MAGIC CONSULTING AUDIT

AUDIT AND ASSURANCE SERVICE

MIK HOLDING JSC AND ITS SUBSIDIARIES

DECEMBER 31, 2021

AUDITOR'S REPORT

MIK HOLDING JSC AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

Registered Office	: Chingeltei district, 1st khoroo Sukhbaatar Square street 11 P.O.Box – 15160 – 215 Ulaanbaatar City, Mongolia
Board of Directors	: Mr. Munkhbaatar M. (Chairman) Mr. Enkhjin A. Mr. Tserendash T. Mr. Davaajav T. Mr. Uurtsaikhbaatar B. Mr. Ganzorig U. Mr. Khashchuluun Ch. Mr. Shijir E. Mr. Tulga E.
Auditors	: Magic Consulting Audit LLC Certified Public Accountants

STATEMENT BY CHAIRMAN AND EXECUTIVES

We, Khashchuluun Chuluundorj, being the Chairman of the Board of Directors of MIK Holding JSC, Gantulga Badamkhatan, being the Chief Executive Officer, and Sansar Ganbaatar, 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 2021 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").

MIK HOLDING
МИК ХОЛДИНГ ХК
УЛААНБААТАР ХОТ

Khashchuluun Chuluundorj Chairman of the Board of Directors	Gantulga Badamkhatan Chief Executive Officer	Sansar Ganbaatar Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 29 April 2022

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2022.03.18 number 21-UB/03/48

from ______ number ______

TO THE SHAREHOLDERS OF
MIK HOLDING JSC

INDEPENDENT AUDITOR'S REPORT

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 December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidates statement of cash flows for the year then ended, and notes to the 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 December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), law of Mongolia on accounting, and regualtions issued by Financial Regulatory Commission.

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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 (Cont'd)

Key audit matters	Our audit procedures
The accuracy of tax calculations and withholding tax related to future dividend distribution of SPCs: Due to the required management judgement in Group's tax liability calculations and implementation of tax legislations, accuracy of tax calculations is considered a key audit matter. In accordance to the transition to a market economy, the Government of Mongolia continues to restructure its business and economy. As a result, laws and regulations that affect business operations are also changing. Different authorities have the legal authority to monitor the implementation of tax laws and impose fines. The Group believes that all taxes have been accurately determined based on its understanding of tax legislation, but the Group is still subject to tax risk based on the factors mentioned above.	***Our audit procedures relating to assessment of accuracy and appropriateness of tax calculations:*** - Obtained an understanding of the Group's tax calculations and their related accounting policies, and management assessment - Assessment of the appropriateness of tax liabilities recorded in the financial statements or the reasons of unrecorded tax liabilities using the relations between Group and tax authorities and our tax professionals' experience in tax laws, regulations and practices - Assessing the adequacy of the tax liabilities and its' disclosures in the notes to the financial statements, whether they are calculated in accordance with the latest changes in tax laws, and whether they obtain possible tax penalties and interest.
Impairment of financial assets The impairment of cash and cash equivalents, financial investments and mortgage pool receivables is estimated by the Group management through use of highly subjective assumptions. Due to the related estimation uncertainty of cash and cash equivalents, financial investments, mortgage pool receivables, representing about 85.3% of the Group's total assets as at 31 December 2021, this is considered a key audit matter. Relevant disclosures of the accounting policy and critical accounting estimates and judgments are included in Notes 2.4 and 2.5, respectively.	***Our audit procedures relating to impairment of financial assets:*** For assessment of impairment of cash and cash equivalents, financial investments and mortgage pool receivables as of 31 December 2021, we obtained understanding of the Group's methodologies, inputs and assumptions used by the Group in its ECL model in calculation of impairment of cash and cash equivalents, financial investments and mortgage pool receivables, compared the inputs from Group's internal data to relevant information, and assessed the adequacy of the diclosures in the notes to the consolidated financial statements.

Key audit matters (Cont'd)

Calculation of modification loss on purchased mortgage pool receivables	***Our audit procedures relating to calculation of modification loss on purchased mortgage pool receivables:***
In November 2020, in order to relieve the impact of the coronavirus /Covid-19/ pandemic on the economy and mortgage market, the Government and the Bank of Mongolia 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 up to 31 December 2022. Calculation of modification loss on mortgage pool receivables is considered a key audit matter. Management assessed cash flows and purchased mortgage pool receivables according to modification of the terms of loan contracts. Based on the change in cash flows discounted at the original effective interest rate, the Group recognised a modification loss on purchased mortgage pool receivables in accordance with IFRS.	- Obtained an understanding of the Group's methodologies, inputs and assumptions used by the Group in its modification loss calculation relating to modification of the terms of loan contracts - Compared the inputs of medication loss on purchased mortgage pool receivables from Group's internal data to relevant information - Tested the accuracy of internal data of borrowers who applied for principal and interest payment deferral until 15 April 2022 - Assessed the IFRS implementation of the disclosures 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 financial statements in accordance with IFRSs, law of Mongolia on accounting, and regualtions issued by Financial Regulatory Commission, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern andusing the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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.

To the Shareholders of MIK HOLDING JSC
INDEPENDENT AUDITOR'S REPORT

Report usage

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

MUNKHBAYAR Sanjaadorj
CPA, Partner
Magic Consulting Audit LLC

Ulaanbaatar city, Mongolia
March 18, 2022

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 MNT'000
Interest income	3	363,864,023	371,396,730
Interest expense	4	(275,178,917)	(287,720,558)
Net interest income		88,685,106	83,676,172
Fee and commission expense	5	(9,614,343)	(9,585,005)
Other operating income	6	3,505,711	11,214,327
Total operating income		82,576,474	85,305,494
Credit loss reversal/(expense)	7	11,099,582	(17,457,868)
Net gain/(loss) on financial assets at fair value through profit or loss	18	4,502,108	(8,431,481)
Net gain/(loss) on change in fair value of derivative financial instruments	19	(15,942,190)	22,758,108
Modification loss on purchased mortgage pool receivables	8	(196,070,244)	(163,810,050)
Modification gain on collateralised bonds	9	14,484,838	–
Net operating loss		(99,349,432)	(81,635,797)
Operating expenses	10	(13,101,897)	(12,084,699)
Other operating expenses	11	(20,284,503)	(33,539,392)
Loss before tax		(132,735,832)	(127,259,888)
Income tax credit/(expense)	12.1	(13,848,678)	15,305,193
Loss for the period, representing total comprehensive loss		(146,584,510)	(111,954,695)

