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 2020

MIK HOLDING JSC AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2020

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. Enkhjin A. Mr. Anar 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 2020 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	Gantulga Badamkhatan	Bat-Ulzii Molomjamts
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 23 April 2021

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Ernst & Young Mongolia Audit LLC
Suite 200, 8 Zovkhis Building
Seoul Street 21
Ulaanbaatar 14251
Mongolia

Tel: +976 11 314032 / +976 11 312005
Fax: +976 11 312042
ey.com

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 2020, 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 2020, 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.

Key audit matters	How our audit addressed the key audit matters
Impairment of 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 93.1% of the Group's total assets as at 31 December 2020, 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 require significant estimates and assumptions, including:	For assessment of impairment of treasury assets, financial investments, mortgage pool receivables with recourse and purchased mortgage pool receivables as of 31 December 2020, our audit procedures included evaluating the methodologies, 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. In evaluating the methodologies, we obtained understanding of the Group's ECL model and management's basis for methodologies and assumptions applied. We involved our internal expertise as extended audit team in considering the reasonableness of the model and compared to industry practices. We also considered the reasonableness of the assumptions applied and our evaluation included 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.

Key Audit Matters (cont'd.)

Key audit matters	How our audit addressed the key audit matters

• 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;
• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs of the ECL model; and
• Reassessment of the ECL model taking into consideration impacts arising from the Covid-19 pandemic.
 	
Relevant disclosures of the accounting policy and critical accounting estimates and judgments are included in Notes 2.3 and 2.4, respectively.
 	
Other relevant disclosures of treasury assets, financial investments, mortgage pool receivables with recourse, purchased mortgage pool receivables and related credit risk management are included in Notes 13.1, 14.1, 15.1, 16.1, and 30.2 to the consolidated financial statements, respectively.
	In testing the appropriateness of the stage classifications, we tested the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records. We also tested the adequacy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents. In addition, on a sampling basis, we tested credit ratings assigned to counter parties at initial recognition and as at the reporting date, and other 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 on a random selection basis;
	• Checked the parameters to external data sources where available, including G7 GDP, dollar index, consumer price index, unemployment rate, house price index used in multiple scenario analysis;
	• Obtained an understanding of management's considerations made in reassessing its ECL model in relation to the Covid-19 pandemic impacts and tested the accuracy of the assessment performed by management. We also involved our internal expertise in assessing the reasonableness of considerations made and compared to industry practice, including:
	  - Evaluated the reasonableness of the qualitative factors applied in management's reassessment of its multiple macroeconomic scenario allocation;
	  - Evaluated the effect of the Government support measures put in place to mitigate the negative economic impact, including extension of the repayment deferral;
	  - Evaluated the stratification of borrowers by employment sector and the types of employment.
	
	• Checked completeness of the EAD.
	
	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 consolidated financial statements.

Key Audit Matters (cont'd.)

Key audit matters	How our audit addressed the key audit matters
Structured finance related party transactions As at 31 December 2020, the Group had certain structured finance arrangements with related parties. The contractual terms of these arrangements were 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 14, 17, 18, 23 and 29 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. Based on the above, we 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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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

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

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: 23 April 2021

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 MNT'000	2019 MNT'000
Interest income	3	372,148,815	339,227,417
Interest expense	4	(287,434,752)	(259,291,261)
Net interest income		84,714,063	79,936,156
Fee and commission expense	5	(9,585,005)	(12,526,380)
Other operating income	6	10,420,683	90,451
Total operating income		85,549,741	67,500,227
Credit loss expense	7	(17,457,868)	(9,194,529)
Net losses on financial assets at fair value through profit or loss	17	(13,702,852)	(300,069)
Net gains on change in fair value of derivative financial instruments	18	27,064,499	55,516,592
Modification loss on purchased mortgage pool receivables	8	(163,810,050)	–
Net operating income/(loss)		(82,356,530)	113,522,221
Operating expenses	9	(12,084,699)	(12,695,335)
Other operating expenses	10	(33,825,199)	(30,763,099)
Profit/(loss) before tax		(128,266,428)	70,063,787
Income tax credit/(expense)	11.1	16,311,733	(15,829,486)
Profit/(loss) for the period, representing total comprehensive income/(loss)		(111,954,695)	54,234,301
Earnings/(loss) per share (MNT)			
Basic and diluted earnings/(loss) per share	12	(7,342.79)	3,557.07

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 MNT'000	2019 MNT'000
ASSETS			
Cash and bank balances	13	224,428,660	228,337,007
Debt instruments at amortised cost	14	95,608,264	256,277,326
Mortgage pool receivables with recourse	15	614,463,700	705,561,246
Purchased mortgage pool receivables	16	2,854,533,414	2,894,437,216
Financial assets at fair value through profit or loss	17	140,997,079	4,699,931
Derivative financial instruments	18	82,581,091	55,516,592
Other assets	19	2,366,846	615,670
Property and equipment	20	32,353,623	32,532,212
Intangible assets	21	200,196	191,868
Income tax prepayments	11.2	830,239	–
Deferred tax assets	11.3	20,418,109	3,078,910
TOTAL ASSETS		4,068,781,221	4,181,247,978
LIABILITIES			
Other liabilities	22	14,726,583	25,409,207
Borrowed funds	23	41,919,385	70,709,375
Debt securities issued	24	825,603,454	839,131,215
Collateralised bonds	25	3,007,051,362	2,949,029,174
Income tax payables	11.2	213,851	1,459,805
Deferred tax liabilities	11.3	28,535,548	32,823,469
TOTAL LIABILITIES		3,918,050,183	3,918,562,245
EQUITY			
Ordinary shares	26	20,709,320	20,709,320
Share premium	26	52,225,115	52,225,115
Treasury shares	26	(62,143,136)	(62,143,136)
Reserve		139,939,739	251,894,434
TOTAL EQUITY		150,731,038	262,685,733
TOTAL LIABILITIES AND EQUITY		4,068,781,221	4,181,247,978

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the year ended 31 December 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	–	–	–	54,234,301	54,234,301
At 31 December 2019 and 1 January 2020	20,709,320	52,225,115	(62,143,136)	251,894,434	262,685,733
Total comprehensive loss	–	–	–	(111,954,695)	(111,954,695)
At 31 December 2020	20,709,320	52,225,115	(62,143,136)	139,939,739	150,731,038

* Included in retained earnings as at 31 December 2020 are restricted retained earnings of MNT 202,774,380 thousand (31 December 2019: MNT 272,718,090 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 2020

	Notes	2020 MNT'000	2019 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(128,266,428)	70,063,787
Adjustments to reconcile profit before tax to net cash flows:			
Interest on borrowed funds	4	6,702,935	5,627,047
Interest on debt securities	4	90,400,750	81,750,319
Gain on repurchase of debt securities issued	6	(9,646,998)	–
Gain on disposal of property and equipment		–	(6,810)
Amortisation of deferred grants		(1,060)	(1,151)
Credit loss expense	7	17,457,868	9,194,529
Modification loss on purchased mortgage pool receivables	8	163,810,050	–
Depreciation of property and equipment	9	1,729,108	1,066,865
Amortisation of intangible assets	9	133,491	36,798
Unrealised foreign exchange loss, net	10	32,655,404	30,489,031
Write-off of property and equipment	10	833	2,383
Loss on disposal of foreclosed property	10	57,834	–
Net losses on financial assets at FVPL	17	13,702,852	300,069
Net gains on derivative financial instruments	18	(27,064,499)	(55,516,592)
Operating profit before working capital changes		161,672,140	143,006,275
Changes in working capital:			
Due from banks – placement with original maturities of more than three months		(43,448,132)	(6,942,647)
Due from banks – placement with banks classified as Stage 3		(5,832,895)	–
Debt instruments at amortised cost		22,282,457	(22,179,579)
Mortgage pool receivables with recourse		86,771,824	(690,634,405)
Purchased mortgage pool receivables		159,275,938	273,017,625
Other assets		(1,809,010)	2,944,872
Collateralised bonds		(237,322,412)	(275,519,549)
Other liabilities		(11,165,637)	14,794,876
Cash generated from/(used in) operations		130,424,273	(561,512,532)
Interest paid classified as operating activities		(89,253,977)	(47,294,483)
Income tax paid	11.2	(3,680,394)	(6,603,255)
Income tax withheld by others	11.2	(3,711,186)	–
Net cash flows generated from/(used in) operating activities		33,778,716	(615,410,270)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in debt instruments at amortised cost	14	(10,716,917)	(42,000,000)
Investment in financial assets at FVPL	17	(150,000,000)	–
Proceeds from disposal of debt instruments at amortised cost	14	152,841,755	–
Purchase of property and equipment	20	(1,554,582)	(150,083)
Purchase of intangible assets	21	(141,819)	(78,214)
Net cash flows used in investing activities		(9,571,563)	(42,228,297)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowed funds		–	25,000,000
Net proceeds from issuance of debt securities		–	768,016,826
Repayment of borrowed funds		(28,726,498)	(251,772)
Repurchase of debt securities issued		(43,998,831)	–
Net cash flows generated from/(used in) financing activities		(72,725,329)	792,765,054

	Notes	2020 MNT'000	2019 MNT'000
Net increase/(decrease) in cash and cash equivalents		(48,518,176)	135,126,487
Effect of exchange rate changes on cash and cash equivalents		36,767	62,265
Cash and cash equivalents at 1 January		220,600,862	85,412,110
Cash and cash equivalents at 31 December	13	172,119,453	220,600,862
OPERATIONAL CASH FLOW FROM INTEREST			
Interest received		316,976,258	303,901,886
Interest paid		(296,318,630)	(215,817,308)
Non-cash transactions:			
Purchase of mortgage pool receivables (without recourse)		(295,347,153)	(326,228,620)
Issuance of collateralised bonds		295,344,600	326,227,200
Purchase of property and equipment		–	(75,000)
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	
	2020 MNT'000	2019 MNT'000	2020 MNT'000	2019 MNT'000
As at 1 January	70,709,375	44,907,989	839,131,215	–
New disbursement/additions	–	25,000,000	–	789,200,902
Repurchase of debt	–	–	(43,998,831)	–
Gain on repurchase of debt	–	–	(9,646,998)	–
Repayment classified as financing activity	(28,726,498)	(251,772)	–	–
Transaction costs	–	–	–	(21,184,076)
Net proceeds	(28,726,498)	24,748,228	(53,645,829)	768,016,826
Interest expense for the year	6,702,935	5,627,047	90,400,750	81,750,319
Interest paid	(6,766,427)	(4,573,889)	(82,974,853)	(42,039,833)
Foreign exchange movement	–	–	32,692,171	31,403,903
As at 31 December	41,919,385	70,709,375	825,603,454	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 (2019: MNT 20,709,320 thousand) consists of 20,709,320 (2019: 20,709,320) common shares at par value of MNT 1,000 (2019: 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 2020 are set out in Note 26.

