the Group used the net proceeds to purchase mortgages with recourse from commercial banks amounting to MNT 700.4 billion during the year.

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 reclassified the balance from mortgage pool receivables with recourse to purchased mortgage pool receivables without recourse (see Note 14).

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

	Unaudited 30 September 2020 MNT'000
At 1 January 2020	(6,192,685)
Credit loss (expense)/reversal (Note 6)	<u>(4,721,112)</u>
At 30 September 2020	<u>(10,913,797)</u>

14. Purchased mortgage pool receivables

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Purchased mortgage pool receivables	3,002,818,676	2,886,730,905
Accrued interest receivables	14,258,540	14,117,615
Total gross purchased mortgage pool receivables	<u>3,017,077,216</u>	<u>2,900,848,520</u>
Allowance for impairment losses	<u>(10,031,800)</u>	<u>(6,411,304)</u>
Net purchased mortgage pool receivables	<u>3,007,045,416</u>	<u>2,894,437,216</u>

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

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

	Unaudited 30 September 2020 MNT'000
At 1 January 2020	(6,411,304)
Credit loss reversal	65,020
Credit loss expense (Note 6)	<u>(3,685,516)</u>
At 30 September 2020	<u>(10,031,800)</u>

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Notes to the Interim Condensed Consolidated Financial Statements – 30 September 2020

15. Financial assets at fair value through profit or loss

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Fair value as at 1 January 2020	4,699,931	5,000,000
Acquisitions	-	-
Net loss from change in fair value through profit or loss	-	(300,069)
Fair value as at 30 September 2020	<u>4,699,931</u>	<u>4,699,931</u>

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.

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

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

As at 30 September 2020, the Fund's underlying investment comprises of principally an investment portfolio of the Company's shares.

16. Derivative financial instrument

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. 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.

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Fair value as at 1 January 2020	55,516,592	-
Net gains on derivative financial instruments	25,291,180	55,516,592
Fair value as at 30 September 2020	<u>80,807,772</u>	<u>55,516,592</u>

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17. Other assets

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Other receivables	24,072,603	128,765
Prepayments	2,695,665	227,931
Foreclosed properties	238,690	228,419
Consumables and office supplies	36,800	30,555
	<u>27,043,758</u>	<u>615,670</u>

18. Property and equipment

As at 30 September 2020, premises with carrying amount of MNT 30,125,050 thousand (30 September 2019: 13,327,353 thousand) are collateralised for borrowed funds (see Note 19).

19. Borrowed funds

		Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Trade and Development Bank of Mongolia LLC (Note 26)	(a)	15,861,576	26,130,137
Golomt Bank LLC (Note 26)	(b)	25,500,000	36,110,330
The Ministry of Finance of Mongolia	(c)	8,553,315	8,468,908
		<u>49,914,891</u>	<u>70,709,375</u>

- (a) On 17 May 2018, the Group entered into a loan agreement with Trade and Development Bank of Mongolia LLC (“TDB”) of MNT 11.4 billion. 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 10,826,918 thousand and MNT 11,104,910 thousand at 30 September 2020 and 2019, respectively.

On 8 January 2019, the Group obtained a loan of MNT 5 billion from TDB. 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 5,034,658 thousand at 30 September 2020.

The Group obtained a loan of MNT 25 billion from Golomt Bank LLC (“Golomt”) on 11 December 2018. 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.

- (b) A sub-lending agreement between the Ministry of Finance (“MoF”) and the Group was made on 3 January 2011. The Group has fully drawn the full amount of the loan in 2012. The loan bears a nominal interest rate of 4% per annum (2019: 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.

MIK HOLDING JSC AND ITS SUBSIDIARIES

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20. Debt securities issued

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Debt securities at amortised cost	805,134,458	839,131,215
	<u>805,134,458</u>	<u>839,131,215</u>

On 29 January and 12 February 2019, the Group issued Senior Notes (“Notes”) with nominal value of USD 250.0 million and USD 50.0 million, respectively, on the international capital market. The Notes bear 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 capitalized and to be amortised over the life of the financial instruments using EIR.