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 MNT'000	2020 MNT'000
ASSETS			
Cash and bank balances	13	549,820,809	224,428,670
Debt instruments at amortised cost	14	80,766,979	95,649,826
Mortgage pool receivables with recourse	15	364,341,576	614,463,700
Loan receivables with recourse	16	44,840,080	–
Purchased mortgage pool receivables	17	2,901,349,797	2,854,533,413
Financial assets at fair value through profit or loss	18	145,499,187	146,268,450
Derivative financial instruments	19	66,638,901	78,274,700
Other assets	20	30,180,342	2,776,836
Property and equipment	21	37,709,674	32,353,623
Intangible assets	22	201,833	200,196
Income tax prepayments	12.2	1,566,195	830,239
Deferred tax assets	12.3	3,009,508	19,419,016
TOTAL ASSETS		4,225,924,881	4,069,198,669
LIABILITIES			
Other liabilities	23	13,194,729	15,136,583
Borrowed funds	24	41,581,993	41,919,385
Debt securities	25	1,004,976,075	825,603,454
Collateralised bonds	26	3,141,395,589	3,007,051,362
Income tax payables	12.2	25,875	218,008
Deferred tax liabilities	12.3	20,604,092	28,538,839
TOTAL LIABILITIES		4,221,778,353	3,918,467,631
EQUITY			
Ordinary shares	27	20,709,320	20,709,320
Share premium	27	52,225,115	52,225,115
Treasury shares	27	(62,143,136)	(62,143,136)
Reserve		(6,644,771)	139,939,739
TOTAL EQUITY		4,146,528	150,731,038
TOTAL LIABILITIES AND EQUITY		4,225,924,881	4,069,198,669

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Ordinary shares	Share premium	Treasury shares	Retained earnings*	Total equity
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 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 and 1 January 2021	20,709,320	52,225,115	(62,143,136)	139,939,739	150,731,038
Total comprehensive loss	–	–	–	(146,584,510)	(146,584,510)
At 31 December 2021	20,709,320	52,225,115	(62,143,136)	(6,644,771)	4,146,528

* Included in retained earnings as at 31 December 2021 are restricted retained earnings of MNT 139,402,007 thousand (31 December 2020: MNT 206,814,407 thousand) that are attributable to the Group’s Special Purpose Companies (“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 2021

	2021 MNT'000	2020 MNT'000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts	**187,262,411**	**297,084,034**
Cash received from the sales of goods and rendering of services	186,326,414	296,198,110
Cash receipts from royalties, fees, and commissions	-	-
Other cash receipts	935,996	885,924
Cash payments	**238,982,811**	**312,168,874**
Cash paid to employees	4,340,314	5,229,291
Cash paid to social insurance administration	1,150,656	519,168
Purchase of inventory	48,409	132,337
Payment for utility expense	173,132	261,584
Payment for fuel, transportation fee, and spare parts	25,932	36,864
Interest paid	180,030,529	267,646,224
Tax paid	17,239,013	16,097,191
Insurance paid	14,147	28,677
Other cash payments	35,960,679	22,217,538
Net cash flow from operating activities	**(51,720,401)**	**(15,084,840)**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash receipts	**939,032,449**	**512,702,306**
Proceeds from sales of property, plant, and equipment	92,347	91,950
Proceeds from sales of investments	-	793,688
Cash received from the repayment of advances and loans made to other parties	932,632,745	509,068,202
Cash received for interest	6,307,356	2,748,466
Cash payments	**14,376,872**	**22,175,931**
Purchase of property, plant, and equipment	353,719	3,215,141
Purchase of intangible assets	-	138,877
Cash paid to acquire investments	7,000,000	-
Cash paid to acquire other long-term assets	-	14,000
Cash advances and loans made to other parties	7,023,153	18,807,913
Net cash flows from investing activities	**924,655,577**	**490,526,375**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash receipts	**750,008,730**	**16,000**
Proceeds from obtaining loans and issuing debt securities	750,008,730	-
Proceeds from issuing shares and other equity instruments	-	16,000
Cash payments	**1,297,551,770**	**479,365,871**
Repayments of loans and debt securities	1,297,551,770	479,365,871
Repayments of shares	-	-
Net cash flows from financing activities	**(547,543,040)**	**(479,349,871)**
Total net cash flows	**325,392,138**	**(3,908,337)**
Cash and cash equivalents at 1 January	**224,428,670**	**228,337,007**
Cash and cash equivalents at 31 December	**549,820,809**	**224,428,670**

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 Chingeltei district, 1st khoroo, Sukhbaatar Square street 11, 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 (2020: MNT 20,709,320 thousand) consists of 20,709,320 (2020: 20,709,320) common shares at par value of MNT 1,000 (2020: MNT 1,000) each.

The Company is a joint stock company listed on the Mongolian Stock Exchange, incorporated and domiciled in Mongolia.

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 the 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, the 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 1 October 2021: 6%) 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 2021, the Group had established twenty-eight SPCs (2020: twenty-five), of which all twenty-eight have purchased mortgage pools and issued RMBS (2020: twenty-four).

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 18 March 2022.

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"), law of Mongolia on accounting, and regulations as issued by Financial Regulatory Commission.

2.2. Functional currency

These financial statements are presented in Mongolian Tugriks (MNT), the currency of the primary economic environment in which is the Company's functional currency.

2. Significant accounting policies (cont'd.)

2.3. Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity.

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 2021. 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.

2.4. Changes in accounting policies and disclosures

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).

2. Significant accounting policies (cont'd.)

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

Recognition of income and expense (cont'd.)

The effective interest rate method **(cont'd.)**

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.

Financial instruments

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.

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

2. Significant accounting policies (cont’d.)

2.4. Changes in accounting policies and disclosures (cont’d.)

Financial instruments (cont’d.)

Financial assets (cont’d.)

Business model assessment (cont’d.)

- 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.

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 with recourse, loan notes 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 2021.

2. Significant accounting policies (cont'd.)

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

Financial instruments (cont'd.)

Financial assets (cont'd.)

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 2021.

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.

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 19 and 20.

2. Significant accounting policies (cont'd.)

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

Financial instruments (cont'd.)

Financial assets (cont'd.)

Derecognition (cont'd.)

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.

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 two multiple scenarios which are base case and a downside case for both PD and 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.

2. Significant accounting policies (cont'd.)

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

Financial instruments (cont'd.)

Financial assets (cont'd.)

Impairment of financial assets (cont'd.)

The mechanics of the ECL method are summarised below:

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

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

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

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

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

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.

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.)

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

Financial instruments (cont'd.)

Financial liabilities (cont'd.)

Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognised immediately in profit or loss.

For financial liabilities, the Group considers a modification to be 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 liability of, or greater than, ten percent.

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 33.

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.

2. Significant accounting policies (cont'd.)

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

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:

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.

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.

2. Significant accounting policies (cont'd.)

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

Impairment of non–financial assets (cont'd.)

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.

(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.