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 2020, the Group had established twenty-five SPCs (2019: twenty-three), of which twenty-four have purchased mortgage pools and issued RMBS (2019: twenty-one).

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.

The consolidated financial statements of the Group were authorised for issue in accordance with the resolution of the Board of Directors on 20 April 2021.

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 28.

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 2020. 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 2020:

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

• Amendments to IFRS 3	*Definition of a Business*
• Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
• Amendments to IAS 1 and IAS 8	*Definition of Material*
• Conceptual Framework for Financial Reporting	*Issued on 29 March 2018*
• Amendments to IFRS 16	*Covid-19 Related Rent Concessions*

2. Significant accounting policies (cont'd.)

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

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

Amendments to IFRS 3: Definition of a Business

The amendments to IFRS 3 Business Combinations clarify 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 clarifies that a business can exist without including all of the inputs and processes needed to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments had no impact on the consolidated financial statements of the Group.

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

The amendments to IFRS 9, IAS 39 and IFRS 7 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 uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on 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.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Covid-19 Related Rent Concessions - Amendment to IFRS 16 (effective as of 1 June 2020)

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendment provides relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. This amendment had no impact on the consolidated financial statements of the Group as it doesn't have any leases.

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.

2. Significant accounting policies (cont'd.)

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

Standards issued but not yet effective (cont'd.)

• IFRS 17	*Insurance Contracts* [2]
• Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* [2]
• Amendments to IFRS 3	*Reference to the Conceptual Framework* [1]
• Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use* [1]
• Amendments to IAS 37	*Onerous Contracts – Costs of Fulfilling a Contract* [1]
• IFRS 1 First-time adoption of International Financial Reporting Standards	*Subsidiary as a first-time adopter* [1]
• IFRS 9 Financial Instruments	*Fees in the '10 per cent' test for derecognition of financial liabilities* [1]
• IAS 41 Agriculture	*Taxation in fair value measurements* [1]

[1] *Effective for annual periods beginning on or after 1 January 2022*
[2] *Effective for annual periods beginning on or after 1 January 2023*

2.3. Summary of significant accounting policies

Recognition of income and expense

The effective interest rate method

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") 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.

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.

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.

2. Significant accounting policies (cont'd.)

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

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.

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 and treasury assets.

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 2020.

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 2020.

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.

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.

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.)

The Group's financial assets at FVPL comprised an investment in preference shares of an entity. Interest earned on the investments are recognised as interest income in the statement of profit or loss.

Also included in this category is an investment in an investment fund. 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.

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

The Group's financial assets designated at FVPL are explained in Notes 17 and 18.

Derecognition

(i) Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial asset of, or greater than, ten percent.

(ii) Derecognition other than for substantial modification

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

2. 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 (cont'd.)

(ii) Derecognition other than for substantial modification (cont'd.)

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

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

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 two or more 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 multiple scenarios which are base case, upside case and a downside case for PD and two multiple scenarios which are base case and a downside case for LGD.

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.

The mechanics of the ECL method are summarised below:

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.)

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
- Percent change of House price indices

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 22, 23, 24 and 25.

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.)

Financial instruments – initial recognition and subsequent measurement (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 31.

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.

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:

2. Significant accounting policies (cont'd.)

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

Property and equipment (cont'd.)

Premises	25 years
Furniture and office equipment	10 years
Computers	2 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 life of two years (prior to 1 January 2020: 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.

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.

2. Significant accounting policies (cont'd.)

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

Employee benefits (cont'd.)

(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 reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting 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:

- 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;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting 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 reporting 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 reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

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.

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.

2. Significant accounting policies (cont'd.)

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

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 by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. 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 29.

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. Significant accounting policies (cont'd.)

2.4. Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the 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;
- Identification and assessment of significant increases in credit risk and impairment based on employment status and sector of employment of borrowers.

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 13.1, 14.1, 15.1 and 16.1.

Classification of financial assets

As disclosed in Note 17, the Group has an 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 2020, the Group owns 33% of the total investment units authorised.

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 17.

On 7 December 2020, the Group invested in preference shares of United Banking Corporation ("UBC") which were also classified as a financial asset at FVPL as disclosed in Note 17.

The preference shares have an annual dividend rate of Central Bank policy rate plus 1 percent and have no fixed maturity terms. Management has assessed that the investment does not pass the SPPI test as the issuer may defer payments and additional interest does not accrue on the amounts deferred. Therefore, the investment in preference shares was classified as a financial asset at FVPL in accordance with IFRS 9.

Valuation of derivative financial instruments

As disclosed in Note 18, 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 24).

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

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.

2. Significant accounting policies (cont'd.)

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

Deferred tax (cont'd.)

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 11.3 to the consolidated financial statements.

Covid-19

The Covid-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation ("WHO") of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

The Covid-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, the Group carefully considered whether additional disclosures are necessary in order to help users of the consolidated financial statements understand the judgements applied in the consolidated financial statements.

Going concern

The Group has prepared the consolidated financial statements for the year ended 31 December 2020 on a going concern, which assumes continuity of current business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Measures taken by the Mongolian government to combat the spread of Covid-19, such as suspension of air travel, limited operation hours for all types of restaurants and closures of schools, have adversely affected various sectors in the economy. Consequently, the quality of the Group's aggregate purchased mortgage portfolio has deteriorated over the course of 2020. The loan loss provisioning has increased with respect to purchased mortgages without recourse and mortgages with recourse from MNT 6,411,304 thousand and MNT 6,192,685 thousand, respectively, for the year ended 31 December 2019 to MNT 18,573,718 thousand and MNT 10,518,407 thousand, respectively, for the year ended 31 December 2020.

To mitigate any potential adverse impact of Covid-19, management has updated the Group's future profitability and cash flow projections. Management believes that the Group is in a sufficiently strong liquidity position which they expect will assist in mitigating any further market volatility. Therefore, management is of the opinion that the significant doubt associated with the current uncertainties related to the Covid-19 does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

3. Interest income and segment information

During the year ended 31 December 2020 and 2019, the Group was engaged in a single business segment, which is the purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. 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 2020 and 2019.

	2020 MNT'000	2019 MNT'000
Interest income calculated using the effective interest method		
Purchased mortgage pool receivables (without recourse)	221,467,725	221,478,247
Mortgage pool receivables with recourse	103,488,370	46,431,798
Debt instruments at amortised cost	29,251,735	25,571,650
Bank balances	17,624,534	45,745,722
	371,832,364	339,227,417
Other interest income		
Financial assets at FVPL	316,451	–
	372,148,815	339,227,417

3. Interest income and segment information (cont'd.)

Included in interest income from purchased mortgage pool receivables for the year ended 31 December 2020 is an amount of MNT 75.4 billion, representing accrued interest arising from the amortisation of the modification loss on purchased mortgage pool receivables over the deferral period as further detailed in Note 8.

4. Interest expense

	2020 MNT'000	2019 MNT'000
Interest expense calculated using the effective interest method		
Collateralised bonds	160,831,980	150,617,896
Debt securities issued	90,400,750	81,750,319
Borrowed funds	6,702,935	5,627,047
Other payables	487,303	680,761
	258,422,968	238,676,023
Other interest expense		
Derivative financial instruments (Note 18)	29,011,784	20,615,238
	287,434,752	259,291,261

5. Fee and commission expense

	2020 MNT'000	2019 MNT'000
Loan service fee	9,574,042	12,515,200
Bank service charge	10,963	11,180
	9,585,005	12,526,380

6. Other operating income

	2020 MNT'000	2019 MNT'000
Gain on repurchase of debt securities issued (Note 24)	9,646,998	–
Others	773,685	90,451
	10,420,683	90,451

7. Credit loss expense/(reversal)

	2020 MNT'000	2019 MNT'000
Purchased mortgage pool receivables (without recourse) (Note 16.1)	12,162,414	(1,113,397)
Mortgage pool receivables with recourse (Note 15.1)	4,325,722	6,163,618
Cash and bank balances (Note 13.1)	4,707,965	233,186
Debt instruments at amortised cost (Note 14.1)	(3,738,233)	3,911,122
	17,457,868	9,194,529

8. Modification loss on purchased mortgage pool receivables

In April 2020, in order to relieve the impact of the coronavirus ("Covid-19") pandemic on the Mongolian economy and the mortgage market, the Government and the Bank of Mongolia ("BoM") implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants in deferring the principal and interest payments for a period of up to six months, which was extended for another eight months up to 1 July 2021.