21. Collateralised bonds

	Interest rate	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Senior bonds I	1.0%	51,284,708	-
Senior bonds II	4.5%	2,547,931,118	2,545,933,710
Senior bonds III	13.0%	32,059,327	-
Junior bonds	10.5%	433,112,762	403,095,464
		<u>3,064,387,915</u>	<u>2,949,029,174</u>

The senior and junior bonds as at 30 September 2020 and 31 December 2019 represent bonds issued by MIK Asset One SPC LLC to MIK Asset Twenty Four SPC LLC to Bank of Mongolia (“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 senior bonds are 1.0%, 4.5% and 13.0%; and the junior bonds are 10.5% 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.

The bonds are not publicly traded on an active market (such as the stock exchange), but are sold directly to commercial banks. The Group did not have any defaults of principal, interest or other breaches with respect to the collateralised bonds during the nine months period ended 2020 and 2019.

22. Other liabilities

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Deferred grant	380	1,177
Interest payable on swap	185,180	8,144,911
Withholding tax liability	765,140	5,037,825
Other payables	8,142,367	12,225,294
	<u>9,093,067</u>	<u>25,409,207</u>

22. Other liabilities (cont'd)

Other payables include payables 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.

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

23. Deferred tax

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Deferred tax liabilities, net		
At 1 January 2020	29,744,559	20,995,169
Recognised in statement of comprehensive income (Note 10)		
Future dividend distribution of the SPCs	319,519	6,489,106
Fair value change of derivative financial instruments	2,529,118	5,551,660
Unrealised foreign exchange loss, net	(3,394,533)	(3,048,903)
Fair value change of financial assets at FVPL	-	(30,007)
	<u>29,198,663</u>	<u>8,961,856</u>
Deferred tax realised	-	(212,466)
At 30 September 2020	<u>29,198,663</u>	<u>29,744,559</u>

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

24. Ordinary shares

There were 5,462,429 shares held as treasury shares as at 30 September 2020 (30 September 2019: 5,462,429). Excluding these shares, the total number of issued shares as at 30 September 2020 was 15,246,891 shares (30 September 2019: 15,246,891 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

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.

25. Contingent liabilities and commitments (cont'd)

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

Assets pledged and restricted

Bonds issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 30 September 2020, the Group had mortgage pool receivables with the gross amount of MNT 3,002,818,676 thousand (2019: MNT 2,900,848,520 thousand) pledged as collateral for the bonds (see Note 14). The related liabilities amount is MNT 3,064,387,915 thousand as of 30 September 2020 (2019: MNT 2,949,029,174 thousand).

26. 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 a total of 30,000 preference shares of its related party 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 the related party which would be accumulated and the deferred dividend bears an interest rate of 11% per annum.

Loans from/to shareholder of related party

The Group obtained a loan of MNT 25 billion on from Golomt Bank 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 as of MNT 30 billion and cash in current accounts held with Golomt Bank (see Note 19).

On 11 December 2018, the Group purchased loan notes for MNT 45.0 billion, respectively, using the loan received from Golomt Bank 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).

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). As of 30 September 2020, the Group owns 500,000 units.

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 19).

On 25 September 2019, the Group obtained a 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 was fully repaid on 27 September 2020. (see Note 19).

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26. Related party disclosures (cont'd.)
Other payables

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

	Unaudited 30 September 2020 MNT'000	Audited 31 December 2019 MNT'000
Golomt Bank LLC	951,166	1,359,292
Trade and Development Bank of Mongolia LLC	1,072,053	1,253,973
Khan Bank LLC	741,612	1,155,939
XacBank LLC	281,165	448,755
State Bank LLC	269,214	387,414
Ulaanbaatar City Bank LLC	-	234,720
Capital Bank LLC	-	134,722
Capitron Bank LLC	34,593	37,294
Chinggis Khaan Bank LLC	12,758	17,890
TDB Leasing LLC	4,303	-
Bank of Mongolia	287	-
Total	<u>3,367,151</u>	<u>5,029,999</u>

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

Compensation to key management personnel

	Unaudited for the nine months ended 30 September 2020 MNT'000	30 September 2019 MNT'000
Short-term employee benefits		
• Salaries, incentives and allowances	1,315,998	800,294
• Contribution to social and health fund	87,229	97,979
	<u>1,403,227</u>	<u>898,273</u>