2. Significant accounting policies (cont'd.)

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

Equity

(i) Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. When shares are sold at a premium, the excess over par value is credited to the share premium.

(ii) Treasury shares

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

(iii) Retained earnings

Retained earnings represent accumulated profits or losses, reduced by dividend declarations.

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

Earnings/loss per share

Basic earnings/loss per share is calculated by dividing the net profit/loss 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/loss per share is calculated by dividing the net profit/loss 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 31.

2. Significant accounting policies (cont'd.)

2.5. 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 .

Deferred tax

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

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

Further details are given in Note 12.3 to the consolidated financial statements.

Covid-19

On 31 December 2019, the WHO China Country Office was informed of cases of pneumonia unknown etiology detected in Wuhan City, Hubei Province of China. On 30 January 2020 following the recommendations of the Emergency Committee, the WHO Director General declared that the outbreak constitutes a Public Health Emergency of International Concern (PHEIC). 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.

3. Interest income and segment information

During the year ended 31 December 2021 and 2020, 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.

	2021 **MNT'000**	**2020** **MNT'000**
Interest income calculated using the effective interest method		
Purchased mortgage pool receivables (without recourse)	228,021,296	221,467,724
Mortgage pool receivables with recourse	99,253,156	103,888,348
Bank balances	11,328,183	17,624,534
Debt instruments at amortised cost	11,000,289	28,416,124
Loan receivables with recourse	3,761,099	–
	353,364,023	371,396,730
Other interest income		
Financial assets at FVPL	10,500,000	–
	363,864,023	371,396,730

Included in interest income from purchased mortgage pool receivables for the year ended 31 December 2021 is an amount of MNT 187.9 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

	2021 **MNT'000**	**2020** **MNT'000**
Interest expense calculated using the effective interest method		
Collateralised bonds	159,719,123	160,831,980
Debt securities issued	99,060,720	90,400,750
Borrowed funds	4,560,553	6,702,935
Other payables	390,466	487,303
	263,730,862	258,422,968
Other interest expense		
Derivative financial instruments	11,448,055	29,297,590
	275,178,917	287,720,558

Included in interest expense on collateralised bonds for the year ended 31 December 2021 is an amount of MNT 14.5 billion, representing accrued interest arising from the amortisation of the modification gain on collateralised bonds over the deferral period as further detailed in Note 9.

5. Fee and commission expense

	2021 **MNT'000**	**2020** **MNT'000**
Loan service fee	9,598,820	9,574,042
Bank service charge	15,523	10,963
	9,614,343	9,585,005

6. Other operating income

	2021 MNT'000	2020 MNT'000
Gain on disposal of property and equipment	2,568,249	–
Unrealised foreign exchange gain, net	182,542	–
Gain on repurchase of debt securities issued	–	9,646,998
Others	754,920	1,567,329
	3,505,711	11,214,327

7. Credit loss expense/(reversal)

	2021 MNT'000	2020 MNT'000
Debt instruments at amortised cost	7,671,646	(3,738,233)
Loan receivables with recourse	769,955	–
Cash and bank balances	(3,967,475)	4,707,965
Purchased mortgage pool receivables (without recourse)	(7,033,116)	12,162,414
Mortgage pool receivables with recourse	(8,540,592)	4,325,722
	(11,099,582)	17,457,868

8. Modification loss on purchased mortgage pool receivables

	2021 MNT'000	2020 MNT'000
Modification loss on purchased mortgage pool receivables	196,070,244	163,810,050

In April 2020, in order to relieve the impact of the Covid-19 pandemic on the Mongolian economy and the mortgage market, the Government and the BoM implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants to defer the principal and interest payments. Initially the deferral program was approved for six months up to 1 October 2020, which was extended three times by the authorities up to 1 July 2022.

As of 31 December 2021, a total of 49,586 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.

9. Modification gain on collateralised bonds

	2021 MNT'000	2020 MNT'000
Modification gain on collateralised bonds	14,484,838	–

In conjunction with the mortgage principal and interest repayment deferral program, MIK Asset Seventeen SPC LLC to MIK Asset Twenty-Five SPC LLC were given the option by the BoM and the MoF to defer the principal and coupon payments due to them on the senior RMBS if they did not have the ability to pay, given that these entities are relatively new and do not have sufficient reserves. All other principal and coupon payments are to be made per schedule.

10. Operating expenses

	2021 MNT'000	2020 MNT'000
Personnel expenses	7,777,675	6,363,031
Professional service fees	1,129,872	1,463,358
Depreciation, amortisation expense	1,701,085	1,862,599
Advertisement expense	453,002	738,149
Property tax expense	230,654	354,636
Utility expense	173,132	261,584
Business trip expense	7,140	86,888
Other operating expenses	1,491,335	954,454
	13,101,897	12,084,699

11. Other operating expenses

	2021 MNT'000	2020 MNT'000
Loss on repurchase of debt securities	17,466,238	–
Discount on other assets	1,613,028	–
Entertainment expense	607,457	524,208
Realised foreign exchange loss, net	98,537	343,599
Loss on disposal of property and equipment	76,386	–
Loss on disposal of foreclosed property	36,057	76,672
Write-off of property and equipment	3,421	833
Unrealised foreign exchange loss, net	–	32,157,484
Others	383,379	436,596
	20,284,503	33,539,392

12. Income tax

12.1. Income tax expense/(credit)

The components of income tax expense/(credit) for the years ended 31 December 2021 are:

	2021 MNT'000	2020 MNT'000
Current tax		
Current income tax	4,371,533	5,319,543
Deferred tax		
Relating to origination of temporary differences	9,477,145	(20,624,736)
	13,848,678	(15,305,193)

	2021 MNT'000
Loss before tax	(132,735,832)
Tax at statutory tax rate of 10% (2020: 10%)	(13,273,583)
Effect of expenses not deductible for tax purposes	3,162,982
Effect of withholding tax on future dividend distribution of SPCs	(6,337,237)
Effect of income subject to lower tax rate	(2,611,333)
Effect of income not subject to tax	(2,429,876)
Deferred tax asset not recognised for tax losses	35,337,725
Adjustment in respect of current income tax of prior years	–
Others	–
Tax expense/(credit) for the year	13,848,678
Effective tax rate	-10.43%

12. Income tax (cont'd.)

12.1. 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 rates for profits of the Group are 10% (2020: 10%) for the first MNT 6 billion (2020: MNT 6 billion) of taxable income, and 25% (2020: 25%) on the excess of taxable income over MNT 6 billion (2020: MNT 6 billion).