As of 31 December 2020, a total of 45,438 borrowers have applied for the payment deferral. Management assessed that the modification of the terms of loan contracts did not result in substantially different cash flows and hence the modification did not result in a derecognition of the mortgage pools. Based on the change in cash flows discounted at the original EIR, the Group recognised a modification loss on purchased mortgage pool receivables.

8. Modification loss on purchased mortgage pool receivables (cont'd.)

	2020 MNT'000	2019 MNT'000
Modification loss on purchased mortgage pool receivables	163,810,050	–

9. Operating expenses

	2020 MNT'000	2019 MNT'000
Personnel expenses	6,363,031	6,277,505
Depreciation expense (Note 20)	1,729,108	1,066,865
Professional service fees	1,463,358	1,982,776
Advertisement expense	738,149	1,441,710
Property tax expense	354,636	354,635
Utility expense	261,584	261,887
Amortisation of intangible assets (Note 21)	133,491	36,798
Business trip expense	86,888	684,784
Other operating expenses	954,454	588,375
	12,084,699	12,695,335

* Personnel expenses		
Salaries, wages and bonus	5,961,534	5,296,956
Contribution to social and health fund	337,686	708,589
Staff training	21,050	122,519
Others	42,761	149,441
	6,363,031	6,277,505

10. Other operating expenses

	2020 MNT'000	2019 MNT'000
Unrealised foreign exchange loss, net	32,655,404	30,489,031
Entertainment expense	524,206	349,665
Realised foreign exchange loss/(gain), net	131,488	(79,422)
Loss on disposal of foreclosed property	57,834	–
Write-off of property and equipment (Note 20)	833	2,383
Others	455,434	1,442
	33,825,199	30,763,099

11. Income tax

11.1. Income tax expense/(credit)

The components of income tax expense for the years ended 31 December 2020 and 2019 are:

	2020 MNT'000	2019 MNT'000
Current tax		
Current income tax	5,315,387	6,867,630
Deferred tax		
Relating to origination of temporary differences (Note 11.3)	(21,627,120)	8,961,856
	(16,311,733)	15,829,486

11. Income tax (cont'd.)

11.1. Income tax expense/(credit) (cont'd.)

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.

A reconciliation of income tax expense applicable to profit/(loss) 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:

	2020 MNT'000	2019 MNT'000
Profit/(loss) before tax	(128,266,428)	70,063,787
Tax at statutory tax rate of 10% (2019: 25%)	(12,826,643)	17,515,947
Effect of expenses not deductible for tax purposes	2,532,022	3,057,349
Effect of withholding tax on future dividend distribution of SPCs (Note 11.3)	(6,994,371)	6,489,106
Deferred tax asset not recognised for tax losses	1,474,524	67,274,250
Effect of income subject to lower tax rate	–	(10,872,522)
Effect of income not subject to tax	(631,476)	(435,702)
Effect of principal repayment of collateralised bonds as tax deductible	–	(69,317,775)
Adjustment in respect of current income tax of prior years	41,905	(330,051)
Others	92,306	2,448,884
Tax expense/(credit) for the year	(16,311,733)	15,829,486

As per the amended 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) are no longer deductible for tax purposes from 1 January 2020.

The Group has tax losses of MNT 51,089,817 thousand pertaining to business operation of current year that are available to offset against future taxable profits for the next four financial years and MNT 291,033,008 thousand of tax losses pertaining to business operation of previous years which will expire in the next financial year. In 2019, the Group had tax losses MNT 499,580,962 thousand in total that are available to offset against future taxable profits for the next two financial years. The Group recognised deferred tax assets of MNT 4,136,365 thousand pertaining to tax losses, as the Group expects to have sufficient taxable profit in the next four years available against which the tax losses carried forward can be utilised. Deferred tax assets have not been recognised in respect of remaining tax losses as they may not be used to offset taxable profits based upon the likely timing and the level of future taxable profits.

The annual amount of tax loss deductible from taxable income is limited to 50% (2019: 50%) of the taxable income in a given year.

11.2. Income tax payables/(prepayments)

	2020 MNT'000	2019 MNT'000
At 1 January	1,459,805	1,195,430
Charge for the period (Note 11.1)	5,315,387	6,867,630
Income tax paid	(3,680,394)	(6,603,255)
Income tax withheld by others	(3,711,186)	–
At 31 December	(616,388)	1,459,805

11. Income tax (cont'd.)

11.3. Deferred taxes

	2020 MNT'000	2019 MNT'000
Deferred tax liabilities, net		
At 1 January	29,744,559	20,995,169
Recognised in profit or loss (Note 11.1)		
Future dividend distribution of the SPCs	(6,994,371)	6,489,106
Fair value change of derivative financial instruments	2,706,450	5,551,660
Unrealised foreign exchange loss, net	(3,013,847)	(3,048,903)
Fair value change of financial assets at FVPL	(1,370,284)	(30,007)
Tax losses carried forward	(4,136,360)	–
Modification loss on purchased mortgage pool receivables	(8,818,708)	–
	(21,627,120)	8,961,856
Deferred tax realised	–	(212,466)
At 31 December	8,117,439	29,744,559

	2020		2019	
	Deferred tax assets MNT'000	Deferred tax liabilities MNT'000	Deferred tax assets MNT'000	Deferred tax liabilities MNT'000
Future dividend distribution of the SPCs	–	20,277,438	–	27,271,809
Fair value change of derivative financial instruments	–	8,258,110	–	5,551,660
Unrealised foreign exchange loss, net	6,062,750	–	3,048,903	–
Fair value change of financial assets at FVPL	1,400,291	–	30,007	–
Tax losses carried forward	4,136,360	–	–	–
Modification loss on purchased mortgage pool receivables	8,818,708	–	–	–
	20,418,109	28,535,548	3,078,910	32,823,469
		8,117,439		29,744,559

12. Earnings/(loss) per share

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

	2020 MNT'000	2019 MNT'000
Profit/(loss) for the year and total comprehensive income/(loss) for the year (net of tax) attributable to equity holder of the Parent	(111,954,695)	54,234,301
Weighted-average number of ordinary shares for basic and diluted earnings/(loss) per share*	15,246,891	15,246,891
Earnings/(loss) per share		
	MNT	MNT
Equity holders of the Parent for the year:		
Basic and diluted earnings/(loss) per share	(7,342.79)	3,557.07

* The weighted-average number of shares takes into account treasury shares held by the Group.

13. Cash and bank balances

	2020 MNT'000	2019 MNT'000
Cash on hand	293,560	35,488
Term deposits with banks	158,239,808	17,546,643
Current accounts with banks	61,181,257	24,579,241
Trust accounts with banks	7,136,176	973,680
Collection accounts with banks	2,522,348	185,438,479
Gross carrying amount	229,373,149	228,573,531
Allowance for impairment losses	(4,944,489)	(236,524)
Net carrying amount	224,428,660	228,337,007

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 4.0% to 14.0% (2019: 3.5% to 14.0%) per annum on term deposits.

Additional cash flow information

	2020 MNT'000	2019 MNT'000
Cash and bank balances	229,373,149	228,573,531
Less: Placement with banks with original maturities of more than three months	(51,420,801)	(7,972,669)
Less: Cash and bank balances classified as Stage 3	(5,832,895)	–
Total cash and cash equivalents for the consolidated statement of cash flows	172,119,453	220,600,862

13.1. Impairment allowance for cash and bank balances

	2020 MNT'000	2019 MNT'000
At 1 January	236,524	3,338
Credit loss expense (Note 7)	4,707,965	233,186
At 31 December	4,944,489	236,524

Details of the Group's stage classification and methodology for calculating ECL are explained in Note 30.2.

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 30.2:

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

13.1. Impairment allowance for cash and bank balances (cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Internal rating grade				
Performing				
B- to B+ rated	223,220,135	–	–	223,220,135
C to CCC+ rated	26,559	–	–	26,559
	223,246,694	–	–	223,246,694
Non-performing				
D rated	–	–	5,832,895	5,832,895
	223,246,694	–	5,832,895	229,079,589
31 December 2019				
Performing				
B- to B+ rated	228,340,878	–	–	228,340,878
C to CCC+ rated	197,165	–	–	197,165
	228,538,043	–	–	228,538,043

Allowances for impairment losses for bank balances as at 31 December 2020 and 2019 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 2020					
Stage 1	223,246,694	0.89%	63.21%	96	1,310,000
Stage 3	5,832,895	100.00%	63.21%	1	3,634,489
	229,079,589				4,944,489
At 31 December 2019					
Stage 1	228,538,043	0.16%	63.09%	22	236,524

The table below shows changes in the gross carrying amount and the corresponding ECLs:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Gross carrying amount as at 1 January	228,538,043	–	–	228,538,043
New assets originated or purchased	3,346,135,397	–	–	3,346,135,397
Assets derecognised or repaid	(3,346,639,606)	–	–	(3,346,639,606)
Transfer to Stage 3	(5,832,895)	–	5,832,895	–
Foreign exchange movement	1,045,755	–	–	1,045,755
At 31 December	223,246,694	–	5,832,895	229,079,589
ECL allowance as at 1 January	236,524	–	–	236,524
New assets originated or purchased	3,558,981	–	–	3,558,981
Assets derecognised or repaid	(3,499,691)	–	–	(3,499,691)
Transfer to Stage 3	(5,864)	–	5,864	–
Impact on ECL on transfers between stages and changes to inputs	1,020,050	–	3,628,625	4,648,675
At 31 December	1,310,000	–	3,634,489	4,944,489

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

13.1. Impairment allowance for cash and bank balances (cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2019				
Gross carrying amount as at 1 January	86,419,815	–	–	86,419,815
New assets originated or purchased	7,602,481,528	–	–	7,602,481,528
Assets derecognised or repaid	(7,460,425,565)	–	–	(7,460,425,565)
Foreign exchange movement	62,265	–	–	62,265
At 31 December	228,538,043	–	–	228,538,043
ECL allowance as at 1 January	3,338	–	–	3,338
New assets originated or purchased	7,866,018	–	–	7,866,018
Assets derecognised or repaid	(7,721,120)	–	–	(7,721,120)
Impact on ECL on transfers between stages and changes to inputs	88,288	–	–	88,288
At 31 December	236,524	–	–	236,524

14. Debt instruments at amortised cost

	2020 MNT'000	2019 MNT'000
Preference shares (Note 29)	–	150,000,000
Loan notes receivables (Note 29)	85,548,438	87,000,000
Loan receivables with recourse	6,538,249	–
Accrued interest receivables on preference shares	–	18,908,547
Accrued interest receivables on loan notes	5,060,289	5,711,554
Accrued interest on loan receivables with recourse	65,830	–
	97,212,806	261,620,101
Allowance for impairment losses	(1,604,542)	(5,342,775)
Net debt instruments at amortised cost	95,608,264	256,277,326

Investment in preference shares

The investment in preference shares as at 31 December 2019 represented the Group's investment in 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 (see Note 29).