As at 30 September 2020, the Group has the following balances and transactions with related parties:

As at 30 September 2020

	Bank Deposits		Collateralised Bonds			
	Outstanding balance MNT'000	Interest Income MNT'000	Issued during the period		Outstanding balance MNT'000	Interest Expense** MNT'000
			senior bonds MNT'000	junior bonds MNT'000		
Trade and Development Bank of Mongolia LLC	128,921,063	11,285,954	34,010,100	6,159,600	127,466,983	35,941,293
Golomt Bank LLC	36,168,794	345,533	30,969,800	5,037,900	116,724,744	10,625,416
Ulaanbaatar City Bank LLC	-	-	-	-	-	-
Chinggis Khaan Bank LLC	1,418,696	9,611	5,710,100	771,900	3,595,071	237,680
Capital Bank LLC	-	-	-	-	-	-
State Bank LLC	2,325,193	28,728	30,386,300	4,536,200	41,886,916	2,996,670
XacBank LLC	546,175	601,236	23,311,200	3,854,400	41,975,045	3,013,353
Khan Bank LLC	1,495,963	58,468	40,822,200	6,667,100	110,502,432	8,152,410
Capitron Bank LLC	17,372,096	472,470	9,490,400	1,742,200	6,079,366	367,944
	<u>188,247,980</u>	<u>12,802,000</u>	<u>174,700,100</u>	<u>28,769,300</u>	<u>448,230,557</u>	<u>61,334,766</u>
Bank of Mongolia	-	-	62,773,300	-	2,379,074,277	79,934,424
Ministry of Finance	-	-	24,403,000	-	230,612,856	6,693,592
	-	-	<u>87,176,300</u>	-	<u>2,609,687,133</u>	<u>86,628,016</u>

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Total	<u>188,247,980</u>	<u>12,802,000</u>	<u>261,876,400</u>	<u>28,769,300</u>	<u>3,057,917,690</u>	<u>147,962,782</u>
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Related party disclosures (cont'd.)
As at 31 December 2019

	Bank Deposits		Collateralised Bonds			
	Outstanding	Interest	Issued during the year		Outstanding	Interest
	balance	income	senior bonds	junior bonds	balance	expense
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Trade and Development						
Bank of Mongolia LLC	102,934,511	34,242,997	85,575,500	9,730,700	96,968,417	9,353,199
Golomt Bank LLC	6,390,400	1,111,958	88,851,100	9,872,500	106,291,163	10,318,063
Ulaanbaatar City Bank LLC	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	-	-	-	-	-
	<u>228,335,258</u>	<u>45,737,587</u>	<u>286,025,000</u>	<u>31,781,000</u>	<u>387,976,695</u>	<u>38,595,768</u>
Bank of Mongolia	-	-	-	-	2,378,866,726	106,573,201
Ministry of Finance	-	-	-	-	177,623,718	5,080,804
	-	-	-	-	2,556,490,444	111,654,005
Total	<u>228,335,258</u>	<u>45,737,587</u>	<u>286,025,000</u>	<u>31,781,000</u>	<u>2,944,467,139</u>	<u>150,249,773</u>

*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.

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of the Group's business. The interest charged to and by related parties are at normal commercial rates in relation to bank deposits, borrowings and mortgage pools and at the rates specified in the RMBS. There have been no guarantees provided or received for any related party receivables or payables.

26. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and fulfil its obligations to the investors of the RMBS by effectively managing the subsidiaries. In order to maintain or adjust the capital structure, the Group may issue new shares, obtain borrowings, invest in permitted investments or issue bonds.

Included in retained earnings as at 30 September 2020 are restricted retained earnings of MNT 260,645,124 thousand (30 September 2019: MNT 255,694,336 thousand) that are attributable to the Group's SPCs and are restricted from distribution until the liquidation of the respective SPCs in accordance with the Articles of Charter of each SPC and FRC regulation.

The Group was not subject to any externally imposed capital requirements throughout the nine months period/year of 2020 and 2019.

27. Subsequent events

There were no subsequent events that need disclosure.

28. Financial assets and financial liabilities

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

Financial instruments for which fair value approximates carrying value

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

Fixed rates financial instruments

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