12.2. Income tax payables/(prepayments)

	2021 MNT'000	2020 MNT'000
At 1 January	(612,231)	1,459,805
Charge for the period	4,371,533	5,319,543
Income tax paid	(1,386,770)	(3,680,393)
Income tax withheld by others	(3,912,851)	(3,711,186)
At 31 December	(1,540,320)	(612,231)

	2021 MNT'000	2020 MNT'000
Income tax payable/(prepayment), net:		
- Income tax payable (+)	25,875	218,008
- Income tax prepayment (-)	(1,566,195)	(830,239)
	(1,540,320)	(612,231)

12.3. Deferred taxes

	2021 MNT'000	2020 MNT'000
Deferred tax liabilities, net		
At 1 January	9,119,823	29,744,559
Recognised in profit or loss (Note 12.1)		
Future dividend distribution of the SPCs	(6,741,207)	(6,590,401)
Fair value change of derivative financial instruments	(1,163,580)	2,275,811
Unrealised foreign exchange movement, net	6,062,750	(3,013,847)
Fair value change of financial assets at FVPL	873,155	(843,150)
Tax losses carried forward	624,935	(3,634,441)
Modification loss on purchased mortgage pool receivables	8,818,708	(8,818,708)
	8,474,761	(20,624,736)
At 31 December	17,594,584	9,119,823

13. Cash and bank balances

	2021 MNT'000	2020 MNT'000
Cash on hand	285,106	293,558
Current accounts with banks	460,389,875	61,180,481
Term deposits with banks	70,451,739	158,239,808
Trust accounts with banks	12,306,748	7,136,964
Collection accounts with banks	7,364,355	2,522,348
Gross carrying amount	550,797,823	229,373,159
Allowance for impairment losses	(977,014)	(4,944,489)
Net carrying amount	549,820,809	224,428,670

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.

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

Additional cash flow information

	2021 MNT'000	2020 MNT'000
Cash and bank balances	550,797,823	229,373,159
Less: Placement with banks with original maturities of more than three months	(19,050,389)	(51,420,801)
Less: Cash and bank balances classified as Stage 3	(1,240,147)	–
Total cash and cash equivalents for the consolidated statement of cash flows	530,507,287	177,952,358

13.1. Impairment allowance for cash and bank balances

	2021 MNT'000	2020 MNT'000
At 1 January	4,944,489	236,524
Credit loss expense/(reversal) (Note 7)	(3,967,475)	4,707,965
At 31 December	977,014	4,944,489

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.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2021				
Internal rating grade				
B- to B+ rated	549,225,905	–	–	549,225,905
C to CCC+ rated	46,665	–	–	46,665
D rated	–	–	1,240,147	1,240,147
	549,272,570	–	1,240,147	550,512,717
31 December 2020				
B- to B+ rated	223,220,147	–	–	223,220,147
C to CCC+ rated	26,559	–	–	26,559
D rated	–	–	5,832,895	5,832,895
	223,246,706	–	5,832,895	229,079,601

Allowances for impairment losses for bank balances as at 31 December 2021 and 2020 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 2021					
Stage 1	549,272,570	0.05%	64.33%	16	179,233
Stage 3	1,240,147	100.00%	64.33%	1	797,781
	550,512,717				977,014
At 31 December 2020					
Stage 1	223,246,706	0.89%	63.21%	96	1,310,000
Stage 3	5,832,895	100.00%	63.21%	1	3,634,489
	229,079,601				4,944,489

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

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

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 2021				
Gross carrying amount as at 1 January	223,246,706	–	5,832,895	229,079,601
New assets originated or purchased	3,974,735,642	–	–	3,974,735,642
Assets derecognised or repaid	(3,648,678,923)	–	(4,827,329)	(3,653,506,252)
Transfer to Stage 3	(234,581)	–	234,581	–
Foreign exchange movement	203,738	–	–	203,738
At 31 December	549,272,570	–	1,240,147	550,512,717
ECL allowance as at 1 January	1,310,000	–	3,634,489	4,944,489
New assets originated or purchased	4,718,457	–	–	4,718,457
Assets derecognised or repaid	(4,715,512)	–	(3,051,502)	(7,767,014)
Transfer to Stage 3	(925)	–	925	–
Impact on ECL on transfers between stages and changes to inputs	(1,132,787)	–	213,869	(918,918)
At 31 December	179,233	–	797,781	977,014

	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	1,045,767	–	–	1,045,767
At 31 December	223,246,706	–	5,832,895	229,079,601
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

14. Debt instruments at amortised cost

	2021 MNT'000	2020 MNT'000
Loan notes receivables	90,043,167	90,650,289
Loan receivables with recourse	–	6,604,079
Gross debt instruments at amortised cost	90,043,167	97,254,368
Allowance for impairment losses	(9,276,188)	(1,604,542)
Net debt instruments at amortised cost	80,766,979	95,649,826

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

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.

On 20 March 2020, the Group invested in MNT 45 billion loan notes bearing 13 percent interest per annum issued by QSC LLC. On 28 June 2021, when the outstanding balance on the loan notes was MNT 35 billion, the initial contract maturity of 20 July 2021 was extended until 28 June 2024, with an amended interest rate of the BoM policy rate plus 2 percent per annum. Per contract, principal payments are to be made in three instalments of MNT 10 billion on 28 June 2022, 28 June 2023 and MNT 5 billion on 28 June 2024, while interest is repayable on a quarterly basis.

On 26 March 2021, the Group purchased loan notes from TDB Leasing LLC for MNT 1 billion. The notes have an interest rate of 15 percent per annum and are due to mature on 26 March 2023, with interest repayable semi-annually and principal repayable at maturity.

The Group purchased loan notes issued by Khukh Mongol Gobi Trans LLC in the amounts of MNT 3.0 billion on 29 July 2021 and MNT 3.0 billion on 9 November 2021, for a total of MNT 6 billion during the year ended 31 December 2021. All notes bear an interest rate of 17 percent per annum and are due to mature in one year from the date of purchase, with interest repayable quarterly and principal repayable at maturity.