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. In November 2020, the Group sold back all preference shares held in UBC with a value of MNT 150 billion along with MNT 35.5 billion of interest accruals.

On 7 December 2020, the Group purchased a total of 30,000 new preference shares of UBC, with a par value of MNT 5 million per share for a total consideration of MNT 150 billion. The preference shares have an annual dividend rate of Central Bank policy rate plus 1 percent and have no fixed maturity terms. Per management's assessment, the newly purchased preference shares were classified as financial assets at FVPL (see Note 17).

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

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 (see Note 29).

Capital Bank receivership / QSC LLC

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.

On 2 March 2020, the Group sold its loan notes previously issued by the Capital Bank Receivership with an outstanding value of MNT 41 billion of principal and MNT 4 billion of interest accruals to QSC LLC ("QSC"). In return, QSC issued a new loan note ("QSC loan note") to the Group. The transaction value of the QSC loan note equals to the outstanding balance of the previous loan notes which management has assessed to be the fair value of the QSC loan note. The QSC loan note bears interest at 13 percent per annum and is due by 20 July 2021.

Loan receivables with recourse

Loan receivables with recourse represent financial lease receivables from individual borrowers, purchased from TDB Leasing LLC on 11 December 2020. The loans bear an interest rate of 19 percent per annum and are due to mature on 12 June 2021.

14.1. Impairment allowance for debt instruments at amortised cost

	2020 MNT'000	2019 MNT'000
At 1 January	5,342,775	1,431,653
Credit loss expense/(reversal) (Note 7)	(3,738,233)	3,911,122
At 31 December	1,604,542	5,342,775

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 30.2.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Internal rating grade				
Performing				
B- to B+ rated	97,212,806	–	–	97,212,806
31 December 2019				
Performing				
B- to B+ rated	216,390,329	–	–	216,390,329
C to CCC+ rated	–	45,229,772	–	45,229,772
	216,390,329	45,229,772	–	261,620,101

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

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

Allowances for impairment losses for debt instruments at amortised cost as at 31 December 2020 and 2019 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 2020				
Stage 1	97,212,806	2.60%	63.21%	1,604,542
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

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 30.2.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Gross carrying amount as at 1 January	216,390,329	45,229,772	–	261,620,101
New assets originated or purchased	84,761,204	–	–	84,761,204
Assets derecognised or repaid	(203,938,727)	(45,229,772)	–	(249,168,499)
At 31 December	97,212,806	–	–	97,212,806
ECL allowance as at 1 January	2,442,341	2,900,434	–	5,342,775
New assets originated or purchased	955,598	–	–	955,598
Assets derecognised or repaid	(2,546,288)	(2,900,434)	–	(5,446,722)
Impact on ECL on transfers between stages and changes to inputs	752,891	–	–	752,891
At 31 December	1,604,542	–	–	1,604,542
31 December 2019				
Gross carrying amount as at 1 January	197,440,521	–	–	197,440,521
New assets originated or purchased	75,571,650	–	–	75,571,650
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
ECL allowance as at 1 January	1,431,653	–	–	1,431,653
New assets originated or purchased	1,199,317	–	–	1,199,317
Assets derecognised or repaid	(128,651)	–	–	(128,651)
Transfer to Stage 2	(2,900,434)	2,900,434	–	–
Impact on ECL on transfers between stages and changes to inputs	2,840,456	–	–	2,840,456
At 31 December	2,442,341	2,900,434	–	5,342,775

15. 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, 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.

	2020 MNT'000	**2019 MNT'000**
Commercial mortgage pool receivables	374,409,008	429,235,625
Residential mortgage pool receivables	250,573,099	282,518,306
Gross mortgage pool receivables with recourse	624,982,107	711,753,931
Allowance for impairment losses	(10,518,407)	(6,192,685)
Net mortgage pool receivables with recourse	614,463,700	705,561,246

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

	2020 MNT'000	**2019 MNT'000**
Senior notes	621,058,597	698,892,423
Own sources	3,923,510	7,380,588
The Ministry of Finance of Mongolia (“MoF”)	–	5,480,920
Gross mortgage pool receivables with recourse	624,982,107	711,753,931

15.1. Impairment allowance for mortgage pool receivables with recourse

	2020 MNT'000	**2019 MNT'000**
At 1 January	6,192,685	29,067
Credit loss expense (Note 7)	4,325,722	6,163,618
At 31 December	10,518,407	6,192,685

Details of calculation and policies about ECL allowances are explained in Note 30.2.

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 30.2.

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

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Internal rating grade				
Performing				
B- to B+ rated	617,926,059	–	–	617,926,059
Non-performing				
D rated	–	–	7,056,048	7,056,048
	617,926,059	–	7,056,048	624,982,107
31 December 2019				
Performing				
B- to B+ rated	711,702,421	23,803	27,707	711,753,931

Allowances for impairment losses for mortgage pool receivables with recourse as at 31 December 2020 and 2019 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 2020				
Stage 1	617,926,059	3.24%	40.72%	8,102,727
Stage 3	7,056,048	100.00%	34.24%	2,415,680
	624,982,107			10,518,407
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

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:

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

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Gross carrying amount as at 1 January	711,702,421	23,803	27,707	711,753,931
New assets originated or purchased	249,927,129	–	–	249,927,129
Assets derecognised or repaid	(335,957,898)	(3,605)	(737,450)	(336,698,953)
Transfer to Stage 1	42,660	(20,198)	(22,462)	–
Transfer to Stage 3	(7,788,253)	–	7,788,253	–
At 31 December	617,926,059	–	7,056,048	624,982,107
ECL allowance as at 1 January	6,189,915	125	2,645	6,192,685
New assets originated or purchased	3,363,116	–	–	3,363,116
Assets derecognised or repaid	(1,894,070)	(10)	(366)	(1,894,446)
Transfer to Stage 1	2,395	(115)	(2,280)	–
Transfer to Stage 3	(162,940)	–	162,940	–
Impact on ECL on transfers between stages and changes to inputs	604,311	–	2,252,741	2,857,052
At 31 December	8,102,727	–	2,415,680	10,518,407
31 December 2019				
Gross carrying amount as at 1 January	20,347,047	–	–	20,347,047
New assets originated or purchased	713,363,850	–	–	713,363,850
Assets derecognised or repaid	(18,290,090)	–	–	(18,290,090)
Reclassification to purchased mortgage pool receivables	(2,267)	(3,664,609)	–	(3,666,876)
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
ECL allowance as at 1 January	29,067	–	–	29,067
New assets originated or purchased	6,168,558	–	–	6,168,558
Assets derecognised or repaid	(3,935)	–	–	(3,935)
Reclassification to purchased mortgage pool receivables	(475)	(4,195)	(91,098)	(95,768)
Transfer to Stage 2	(4,320)	4,320	–	–
Transfer to Stage 3	(93,743)	–	93,743	–
Impact on ECL on transfers between stages and changes to inputs	94,763	–	–	94,763
At 31 December	6,189,915	125	2,645	6,192,685

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 2021.

16. Purchased mortgage pool receivables

	2020 MNT'000	2019 MNT'000
Purchased mortgage pool receivables	2,855,198,064	2,886,730,905
Accrued interest receivables	17,909,068	14,117,615
Total gross purchased mortgage pool receivables	2,873,107,132	2,900,848,520
Allowance for impairment losses	(18,573,718)	(6,411,304)
Net purchased mortgage pool receivables	2,854,533,414	2,894,437,216

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.

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 30.2.

16.1. Impairment allowance for purchased mortgage pool receivables

	2020 MNT'000	2019 MNT'000
At 1 January	6,411,304	7,524,701
Credit loss expense/(reversal) (Note 7)	12,162,414	(1,113,397)
At 31 December	18,573,718	6,411,304

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 30.2.