14.1. Impairment allowance for debt instruments at amortised cost

	2021 MNT'000	2020 MNT'000
At 1 January	1,604,542	5,342,775
Credit loss expense/(reversal)	7,671,646	(3,738,233)
At 31 December	9,276,188	1,604,542

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.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2021				
Internal rating grade				
B- to B+ rated	48,521,644	–	–	48,521,644
C to CCC+ rated	6,002,795	35,518,728	–	41,521,523
	54,524,439	35,518,728	–	90,043,167
31 December 2020				
B- to B+ rated	97,254,368	–	–	97,254,368

Allowances for impairment losses for debt instruments at amortised cost as at 31 December 2021 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 2021				
Stage 1	54,524,439	3.34%	65.75%	1,198,656
Stage 3	35,518,728	29.49%	77.20%	8,077,532
	90,043,167			9,276,188

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

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

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 2021				
Gross carrying amount as at 1 January	97,254,368	–	–	97,254,368
New assets originated or purchased	14,223,294	–	–	14,223,294
Assets derecognised or repaid	(21,434,495)	–	–	(21,434,495)
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(35,518,728)	35,518,728	–	–
Transfer to Stage 3	–	–	–	–
At 31 December	54,524,439	35,518,728	–	90,043,167
ECL allowance as at 1 January	1,604,542	–	–	1,604,542
New assets originated or purchased	226,771	–	–	226,771
Assets derecognised or repaid	(331,187)	–	–	(331,187)
Transfer to Stage 2	(150,796)	150,796	–	–
Impact on ECL on transfers between stages and changes to inputs	(150,673)	7,926,735	–	7,776,063
At 31 December	1,198,655	8,077,532	–	9,276,188

	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	216,151,644	50,687,991	–	266,839,635
New assets originated or purchased	56,348,136	5,853,025	–	62,201,160
Assets derecognised or repaid	(219,223,895)	(12,562,533)	–	(231,786,428)
Transfer to Stage 1	43,978,483	(43,978,483)		
At 31 December	97,254,368	–	–	97,254,368
ECL allowance as at 1 January	2,442,341	2,900,434	–	5,342,775
New assets originated or purchased	1,128,226	334,918	–	1,463,144
Assets derecognised or repaid	(4,389,393)	(718,845)	–	(5,108,238)
Transfer to Stage 1	2,516,508	(2,516,508)		
Impact on ECL on transfers between stages and changes to inputs	(93,140)	–	–	(93,140)
At 31 December	1,604,542	–	–	1,604,542

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.

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

	2021 MNT'000	2020 MNT'000
Commercial mortgage pool receivables	266,471,342	374,409,008
Residential mortgage pool receivables	99,848,049	250,573,099
Gross mortgage pool receivables with recourse	366,319,391	624,982,107
Allowance for impairment losses	(1,977,815)	(10,518,407)
Net mortgage pool receivables with recourse	364,341,576	614,463,700

15.1. Impairment allowance for mortgage pool receivables with recourse

	2021 MNT'000	2020 MNT'000
At 1 January	10,518,407	6,192,685
Credit loss expense/(reversal)	(8,540,592)	4,325,722
At 31 December	1,977,815	10,518,407

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.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2021				
Internal rating grade				
B- to B+ rated	366,319,391	–	–	366,319,391
31 December 2020				
B- to B+ rated	617,926,059	–	–	617,926,059
D rated	–	–	7,056,048	7,056,048
	617,926,059	–	7,056,048	624,982,107

Allowances for impairment losses for mortgage pool receivables with recourse as at 31 December 2021 and 2020 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 2021				
Stage 1	366,319,391	1.12%	48.04%	1,977,815
At 31 December 2020				
Stage 1	617,926,059	3.20%	40.26%	8,102,727
Stage 3	7,056,048	100.00%	34.24%	2,415,680
	624,982,107			10,518,407

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

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

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:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2021				
Gross carrying amount as at 1 January	617,926,059	–	7,056,048	624,982,107
New assets originated or purchased	455,677,070	–	–	455,677,070
Assets derecognised or repaid	(707,283,738)	–	(7,056,048)	(714,339,786)
At 31 December	366,319,391	–	–	366,319,391
ECL allowance as at 1 January	8,102,727	–	2,415,680	10,518,407
New assets originated or purchased	5,975,192	–	–	5,975,192
Assets derecognised or repaid	(9,274,454)	–	(2,415,680)	(11,690,134)
Impact on ECL on transfers between stages and changes to inputs	(2,825,650)	–	–	(2,825,650)
At 31 December	1,977,815	–	–	1,977,815

	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	113,820,034	–	–	113,820,034
Assets derecognised or repaid	(200,581,186)	(4,437)	(6,235)	(200,591,858)
Transfer to Stage 1	40,838	(19,366)	(21,472)	–
Transfer to Stage 3	(7,056,048)	–	7,056,048	–
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	302	(203)	(99)	–
Transfer to Stage 3	(2,415,680)	–	2,415,680	–
Impact on ECL on transfers between stages and changes to inputs	2,859,144	88	(2,180)	2,857,052
At 31 December	8,102,727	–	2,415,680	10,518,407

16. Loan receivables with recourse

	2021 MNT'000	2020 MNT'000
Gross loan receivables with recourse	45,610,035	–
Allowance for impairment losses	(769,955)	–
Net loan receivables with recourse	44,840,080	–

	2021 MNT'000	2020 MNT'000
At 1 January	–	–
Credit loss expense (Note 7)	769,955	–
At 31 December	769,955	–

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.

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
31 December 2021		
Internal rating grade		
B- to B+ rated	45,610,035	–

Allowances for impairment losses for mortgage pool receivables with recourse as at 31 December 2021 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 2021				
Stage 1	45,610,035	2.63%	64.33%	769,955

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:

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
Gross carrying amount as at 1 January	–	–
New assets originated or purchased	63,439,859	–
Assets derecognised or repaid	(17,829,824)	–
At 31 December	45,610,035	–
ECL allowance as at 1 January	–	–
New assets originated or purchased	1,070,945	–
Assets derecognised or repaid	(300,990)	–
At 31 December	769,955	–

17. Purchased mortgage pool receivables

	2021 MNT'000	2020 MNT'000
Mortgage pool receivables	2,905,100,780	2,855,198,063
Accrued interest receivables	7,789,619	17,909,068
Gross purchased mortgage pool receivables	2,912,890,399	2,873,107,131
Allowance for impairment losses	(11,540,602)	(18,573,718)
Net purchased mortgage pool receivables	2,901,349,797	2,854,533,413

In November 2020, in order to relieve the impact of the Covid-19 pandemic on the Mongolian economy and the mortgage market, the Government and the BoM implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants to defer the principal and interest payments. Initially the deferral program was approved for six months up to 1 October 2020, which was extended three times by the authorities up to 1 July 2022.

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.

17.1. Impairment allowance for purchased mortgage pool receivables

	2021 MNT'000	2020 MNT'000
At 1 January	18,573,718	6,411,304
Credit loss expense/(reversal)	(7,033,116)	12,162,414
At 31 December	11,540,602	18,573,718

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.

	Stage 1 MNT’000	Stage 2 MNT’000	Stage 3 MNT’000	Total MNT’000
31 December 2021				
Internal rating grade				
Performing mortgages	2,695,434,222	162,172,845	–	2,857,607,067
Mortgages in arrears	–	2,784,979	–	2,784,979
Non-performing mortgages				
Substandard mortgages	–	–	5,260,874	5,260,874
Doubtful mortgages	–	–	5,762,457	5,762,457
Bad mortgages	–	–	41,475,022	41,475,022
	–	–	52,498,353	52,498,353
Total	2,695,434,222	164,957,824	52,498,353	2,912,890,399
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

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

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

Allowances for impairment losses for purchased mortgage pool receivables as at 31 December 2021 and 2020 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 2021				
Stage 1	2,695,434,222	1.75%	4.86%	2,288,823
Stage 2	164,957,824	83.53%	4.86%	6,696,926
Stage 3	52,498,353	100.00%	4.86%	2,554,853
	2,912,890,399			11,540,602
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

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2021				
Gross carrying amount as at 1 January	2,436,397,148	384,743,031	51,966,953	2,873,107,132
New assets originated or purchased	428,722,903	–	–	428,722,903
Assets derecognised or repaid	(337,091,234)	(36,604,697)	(7,097,384)	(380,793,315)
Effect of modification	(14,978,880)	7,121,131	(288,572)	(8,146,321)
Transfer to Stage 1	257,043,204	(242,952,670)	(14,090,534)	–
Transfer to Stage 2	(56,780,252)	67,836,189	(11,055,937)	–
Transfer to Stage 3	(17,878,667)	(15,185,160)	33,063,827	–
At 31 December	2,695,434,222	164,957,824	52,498,353	2,912,890,399
ECL allowance as at 1 January	1,281,168	13,742,949	3,549,601	18,573,718
New assets originated or purchased	178,819	–	–	178,819
Assets derecognised or repaid	(133,447)	(1,003,378)	(296,388)	(1,433,213)
Transfer to Stage 1	9,851,777	(8,825,473)	(1,026,304)	–
Transfer to Stage 2	(15,409)	815,052	(799,643)	–
Transfer to Stage 3	(25,045)	(530,503)	555,548	–
Impact on ECL on transfers between stages and changes to inputs	(8,849,040)	2,498,279	572,039	(5,778,722)
At 31 December	2,288,823	6,696,926	2,554,853	11,540,602

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

17.1. 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

18. Financial assets at fair value through profit or loss

	2021 MNT'000	2020 MNT'000
Fair value as at 1 January	146,268,450	4,699,931
Acquisitions	–	150,000,000
Net gain/(loss) from change in fair value through profit or loss	4,502,108	(8,431,481)
Changes in the valuation of fair value through profit or loss	(5,271,369)	–
Fair value as at 31 December	145,499,187	146,268,450

On 7 December 2020, the Group purchased 30,000 new preference shares 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 the BoM policy rate plus 1 percent and have no fixed maturity terms.

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 2021, 500,000 units are held by the Group, 9,602 units are held by other parties, while the remaining 990,398 units have not been purchased by any other investor.

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

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

18. Financial assets at fair value through profit or loss (cont'd.)

As at 31 December 2021 and 2020, the Fund's underlying investment comprised of principally an investment portfolio of the Group's shares.

19. Derivative financial instruments

On 28 March 2019, the Group entered into a cross-currency swap agreement with nominal amount of USD 295.4 million for foreign currency risk management purposes.

	Notional amount MNT'000	Fair value of assets 2021 MNT'000	Fair value of assets 2020 MNT'000
Derivatives			
Cross currency swaps	777,151,290	66,638,901	78,274,700

	2021 MNT'000	2020 MNT'000
Fair value as at 1 January	78,274,700	55,516,592
Net gains/(loss) on derivative financial instruments	(15,942,190)	22,758,108
Changes in the valuation of derivative financial instruments	4,306,392	-
Fair value as at 31 December	66,638,901	78,274,700

Interest earned or incurred on derivative financial instruments is accrued in interest income or interest expense, 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:

	2021 MNT'000	2020 MNT'000
Interest payable at 1 January	5,880,842	8,144,911
Net interest accrued (Note 4)	11,448,055	29,011,784
Net interest paid	(15,180,878)	(31,275,853)
Interest payable at 31 December (Note 24)	2,148,019	5,880,842

20. Other assets

	2021 MNT'000	2020 MNT'000
Financial assets		
Other receivables	9,673,011	765,301
Non-financial assets		
Prepayments	16,710,008	1,434,446
Foreclosed properties	759,650	498,739
Consumables and office supplies	118,474	69,830
Value-added tax receivables	2,919,199	8,520
	20,507,331	2,011,533
	30,180,342	2,366,846

Included in prepayments is relating to consulting services from a foreign entity on a planned issue of debt securities.

21. Property and equipment

	Premises	Furniture and equipment	Computers	Vehicles	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2021					
At cost					
At 1 January 2021	34,621,338	799,772	847,762	1,013,303	37,282,175
Additions	36,843,266	254,347	210,897	109,600	37,418,110
Write-off	–	(147,232)	(12,356)	–	(159,588)
Disposal	(34,116,905)	(217,107)	(100,467)	(196,403)	(34,630,882)
Reclassification	–	(1,706)	1,706	–	–
At 31 December 2021	37,347,699	688,074	947,542	926,500	39,909,815
Accumulated depreciation					
At 1 January 2021	3,823,455	209,689	596,541	298,867	4,928,552
Charge for the year	1,308,677	64,532	233,117	94,759	1,701,085
Write-off	–	(143,811)	(12,356)	–	(156,167)
Disposal	(4,115,269)	(2,336)	(78,722)	(77,002)	(4,273,329)
At 31 December 2021	1,016,863	128,074	738,580	316,624	2,200,141
Net carrying amount	36,330,836	560,000	208,962	609,876	37,709,674

	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	–	(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	198,515	3,204,944
Charge for the year (Note 10)	1,348,069	53,734	226,956	100,349	1,729,108
Write-off (Note 11)	–	(4,480)	(1,023)	–	(5,500)
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

22. Intangible assets

	Computer software	
	2021	2020
	MNT'000	MNT'000
Cost		
At 1 January	611,518	513,674
Additions	139,639	141,819
Write-off	(101,847)	(43,975)
At 31 December	649,310	611,518
Accumulated amortisation		
At 1 January	411,322	321,806
Charge for the year	138,002	133,491
Write-off	(101,847)	(43,975)
At 31 December	447,477	411,322
Net carrying amount	201,833	200,196

23. Other liabilities

	2021 MNT'000	2020 MNT'000
Interest payable on cross-currency swap	2,148,019	5,880,842
VAT payable	2,944,266	52,495
Other payables	6,243,788	7,344,517
Withholding tax liability	1,858,656	1,858,729
	13,194,729	15,136,583

Included in other payables are loan service fee payables to the banks for the collection of the mortgage pool receivables.

24. Borrowed funds

	2021 MNT'000	2020 MNT'000
TDB	15,451,856	15,789,248
Golomt Bank LLC ("Golomt")	26,130,137	26,130,137
	41,581,993	41,919,385

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. The loan bears an interest rate of 14.4% per annum and the loan principal is repayable monthly beginning from 17 May 2018 to 17 May 2033.