16. Purchased mortgage pool receivables (cont'd.)

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Internal rating grade				
Performing mortgages	2,436,397,148	–	–	2,436,397,148
Mortgages in arrears	–	384,743,031	–	384,743,031
Non-performing mortgages				
Substandard mortgages	–	–	18,767,830	18,767,830
Doubtful mortgages	–	–	16,789,185	16,789,185
Bad mortgages	–	–	16,409,938	16,409,938
	–	–	51,966,953	51,966,953
Total	2,436,397,148	384,743,031	51,966,953	2,873,107,132
31 December 2019				
Internal rating grade				
Performing mortgages	2,678,495,246	–	–	2,678,495,246
Mortgages in arrears	–	189,125,469	–	189,125,469
Non-performing mortgages				
Substandard mortgages	–	–	10,042,219	10,042,219
Doubtful mortgages	–	–	9,268,459	9,268,459
Bad mortgages	–	–	13,917,127	13,917,127
	–	–	33,227,805	33,227,805
Total	2,678,495,246	189,125,469	33,227,805	2,900,848,520

Allowances for impairment losses for purchased mortgage pool receivables as at 31 December 2020 and 2019 at each stage 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 2020				
Stage 1	2,436,397,148	0.77%	6.83%	1,281,168
Stage 2	384,743,031	52.29%	6.83%	13,742,949
Stage 3	51,966,953	100.00%	6.83%	3,549,601
	2,873,107,132			18,573,718
At 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

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

16. Purchased mortgage pool receivables (cont'd.)

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2020				
Gross carrying amount as at 1 January	2,678,495,246	189,125,469	33,227,805	2,900,848,520
New assets originated or purchased	438,018,637	–	–	438,018,637
Assets derecognised or repaid	(363,172,353)	(11,481,322)	(2,919,292)	(377,572,967)
Effect of modification	(75,004,282)	(11,942,951)	(1,239,825)	(88,187,058)
Transfer to Stage 1	107,262,856	(103,692,303)	(3,570,553)	–
Transfer to Stage 2	(325,020,932)	330,802,381	(5,781,449)	–
Transfer to Stage 3	(24,182,024)	(8,068,243)	32,250,267	–
At 31 December	2,436,397,148	384,743,031	51,966,953	2,873,107,132
ECL allowance as at 1 January	850,863	3,242,409	2,318,032	6,411,304
New assets originated or purchased	181,987	–	–	181,987
Assets derecognised or repaid	(150,919)	(240,244)	(203,654)	(594,817)
Transfer to Stage 1	2,127,216	(1,850,329)	(276,887)	–
Transfer to Stage 2	(145,024)	593,757	(448,733)	–
Transfer to Stage 3	(20,876)	(136,943)	157,819	–
Impact on ECL on transfers between stages and changes to inputs	(1,562,079)	12,134,299	2,003,024	12,575,244
At 31 December	1,281,168	13,742,949	3,549,601	18,573,718
31 December 2019				
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 ECL on transfers between stages and changes to inputs	(2,313,417)	342,223	722,330	(1,248,864)
At 31 December	850,863	3,242,409	2,318,032	6,411,304

17. Financial assets at fair value through profit or loss

	2020 MNT'000	2019 MNT'000
Fair value as at 1 January	4,699,931	5,000,000
Acquisitions	150,000,000	–
Net loss from change in fair value through profit or loss	(13,702,852)	(300,069)
Fair value as at 31 December	140,997,079	4,699,931

Investment in 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. 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 2020, 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 (see Note 29).

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 2020 and 2019, 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 2022. The decrease in fair value of the Fund was mainly driven by a change in the interest rate on the bank loan during the year.

Investment in preference shares

In November 2020, the Group sold back all preference shares held in UBC (see Note 14), a shareholder of TDB, and purchased 30,000 new preference shares of UBC, with a par value of MNT 5 million per share for a total consideration of MNT 150 billion on 7 December 2020. The preference shares have an annual dividend rate of Central Bank policy rate plus 1 percent and have no fixed maturity terms (see Note 29).

Per the contractual terms, UBC may defer payments and no additional interest is accrued on the amounts deferred. Therefore, management has assessed that the investment does not pass the SPPI test in accordance with IFRS 9 and has classified the investment in preference shares as a financial asset at FVPL.

For the fair value disclosure of financial assets at FVPL, please refer to Note 31.

18. 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 24 and 29). 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 31.

18. Derivative financial instruments (cont'd.)

	Notional amount MNT'000	Fair value of assets 2020 MNT'000	2019 MNT'000
Derivatives			
Cross currency swaps	777,151,290	82,581,091	55,516,592

	2020 MNT'000	2019 MNT'000
Fair value as at 1 January	55,516,592	–
Net gains on derivative financial instruments	27,064,499	55,516,592
Fair value as at 31 December	82,581,091	55,516,592

Interest earned or incurred on derivative financial instruments is accrued in interest income or interest expense (disclosed at net, see Note 4), respectively, and received or paid at the net amount between the contractual rates every six months from 30 September 2019 to 30 March 2022. The reconciliation of interest payable is as shown below:

	2020 MNT'000	2019 MNT'000
Interest payable at 1 January	8,144,911	–
Net interest accrued (Note 4)	29,011,784	20,615,238
Net interest paid	(31,275,853)	(12,470,327)
Interest payable at 31 December (Note 22)	5,880,842	8,144,911

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.

	2020 MNT'000	2019 MNT'000
Fair value of swap:		
- USD receivable on settlement (+)	856,381,861	837,371,117
- MNT payable on settlement (-)	(773,800,770)	(781,854,525)
Net fair value of swap	82,581,091	55,516,592

19. Other assets

	2020 MNT'000	2019 MNT'000
Financial assets		
Other receivables	355,313	121,539
Non-financial assets		
Prepayments	1,434,444	227,931
Foreclosed properties	498,739	228,419
Consumables and office supplies	69,830	30,555
Value-added tax receivables	8,520	7,226
	2,011,533	494,131
	2,366,846	615,670

Included in prepayments as at 31 December 2020 were transaction costs that relate to the debt securities issued on the international market in February 2021 (see Note 32)

20. Property and equipment

	Premises	Furniture and equipment	Computers	Vehicles	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2020					
At cost					
At 1 January 2020	33,609,646	496,377	617,833	1,013,303	35,737,159
Additions	1,011,692	308,584	234,306	–	1,554,582
Write-off (Note 10)	–	(5,189)	(1,147)	–	(6,336)
Disposal	–	–	(3,230)	–	(3,230)
At 31 December 2020	34,621,338	799,772	847,762	1,013,303	37,282,175
Accumulated depreciation					
At 1 January 2020	2,475,386	160,435	370,608	198,518	3,204,947
Charge for the year (Note 9)	1,348,069	53,734	226,956	100,349	1,729,108
Write-off (Note 10)	–	(4,480)	(1,023)	–	(5,503)
Disposal	–	–	–	–	–
At 31 December 2020	3,823,455	209,689	596,541	298,867	4,928,552
Net carrying amount	30,797,883	590,083	251,221	714,436	32,353,623
At 31 December 2019					
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 (Note 10)	–	(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 9)	851,669	44,411	67,662	103,123	1,066,865
Write-off (Note 10)	–	(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

As at 31 December 2020, premises with carrying amount of MNT 30,797,883 thousand (2019: MNT 31,134,260 thousand) are collateralised for borrowed funds (see Note 23).

Included in additions for the year ended 31 December 2020 are capital improvements to premises of MNT 1,011,692 thousand.

21. Intangible assets

	Computer software 2020 MNT'000	2019 MNT'000
Cost		
At 1 January	513,674	442,787
Additions	141,819	78,214
Write-off	(43,975)	(7,327)
At 31 December	611,518	513,674
Accumulated amortisation		
At 1 January	321,806	285,008
Charge for the year (Note 9)	133,491	36,798
Write-off	(43,975)	
At 31 December	411,322	321,806
Net carrying amount	200,196	191,868

22. Other liabilities

	2020 MNT'000	2019 MNT'000
Financial liabilities		
Interest payable on cross-currency swap	5,880,842	8,144,911
VAT payable	52,495	5,935
Other payables	6,934,517	12,220,536
	12,867,854	20,371,382
Non-financial liabilities		
Withholding tax liability	1,858,729	5,037,825
	14,726,583	25,409,207

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. 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 25).

23. Borrowed funds

	2020 MNT'000	2019 MNT'000
TDB	15,789,248	36,110,330
Golomt Bank LLC (“Golomt”)	26,130,137	26,130,137
MoF	–	8,468,908
	41,919,385	70,709,375

23. Borrowed funds (cont'd.)

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 20). 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 10,753,084 thousand and MNT 11,041,289 thousand at 31 December 2020 and 2019, 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 20). The outstanding borrowings amounted to MNT 5,036,164 thousand at both 31 December 2020 and 31 December 2019.

(c) On 25 September 2019, the Group obtained a loan of MNT 20 billion with an interest rate of 12.0% per annum from TDB to finance its working capital. The Group fully settled the loan per schedule on 25 September 2020.

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 14). 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 Company was made on 3 January 2011, with a nominal interest rate of 4% per annum (2019: 4%). The borrowings were settled in full per schedule on 30 November 2020.

24. Debt securities issued

	2020 MNT'000	**2019 MNT'000**
Debt securities at amortised cost	825,603,454	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.

The Group repurchased a portion of the Notes in principal amount of USD 19,320,000 in a series of transactions that took place on 16 April 2020, 20 April 2020, 10 June 2020 and 31 July 2020. The repurchase resulted in a gain on repurchase of debt securities amounting to MNT 9,646,998 thousand (see Note 6).

25. Collateralised bonds

	Interest rate	**2020 MNT'000**	**2019 MNT'000**
Senior bonds	4.50%	2,307,314,223	2,545,933,710
Junior bonds	10.50%	433,256,183	403,095,464
Senior bonds II	4.50%	182,983,124	–
Senior bonds I	1.00%	51,090,047	–
Senior bonds III	13.00%	32,407,785	–
		3,007,051,362	2,949,029,174

25. Collateralised bonds (cont'd.)

The senior and junior bonds as at 31 December 2020 and 31 December 2019 represent bonds issued by the SPCs upon their mortgage pool purchases under the RMBS program of the government of Mongolia. Starting with the twenty-second issuance of RMBS, senior bonds were offered in three tranches: senior bonds I issued to the MoF, senior bonds II issued to the BoM, and senior bonds III issued to commercial banks, while prior to this change, all senior bonds were issued to the BoM and MoF. Junior bonds are solely issued to commercial banks. The bonds are collateralised by the purchased mortgage pool receivables (see Note 18).