On 8 January 2019, the Group obtained a loan of MNT 5 billion from TDB. The loan bears an interest rate of 11.0% per annum and the interest is repayable monthly beginning from 8 February 2019 to 8 January 2022, while the loan principal is repayable in full on 8 January 2022.

The Group obtained a loan of MNT 25 billion from Golomt on 11 December 2018. The loan bears an interest rate of 10.0% per annum and the interest is repayable semi-annually beginning from 20 July 2019 to 20 January 2024, while the principal is repayable in full on 20 January 2024.

25. Debt securities

	2021 MNT'000	2020 MNT'000
Debt securities at amortised cost	1,004,976,075	825,603,454

On 8 February 2021, the Group issued senior notes ("2024 Notes") with nominal value of USD 250 million on the international capital market to refinance its senior notes issued on the same market in 2019. The 2024 Notes bear an interest of 8.85% per annum payable semi-annually.

The 2022 Notes and 2024 Notes had an outstanding balance of USD 87,631,000 and USD 246,000,000, respectively, as at 31 December 2021.

On 28 December 2021, the Group issued a USD 12 million bond on the local over-the-counter market. The debt securities bear an interest rate of 6.8% per annum, with interest payable semi-annually and principal payable upon maturity in three years.

26. Collateralised bonds

	Interest rate	2021 MNT'000	2020 MNT'000
Senior bonds	4.50%	2,304,535,459	2,307,314,223
Junior bonds	10.50%	469,165,277	433,256,183
Senior bonds I	1.00%	219,150,788	51,090,047
Senior bonds II	9.00%	71,683,851	–
Senior bonds III	13.00%	56,754,981	32,407,785
Senior bonds II	4.50%	12,463,287	182,983,124
Junior bonds	9.00%	7,641,946	–
		3,141,395,589	3,007,051,362

26. Collateralised bonds (cont'd.)

The senior and junior bonds as at 31 December 2021 and 31 December 2020 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 the MoF. Junior bonds are solely issued to commercial banks. The bonds are collateralised by the purchased mortgage pool receivables.

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.

In conjunction with the mortgage principal and interest repayment deferral program as noted in Note 8, MIK Asset Seventeen SPC LLC to MIK Asset Twenty-Five SPC LLC were given the option by the BoM and the MoF to defer the principal and coupon payments due to them on the senior RMBS up to 30 June 2022 if they did not have the ability to pay, given that these entities are relatively new and do not have sufficient reserves. All other principal and coupon payments are to be made per schedule.

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

27. 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 (2020: 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 2021 and 31 December 2020 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 2020 and 1 January/31 December 2021	20,709,320	20,709,320	52,225,115

There were 5,462,429 shares held as treasury shares as at 31 December 2021 (2020: 5,462,429 shares). Excluding these shares, the total number of issued shares as at 31 December 2021 was 15,246,891 shares (2020: 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 2021 and 31 December 2020.

27. Ordinary shares (cont'd.)

The shareholders of the Group as of 31 December 2021 and 31 December 2020 and percentages of ownership are as follows:

	2021 MNT'000	2020 MNT'000
CNB Consulting LLC	12.59%	2.60%
Asia Diversified Real Estate Fund One Private Investment Fund	11.16%	11.16%
TDB	10.00%	19.99%
TDB Capital LLC (formerly United Banking Corporation LLC)	5.95%	0.00%
TDB Securities LLC (formerly TDB Capital LLC)	5.30%	11.25%
Golomt	4.94%	4.94%
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%
Others	0.10%	0.10%
Total private sector share	56.39%	56.39%
Development Bank of Mongolia	14.88%	14.88%
State Bank LLC	2.35%	2.35%
Total state shares	17.23%	17.23%
Treasury shares	26.38%	26.38%
Total	100.00%	100.00%

Financial and operating policy decisions, including strategic decisions, are made at the meetings of the Board of Directors ("BOD"). The members of the BOD are appointed at the Shareholders' Meeting. As of 31 December 2021 and 2020, 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 BoM and representatives of the commercial banks and state-owned banks. In addition, all bank shareholders have material transactions with the Group during 2021 and participated in the policy making procedures.

28. Contingent liabilities and commitments

Legal claims

Litigation is a common occurrence in the financial services industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages can be reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Group had no significant outstanding litigation.

Tax legislation

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

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

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

28. Contingent liabilities and commitments (cont'd.)

Tax legislation (cont'd.)

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

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

Assets pledged and restricted

RMBS issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 31 December 2021, the Group had mortgage pool receivables with the gross amount of MNT 2,912,890,399 (2020: MNT 2,873,107,132 thousand) pledged as collateral for the RMBS. The related liabilities amount is MNT 3,141,395,589 thousand as of 31 December 2021 (2020: MNT 3,007,051,362 thousand).

29. 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.

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2021			
Financial assets			
Cash and bank balances	549,768,931	51,878	549,820,809
Debt instrument at amortised cost	9,094,330	71,672,649	80,766,979
Mortgage pool receivables with recourse	55,235,727	309,105,849	364,341,576
Loan receivables with recourse	30,043,455	14,796,625	44,840,080
Purchased mortgage pool receivables	76,069,571	2,825,280,226	2,901,349,797
Financial investments at fair value through profit or loss	–	145,499,187	145,499,187
Derivative financial instruments	66,638,901	–	66,638,901
Other assets	469,599	9,203,412	9,673,011
	787,320,514	3,375,609,826	4,162,930,340
Non-financial assets			
Property and equipment	–	37,709,674	37,709,674
Intangible assets	–	201,833	201,833
Income tax prepayment	1,566,195	–	1,566,195
Other assets	20,507,331	–	20,507,331
Deferred tax asset	–	3,009,508	3,009,508
	22,073,526	40,921,015	62,994,541
Total	809,394,040	3,416,530,841	4,225,924,881
Financial liabilities			
Borrowed funds	6,641,891	34,940,102	41,581,993
Debt securities issued	286,698,844	718,277,231	1,004,976,075
Collateralised bonds	168,911,960	2,972,483,629	3,141,395,589
Other liabilities	11,336,073	–	11,336,073
	473,588,768	3,725,700,962	4,199,289,730
Non-financial liabilities			
Other liabilities	1,858,656	–	1,858,656
Income tax payable	25,875	–	25,875
Deferred tax liability	–	20,604,092	20,604,092
	1,884,531	20,604,092	22,488,623
Total	475,473,299	3,746,305,054	4,221,778,353
Net	333,920,741	(329,774,213)	4,146,528

29. 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 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

30. 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 in preference shares from shareholder of related party

On 7 December 2020, the Group purchased a total of 30,000 new preference shares, with a par value of MNT 5 million per share for a total consideration of MNT 150 billion on. The preference shares have an annual dividend rate of the BoM policy rate plus 1 percent and have no fixed maturity terms.