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.

The bonds are not publicly traded on an active market (such as the stock exchange) but are sold directly to commercial banks.

Impact of Covid-19

Relief measures taken by the government in response to the Covid-19 outbreak included a mortgage principal and interest repayment deferral option to borrowers under the Affordable Housing Mortgage Program for fourteen months from 1 April 2020 to 1 July 2021 as described in Note 30. In conjunction with these measures, SPCs were also given the option by the BoM to defer the principal and coupon payments due to the BoM on the senior RMBS if the Group did not have the ability to pay, while continuing to make all other principal and coupon payments per schedule.

During the year, MIK Asset Sixteen SPC LLC and MIK Asset Eighteen SPC to MIK Asset Twenty-Four SPC LLC exercised the option to defer principal and coupon payments of MNT 13.7 billion on the senior bonds held by the BoM due to their inability to pay. All other SPCs have continuously made all principal and coupon payments on the bonds as scheduled based on management's assessment of the Group's liquidity position (see Note 30).

26. 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 (2019: 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 2020 and 31 December 2019 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 2019 and 1 January/31 December 2020	20,709,320	20,709,320	52,225,115

There were 5,462,429 shares held as treasury shares as at 31 December 2020 (2019: 5,462,429 shares). Excluding these shares, the total number of issued shares as at 31 December 2020 was 15,246,891 shares (2019: 15,246,891 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

There were no dividends declared to its shareholders during the years ended 31 December 2020 and 31 December 2019.

26. Ordinary shares (cont'd.)

The shareholders of the Group as of 31 December 2020 and 31 December 2019 and percentages of ownership are as follows:

	2020 MNT'000	2019 MNT'000
TDB	19.99%	9.99%
Asia Diversified Real Estate Fund One Private Investment Fund	11.16%	11.16%
TDB Capital LLC	11.25%	9.21%
Golomt	4.94%	4.94%
CNB Consulting LLC	2.61%	2.61%
CEC Group	2.36%	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%
Ulaanbaatar City Bank LLC	–	10.00%
Others	0.10%	0.10%
Total private sector share	56.39%	54.36%
Development Bank of Mongolia	14.88%	14.88%
Bank of Mongolia	–	2.03%
State Bank LLC	2.35%	2.35%
Total state shares	17.23%	19.26%
Treasury shares	26.38%	26.38%
Total	100.00%	100.00%

In June 2020, Ulaanbaatar City Bank LLC ("UBCB") was merged into TDB. The equity interest in the Group owned by UBCB was transferred to TDB, hence TDB directly held 19.99% shares of the Group as at 31 December 2020.

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 2020 and 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 3 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 2020 and participated in the policy making procedures.

27. 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.

Assets pledged and restricted

RMBS issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 31 December 2020, the Group had mortgage pool receivables with the gross amount of MNT 2,873,107,132 thousand (2019: MNT 2,900,848,520 thousand) pledged as collateral for the RMBS (see Note 16). The related liabilities amount is MNT 3,007,051,362 thousand as of 31 December 2020 (2019: MNT 2,949,029,174 thousand) (see Note 25).

28. 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 30.3 '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 2020			
Financial assets			
Cash and bank balances	221,430,034	2,998,626	224,428,660
Debt instrument at amortised cost	51,588,062	44,020,202	95,608,264
Mortgage pool receivables with recourse	607,060,018	7,403,682	614,463,700
Purchased mortgage pool receivables	132,853,003	2,721,680,411	2,854,533,414
Financial investments at fair value through profit or loss	–	140,997,079	140,997,079
Derivative financial instruments	–	82,581,091	82,581,091
Other assets	355,313	–	355,313
	1,013,286,430	2,999,681,091	4,012,967,521
Non-financial assets			
Property and equipment	–	32,353,623	32,353,623
Intangible assets	–	200,196	200,196
Income tax prepayment	830,239	–	830,239
Other assets	2,011,533	–	2,011,533
Deferred tax asset	–	20,418,109	20,418,109
	2,841,772	52,971,928	55,813,700
Total	1,016,128,202	3,052,653,019	4,068,781,221
Financial liabilities			
Borrowed funds	1,593,318	40,326,067	41,919,385
Debt securities issued	32,925,119	792,678,335	825,603,454
Collateralised bonds	147,469,294	2,859,582,068	3,007,051,362
Other liabilities	12,900,447	–	12,900,447
	194,888,178	3,692,586,470	3,887,474,648
Non-financial liabilities			
Other liabilities	1,826,136	–	1,826,136
Income tax payable	213,851	–	213,851
Deferred tax liability	–	28,535,548	28,535,548
	2,039,987	28,535,548	30,575,535
Total	196,928,165	3,721,122,018	3,918,050,183
Net	819,200,037	(668,468,999)	150,731,038

28. 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 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

29. 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.

Investment preference shares from shareholder of related party

In November 2020, the Group sold back all preference shares held in UBC and purchased a total of 30,000 new preference shares of UBC, with a par value of MNT 5 million per share for a total consideration of MNT 150 billion on 7 December 2020 (see Note 17). The preference shares have an annual dividend rate of Central Bank policy rate plus 1 percent and have no fixed maturity terms.

Per the contractual terms, UBC may defer payments and no additional interest is accrued on the amounts deferred. Therefore, management has assessed that the investment does not pass the SPPI test in accordance with IFRS 9 and has classified the investment in preference shares as a financial asset at FVPL.

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 23).

29. Related party disclosures (cont'd.)

Loans from/to shareholder of related party (cont'd.)

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 14). Golomt holds 4.95% shares of the Group as of 31 December 2020 (31 December 2019: 4.95%).

Investment in related party

In June 2019, following the bankruptcy of Capital Bank, the Group purchased through its SPCs loan notes issued by the Capital Bank 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.

On 2 March 2020, the Group sold its loan notes previously issued by the Capital Bank Receivership with an outstanding value of MNT 41 billion of principal and MNT 4 billion of interest accruals to QSC, a related party of a board member of the Group. In return, QSC issued a new loan note to the Group (see Note 14). The transaction value of the new loan note equals to the outstanding balance of the previous loan notes which management has assessed to be the fair value of the QSC loan note. The new loan note bears interest at 13 percent per annum and is due by 20 July 2021.

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 (see Note 17). 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 2020, 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.

Borrowings

On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion with an interest rate of 14.4% per annum. The loan principal and interest are repayable monthly beginning from 17 May 2018 to 17 May 2033 (see Note 23).

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 23).

On 25 September 2019, the Group acquired another loan of MNT 20 billion at 12.0% per annum from TDB with a maturity date of 25 September 2020. The loan was fully settled as at 30 September 2020 (see Note 23).

Other payables

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

	2020 MNT'000	2019 MNT'000
TDB	1,094,205	1,308,393
Khan Bank LLC	811,877	1,250,877
XacBank LLC	310,154	464,107
Golomt	1,218,054	1,453,019
Capitron Bank LLC	48,709	42,578
UBCB	–	384,016
State Bank LLC	294,184	398,258
Chinggis Khaan Bank LLC	3,545	20,193
Total	3,780,728	5,321,441

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

29. Related party disclosures (cont'd.)

Compensation to key management personnel

	2020 MNT'000	2019 MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	1,657,865	1,519,241
Contribution to social and health fund	113,043	183,816
	1,770,908	1,703,057

As at 31 December 2020 and 2019, the Group has the following balances and transactions with related parties:

As at 31 December 2020

	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	169,032,056	13,911,984	55,434,400	6,159,800	127,613,194	12,829,911
Khan Bank LLC	1,125,838	58,441	60,003,300	6,667,300	110,661,107	11,071,569
Xac Bank LLC	628,769	598,029	34,688,400	3,854,700	42,050,836	4,124,970
Golomt	39,319,341	2,231,837	45,338,800	5,038,100	116,846,699	11,815,581
Capitron Bank LLC	12,493,387	779,755	15,679,200	1,742,500	6,101,885	528,918
State Bank LLC	620,700	33,427	40,823,900	4,536,500	41,968,298	4,105,098
Chinggis Khaan Bank LLC	5,822,992	10,165	6,946,200	772,200	3,596,955	338,019
	229,043,083	17,623,638	258,914,200	28,771,100	448,838,974	44,814,066
BoM	–				2,323,321,423	106,431,185
MoF	–				228,401,837	8,983,004
	–	–	–	–	2,551,723,260	115,414,189
Total	229,043,083	17,623,638	258,914,200	28,771,100	3,000,562,234	160,228,255

As at 31 December 2020

	Mortgage pool portfolio						
	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	127,462,446	61,594,592	558,211,727	840,678,426	88,053,387	65,970,174	2,893,039
Khan Bank LLC	–	66,670,915	–	686,226,979	83,489	52,312,600	2,288,089
Xac Bank LLC	–	38,543,332	–	257,927,004	553,939	19,423,188	803,022
Golomt	11,024,893	50,377,315	55,252,147	724,071,137	11,227,944	56,873,951	2,563,897
Capitron Bank LLC	–	17,422,001	3,745,513	37,929,925	800,788	2,498,500	102,236
State Bank LLC	50,512	45,360,589	716,672	262,128,756	1,467,177	19,680,083	753,781
Chinggis Khaan Bank LLC	7,900,908	7,718,815	7,056,048	21,172,045	1,301,646	1,515,918	53,701
Total	146,438,759	287,687,559	624,982,107	2,830,134,272	103,488,370	218,274,414	9,457,765

29. Related party disclosures (cont'd.)

As at 31 December 2019

	Bank deposits		Collateralised bonds			
	Outstanding balance MNT'000	Interest Income MNT'000	Issued during the year: senior bonds MNT'000	Issued during the year: junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
TDB	102,934,511	34,242,997	87,575,500	9,730,700	96,968,417	9,353,199
Khan Bank LLC	4,346,024	196,081	40,070,800	4,452,400	95,571,319	9,591,256
Xac Bank LLC	8,682,235	1,176,657	18,488,400	2,054,300	33,993,314	3,359,642
Golomt	6,390,400	1,111,958	88,851,100	9,872,500	106,291,163	10,318,063
Capital Bank LLC	–	–	–	–	–	673,152
Capitron Bank LLC	4,253,366	111,959	4,386,400	487,300	3,076,232	285,555
UBCB	97,956,887	8,769,764	15,347,700	1,705,300	17,659,584	1,714,505
State Bank LLC	3,480,726	124,157	25,694,400	2,855,100	32,619,340	3,154,178
Chinggis Khaan Bank LLC	272,453	4,014	5,610,700	623,400	1,797,326	146,218
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 portfolio						
	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
Khan Bank LLC	1,034,513	44,523,293	1,027,421	701,308,568	7,165	54,801,266	3,027,883
Xac Bank LLC	15,050,133	20,542,868	15,449,630	246,701,220	854,987	19,062,695	1,064,150
Golomt	70,036,713	98,723,655	72,338,249	758,427,540	651,002	57,657,101	3,339,830
Capital Bank LLC	–	–	–	–	279,742	1,503,967	141,961
Capitron Bank LLC	7,035,416	4,873,904	6,279,256	23,847,750	350,152	1,678,816	87,495
UBCB	150,449,419	17,053,132	148,362,044	196,080,546	8,996,632	14,402,536	752,498
State Bank LLC	21,766,667	28,549,642	23,813,137	241,706,623	1,466,114	17,954,244	937,838
Chinggis Khaan Bank LLC	9,959,453	6,234,222	9,460,389	15,207,351	433,030	938,856	41,951
Total	701,642,299	317,807,066	711,753,931	2,861,596,715	46,431,798	219,021,499	12,406,366

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

** Difference between issuance of RMBS (senior and junior) and the purchased mortgage pool (without recourse) is the cash payment of the Group to the respective commercial banks amounting to MNT 2,553 thousand (2019: MNT 1,420 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.

30. Risk management

30.1. 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.

Impact of Covid-19

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

On 11 March 2020, the World Health Organization declared the novel coronavirus, which has the potential to cause severe respiratory illness ("Covid-19"), a global pandemic. The Government of Mongolia declared a state of emergency in response to the Covid-19 pandemic. Various measures were taken by the government to aid businesses and individuals during the pandemic, as many were impacted by the Covid-19 related business closures, restrictions to international trade, and domestic and international travel bans.

One of the interventions by the government required the Group to provide borrowers with the option to defer their mortgage principal repayments for six months beginning from 1 April 2020. In November 2020, the government made a decision to further extend the deferral period for another eight months until July 2021, with both principal and interest repayments being deferred. The deferral negatively impacted the Group's financial performance for the period and its liquidity position because most SPCs continued to make principal and coupon payments on the RMBS per schedule despite the deferral of payments on the mortgage pool receivables.

30. Risk management (cont'd.)

30.1. Introduction (cont'd.)

Impact of Covid-19 (cont'd.)

As an emerging risk, the duration and full financial effect of the Covid-19 pandemic is unknown at this time, as is the efficacy of the government and BoM interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the Covid-19 pandemic may materially and adversely affect the Group's operations, financial results and condition in future periods are also subject to significant uncertainty.

The Group has considered the overall economic environment in their ECL model based on the available information. Further, the Group has adjusted their forward-looking factor with the latest available data as of reporting date and for macroeconomic scenarios has considered severe scenarios when estimating. As of 31 December 2020, a total of 45,438 borrowers had applied to defer their payments and, consequently, a modification loss was recognised in relation to repayment deferrals for the period ended 31 December 2020 (see Note 8).

The following table presents the number of borrowers and associated mortgage loan values of all the deferrals under the government program for the year ended 31 December 2020:

Number of approved accounts	45,438
Loan value of borrowers under the scheme (in MNT thousands)	2,297,792,425
% of portfolio	80.0%

The table below sets out the gross carrying amount and corresponding ECL by stage for mortgage loans without recourse subject to payment reliefs provided under the government program:

Program		Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	MNT'000	1,956,665,040	309,172,108	31,955,277	2,297,792,425
% of portfolio	%	68.1%	10.8%	1.1%	80.0%
ECL	MNT'000	1,080,188	10,776,929	2,098,596	13,955,713
% of total ECL	%	5.8%	58.0%	11.3%	75.1%

There is still significant uncertainty over how the outbreak will impact the Group's business in future periods and borrowers' ability to make timely loan repayments once the deferral period is over.

The Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

30.2. 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.

Regarding Covid-19, the Group has considered the overall economic environment in their ECL model based on the available information. Further, the Group has adjusted their forward-looking factor with the latest available data as of reporting date and for macroeconomic scenarios has considered several scenarios when estimating. With regards to mortgage pool receivables with recourse, debt instruments and treasury assets, management adjusted selection of macro-economic scenarios and regards to the mortgage pool receivables without recourse, management applied the following additional judgments in the estimation of ECL:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact, including the potential extension of the repayment deferral period;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;

30. Risk management (cont'd.)

30.2. Credit risk (cont'd.)

- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event;
- Identification and assessment of significant increases in credit risk and impairment for borrowers who opted for the deferral and borrowers who did not defer their repayments
- Stratification of borrowers by employment sector and type of employment for Covid-19 impact analysis

These considerations and the ongoing Covid-19 impact have resulted in recognition of additional credit loss provision for the year ended 31 December 2020 (see Notes 15 and 16).

Treasury assets

The Group's treasury assets consist of current, trust, savings and collection accounts in ten different commercial banks 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.

Mortgage loans without recourse

The Group purchases mortgage loans without recourse 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 Group's own funds. For outstanding mortgage pool receivables with recourse balances based on their source of funding, please see Note 15.

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.

30. Risk management (cont'd.)

30.2. Credit risk (cont'd.)

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.

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 6 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.

Internal credit rating system

The Group classifies treasury assets, debt instruments and mortgage loans with recourse into internal rating grades based on the credit ratings of the counterparties.

The Group's classifications of mortgage loans without recourse are generally determined based on the number of days that the relevant mortgage is overdue with qualitative factors (including general financial condition and solvency of the borrower, and risks associated with the collateral) also taken into account. The classifications are as follows:

- Performing mortgages are mortgages under which sums are under or up to 30 days in arrears;
- Mortgages in arrears are mortgages under which sums are over 30 days but equal to or less than 90 days in arrears;
- Non-performing mortgages include:
    - *substandard mortgages:* mortgages under which sums are over 90 days but equal to or less than 180 days in arrears and the borrower's financial debt condition is in distress or the borrower is going to sell the collateral through non-court procedures;
    - *doubtful mortgages:* mortgages under which sums are over 180 days but equal to or less than 360 days in arrears and the originating commercial bank has transferred the mortgage to their Special Assets Unit or commenced enforcement action; and
    - *bad loans:* loans under which sums are equal over 360 days in arrears and a court decision has been made or the mortgage has been transferred for enforcement action.

The credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system are disclosed in Notes 13.1, 14.1, 15.1 and 16.1.

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.

30. Risk management (cont'd.)

30.2. Credit risk (cont'd.)

Exposure at default (cont'd.)

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 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.

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.

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 Group initially purchased these loans from the banks. For these assets, the Group 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.

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

- Percent change of G7 GDP
- Percent change of Dollar index
- Percent change of Consumer price index
- Percent change of Unemployment rate
- Percent change of House price indices

30. Risk management (cont'd.)

30.2. Credit risk (cont'd.)

Analysis of inputs to the ECL model under multiple economic scenarios (cont'd.)

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. With regards to the Covid-19 impact, the Group estimated the ECLs based on three multiple scenarios, with probability weights of 60:30:10 for PD (2019: 33% or 1/3) for base case, downside case and an upside case and two multiple scenarios for LGD with probability weights of 70:30 (2019: 60:20:20) for a downside case and a base case (2019: downside case, upside case and base case).

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 2020 and 2019.

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 2020 was MNT 6,518,936,581 thousand (31 December 2019: MNT 6,153,593,749 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.

	2020 MNT'000	**2019 MNT'000**
Bank balances	229,079,589	228,538,043
Debt instrument at amortised cost	97,212,806	261,620,101
Financial assets at FVPL	140,997,079	4,699,931
Mortgage pool receivables with recourse	624,982,107	711,753,931
Purchased mortgage pool receivables	2,873,107,132	2,900,848,520
Other assets	355,313	121,539
Total credit risk exposure	3,965,734,026	4,107,582,065

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 2020 and 2019 under IFRS 9 per categories based on the Group's internal credit rating system and year-end stage classification are further disclosed in Notes 13.1, 14.1, 15.1 and 16.1.

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.

30. Risk management (cont'd.)

30.3. 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 because the Group has the right to request from the respective commercial banks to replace or return any mortgage loans included in the mortgage pools purchased with recourse that are overdue more than 90 days (see Note 15).

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 based on contractual undiscounted repayment obligations.

Financial assets are presented at their net carrying amount at year-end. Financial liabilities are presented based on undiscounted contractual cash flows, which include any interest to be accrued over the life of the financial instrument. Statutory income tax balances are excluded from the analysis below.

At 31 December 2020	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 MNT'000
Cash and bank balances	68,185,277	80,340,017	26,628,700	46,276,040	2,998,626	–	224,428,660
Debt instruments at amortised cost	4,691,478	1,463,945	–	45,432,639	44,020,202	–	95,608,264
Purchased mortgage pool receivables	17,603,691	12,524,137	12,318,053	90,407,122	760,697,671	1,960,982,740	2,854,533,414
Mortgage pool receivables with recourse	22,885,639	2,177,029	2,115,508	579,881,842	4,934,653	2,469,029	614,463,700
Financial assets at FVPL	–	–	–	–	–	140,997,079	140,997,079
Derivative financial instruments	–	–	–	–	82,581,091	–	82,581,091
Other assets	355,313	–	–	–	–	–	355,313
Total financial assets	113,721,398	96,505,128	41,062,261	761,997,643	895,232,243	2,104,448,848	4,012,967,521
Other liabilities	10,867,604	–	–	2,000,250	–	–	12,867,854
Borrowed funds	–	1,857,877	600,617	2,439,452	43,698,769	13,705,596	62,302,311
Debt securities issued	–	38,708,671	–	38,990,273	831,950,209	–	909,649,153
Collateralised bonds	–	57,199,583	56,865,072	183,030,362	1,416,371,918	3,234,253,504	4,947,720,439
Total financial liabilities	10,867,604	97,766,131	57,465,689	226,460,337	2,292,020,896	3,247,959,100	5,932,539,757
Net liquidity gap	102,853,794	(1,261,003)	(16,403,428)	535,537,306	(1,396,788,653)	(1,143,510,252)	(1,919,572,236)

30. Risk management (cont'd.)

30.3. Liquidity risk (cont'd.)

At 31 December 2019	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 MNT'000
Cash and bank balances	43,185,000	179,008,490	1,276,668	4,866,849	–	–	228,337,007
Debt instruments at amortised cost	24,130,578	–	–	367,665	231,779,083	–	256,277,326
Purchased mortgage pool receivables	14,117,621	41,426,409	42,499,872	87,082,281	742,074,312	1,967,236,721	2,894,437,216
Mortgage pool receivables with recourse	11,765,494	45,102,361	22,572,412	28,474,656	597,530,965	115,358	705,561,246
Financial assets at FVPL	–	–	–	–	–	4,699,931	4,699,931
Derivative financial instruments	121,539	–	–	–	–	–	121,539
Other assets	–	–	–	–	55,516,592	–	55,516,592
Total financial assets	93,320,232	265,537,260	66,348,952	120,791,451	1,626,900,952	1,972,052,010	4,144,950,857
Other liabilities	15,944,436	–	–	2,170,946	2,256,000	–	20,371,382
Borrowed funds	–	2,457,740	1,374,363	31,660,821	46,748,769	15,553,542	97,795,235
Debt securities issued	–	39,977,730	–	39,755,632	939,322,895	–	1,019,056,257
Collateralised bonds	–	94,428,501	87,126,443	173,588,961	1,353,180,289	3,013,747,815	4,722,072,009
Total financial liabilities	15,944,436	136,863,971	88,500,806	247,176,360	2,341,507,953	3,029,301,357	5,859,294,883
Net liquidity gap	77,375,796	128,673,289	(22,151,854)	(126,384,909)	(714,607,001)	(1,057,249,347)	(1,714,344,026)

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.

30.4. 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 18.

30. Risk management (cont'd.)

30.4. Market risk (cont'd.)

The table below summarizes the Group's exposure to foreign exchange risk as at 31 December 2020 and 2019. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by currencies. Debt securities are presented gross of transaction costs which were already paid for and are not subject to any currency risk.

Financial assets and financial liabilities by currency	2020			2019		
	USD MNT'000	EUR MNT'000	Total MNT'000	USD MNT'000	EUR MNT'000	Total MNT'000
Assets						
Cash and balances	28,907,446	83	28,907,529	25,545,036	535,238	26,080,274
Mortgage pool receivables with recourse	–	–	–	30,719,606	–	30,719,606
	28,907,446	83	28,907,529	56,264,642	535,238	56,799,880
Liabilities						
Debt securities	832,725,586	–	832,725,586	853,814,972	–	853,814,972
Other liabilities	–	–	–	289,352	–	289,352
	832,725,586	–	832,725,586	854,104,324	–	854,104,324
Derivatives (notional amount)	777,151,290	–	777,151,290	777,151,290	–	777,151,290

The table below indicates the currencies to which the Company had significant exposure at the end of the reported periods on its non–trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the MNT (all other variables being constant) on the income statement and equity. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the MNT would have resulted in an equivalent but opposite impact.

	2020		2019	
	Change in currency rate %	Effect on profit before tax MNT'000	Change in currency rate %	Effect on profit before tax MNT'000
Currency				
USD	+10	(7,754,329)	+10	(7,394,426)

Interest rate risk

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

As at 31 December 2020 and 31 December 2019, 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 debt securities issued) have fixed interest rates and are not subject to repricing until they mature.

30. Risk management (cont'd.)

30.4. Market risk (cont'd.)

Interest rate risk (cont'd.)

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 2020						
Interest-bearing financial assets	205,830,244	41,467,148	765,340,165	894,792,043	2,103,674,466	4,011,104,066
Interest-bearing financial liabilities	79,181,299	12,344,544	92,462,138	1,586,896,539	2,105,689,931	3,876,574,451
Net interest sensitivity gap	126,648,945	29,122,604	672,878,027	(692,104,496)	(2,015,465)	134,529,615
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

30.5. 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.

31. Fair value of financial instruments

Fair value hierarchy

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2020				
Financial assets measured at FVPL				
Unquoted investment in Fund	–	–	1,214,582	1,214,582
Unquoted investment in UBC	–	–	139,782,497	139,782,497
Derivative financial instruments	–	82,581,091	–	82,581,091
	–	82,581,091	140,997,079	223,578,170
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

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

Fair value hierarchy (cont'd.)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020 and 2019 is as shown below:

Financial assets	Fair value (MNT'000) 31 December 2020	31 December 2019	Valuation technique	Inputs
Derivative financial instruments	82,581,091	55,516,592	Discounted cash flow model	USD - MNT foreign exchange rate, repo 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 the fair value of the underlying investment portfolio was assessed by taking into account a liquidity discount to the portfolio. The fair value assessments as of 31 December 2020 and 2019 were performed by an external valuer and the valuation methodology and inputs were applied consistently for both years. A net loss of MNT 3,485,349 thousand was recognised in the statement of profit or loss for the period ended 31 December 2020 (see Note 17).

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 31 December 2020 MNT'000	31 December 2019 MNT'000
Unquoted investment in Fund	Adjusted net asset method (Finnerty model)	Finnerty model discount %	+/-10%	(278,066)/ 278,066	(128,470)/ 128,470
		Interest rate	+/-10%	665,308/ (665,308)	299,729/ (299,729)
		Volatility	+/-10%	(270,215)/ 270,215	(127,707)/ 127,707

Because active market prices are not available, the Group used the discounted cash flow model with unobservable inputs. Therefore, the fair value of unquoted investment in UBC is also categorised under level 3. The fair value assessment as of 31 December 2020 was performed by an external valuer and the valuation methodology and inputs are consistent with valuation practice. A net loss of MNT 10,217,503 thousand was recognised in the statement of profit or loss for the period ended 31 December 2020 (see Note 17).

The following table demonstrates the sensitivity of the unquoted investment in UBC 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 2020				
Unquoted investment in UBC	Discounted cash flow model	Discount rate	+/-10%	(3,438,778)/ 3,438,778

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

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value.

	2020 MNT'000	2019 MNT'000
Unquoted investment in Fund		
At 1 January	4,699,931	5,000,000
Net loss from change in fair value through profit or loss	(3,485,349)	(300,069)
At 31 December	1,214,582	4,699,931
Unquoted investment in UBC		
At 1 January	–	–
Purchase	150,000,000	–
Net loss from change in fair value through profit or loss	(10,217,503)	–
At 31 December	142,213,681	–

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.

31. 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 2020 are restricted retained earnings of MNT 202,774,380 thousand (31 December 2019: MNT 272,718,090 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. MIK HFC is also restricted from distribution of dividends in accordance with covenants related to debt securities issued in 2019.

The Group was not subject to any other externally imposed capital requirements throughout 2020 and 2019.

32. Subsequent events

Following its receipt of the special license to issue RMBS from the FRC on 13 January 2021, MIK Asset Twenty-Five SPC LLC, a wholly owned subsidiary of MIK HFC, purchased mortgage pools amounting to MNT 108,052,514 thousand from commercial banks and issued RMBS amounting to MNT 108,051,900 thousand.

As of 31 January 2021, which was the final date for applications to defer payments on mortgages issued under the Affordable Housing Finance Program until 1 July 2021, additional 2,146 borrowers were approved for deferral since 1 January 2021, totalling 47,584 borrowers in aggregate.

On 8 February 2021, the Group issued USD 250.0 million Senior Notes on the international capital market. The Senior Notes have an annual coupon rate of 8.85% and are due to mature in 3 years in 2024.

On 9 February 2021, the Group repurchased a portion of the Notes issued in 2019 in principal amount of USD 193,049,000.

33. Subsequent events (cont'd.)

On 25 February 2021, MIK Real Estate LLC issued 227,441 loan notes totalling MNT 11,372,050 thousand to MIK HFC with an interest rate of Central Bank policy rate plus 1 percent for a period of 32 days. On the date of maturity, the contract term was further extended to 28 June 2021.

On the same day, with proceeds received from the loan notes issued, MIK Real Estate LLC granted a loan to United Securities LLC amounting to MNT 11,372,050 thousand with an interest rate of Central Bank repo rate plus 2 percent per annum for a period of 32 days. The loan agreement was also extended to 28 June 2021.

On 13 April 2021, the Group purchased loans with recourse from TDB Leasing LLC amounting to USD 55 million. The loans bear an interest rate of 12.3 percent per annum and are due to mature on 13 April 2026.