Loans from/to shareholder of related party

On 11 December 2018, the Group purchased through MIK HFC and SPCs loan notes from Bodi 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.

Borrowed funds

On 17 May 2018, the Group entered into a loan agreement of MNT 11.4 billion to finance its purchase of an office space. The loan bears an interest rate of 14.4% per annum and the loan principal is repayable monthly beginning from 17 May 2018 to 17 May 2033.

On 8 January 2019, the Group obtained a loan of MNT 5 billion. 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.

30. Related party disclosures (cont'd.)

Borrowed funds (cont'd.)

The Group obtained a loan of MNT 25 billion on 11 December 2018. The loan bears an interest rate of 10.0% per annum and the interest is repayable semi-annually beginning from 20 July 2019 to 20 January 2024, while the principal is repayable in full on 20 January 2024.

Other payables

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

	2021 MNT'000	2020 MNT'000
TDB	1,151,774	1,094,119
Khan Bank LLC	848,577	809,892
XacBank LLC	403,686	310,154
Golomt	907,981	993,923
Capitron Bank LLC	46,666	48,709
State Bank LLC	328,757	294,1722
Chinggis Khaan Bank LLC	–	3,545
Total	3,687,441	3,554,514

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

Compensation to key management personnel

	2021 MNT'000	2020 MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	2,894,964	1,670,946
Contribution to social and health fund	313,902	112,247
	3,208,866	1,783,193

As at 31 December 2021, the Group has the following balances and transactions with related parties:

	Bank deposits		Collateralised bonds			
	Outstanding balance	Interest Income	Issued during the year senior bonds	Issued during the year junior bonds	Outstanding balance	Interest expense
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
As at 31 December 2021						
TDB	509,784,756	5,741,395	92,572,300	10,286,100	199,805,982	14,273,643
Khan Bank LLC	4,328,747	–	66,571,000	7,397,100	149,856,290	12,656,924
Xac Bank LLC	1,641,286	–	37,898,000	4,211,200	76,335,608	4,678,961
Golomt	17,494,818	4,504,308	61,745,300	6,860,700	163,705,878	12,965,540
Capitron Bank LLC	5,670,495	539,186	14,040,900	1,560,300	17,142,282	791,703
State Bank LLC	2,309,655	–	47,747,600	5,305,600	80,661,951	4,769,417
Chinggis Khaan Bank LLC	1,239,947	16,472	82,800	9,300	3,628,806	388,007
BoM	–	–	–	–	2,202,268,702	99,634,316
MoF	–	–	–	–	233,593,920	8,814,366
Total	542,469,704	10,801,361	320,657,900	35,630,300	3,126,999,419	158,972,877

30. Related party disclosures (cont'd.)

	Bank deposits		Collateralised bonds			
	Outstanding balance	Interest Income	Issued during the year: senior bonds	Issued during the year: junior bonds	Outstanding balance	Interest expense
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
As at 31 December 2020						
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
BoM	–	–	–	–	2,323,321,423	106,431,185
MoF	–	–	–	–	228,401,837	8,983,004
Total	229,043,083	17,623,638	258,914,200	28,771,100	3,000,562,234	160,228,255

As at 31 December 2021

	Mortgage pool portfolio						
	Purchase of mortgage pool		Outstanding balance*		Interest income from mortgage pool*		
	with recourse	without recourse**	with recourse	without recourse	with recourse	without recourse	Loan service fee
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
TDB	199,683,264	102,858,681	200,666,576	873,251,208	80,087,707	66,824,396	2,791,768
Khan Bank LLC	–	73,968,370	–	680,422,665	–	55,481,762	2,172,755
Xac Bank LLC	–	42,109,501	–	269,390,355	–	20,147,670	820,110
Golomt	–	68,606,343	735,305	702,298,316	4,617,458	56,573,650	2,520,570
Capitron Bank LLC	–	15,601,448	–	49,599,298	429,229	3,193,811	104,766
State Bank LLC	–	53,053,480	339,300	288,555,731	80,378	20,946,374	715,973
Chinggis Khaan Bank LLC	–	11,453,324	–	–	–	703,736	15,760
Total	199,683,264	367,651,147	201,741,181	2,863,517,573	85,214,772	223,871,399	9,141,702

As at 31 December 2020							
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

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.

31. Risk management

31.1. Introduction

The Group manages its business operations at a level of acceptance of existing and potential risks through a comprehensive risk management system based on the ISO31000 standard and international best practices. Risk management systems are evolving in response to changing business environments, the expansion of business operation, and the introduction of international best practices.

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.

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.

31.2. Credit risk

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

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

Treasury assets

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

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

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 the 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 16.

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.

Loan receivables with recourse

The consumer loan purchase procedures are similar to those of mortgage pools with recourse. The Group has the right to request from the respective financial institution, when any individual consumer loan is overdue more than 90 days, either to replace the defaulted loan with another performing 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 financial organisation entering bankruptcy.

Same with mortgage pools with recourse, the Group has set eligibility criteria for loan receivables with recourse. Due diligence review procedures include obtaining loan details from the financial institutions 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.

31. Risk management (cont'd.)

31.2. 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, mortgage loans with recourse and loan receivables 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.

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

Exposure at default

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

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

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The 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, loan receivables with recourse, commercial mortgage pool receivables 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 loan receivables with recourse and 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.

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

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
- Percent change of US Federal Funds rate

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 two multiple scenarios, (2020: three multiple scenarios) with probability weights of 70:30 for PD (2020: of 60:30:10) for base case and downside case (2020: base case, downside case and an upside case) and two multiple scenarios for LGD with probability weights of 70:30 (2020: 70:30) for a downside case and a 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 2021 and 2020.

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 2021 was MNT 5,518,936,578 thousand (31 December 2020: MNT 4,928,325,796 thousand).

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2021 MNT'000	**2020 MNT'000**
Bank balances	550,512,717	229,079,601
Debt instrument at amortised cost	90,043,167	97,254,368
Financial assets at FVPL	145,499,187	231,663,313
Mortgage pool receivables with recourse	366,319,391	624,982,107
Loan receivables with recourse	45,610,035	–
Purchased mortgage pool receivables	2,912,890,399	2,873,107,138
Other assets	9,673,011	4,230,402
Total credit risk exposure	4,120,547,907	4,060,316,929

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, loan 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.

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

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

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

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 at the time of purchase of the loan pools with and without recourse should not be greater than 100% and 70%, respectively, and the Group has the first claim over all assets used as collateral.

31.3. 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.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2021 based on contractual undiscounted repayment obligations.

Financial assets and 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 2021	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	479,539,584	51,404,802	–	20,541,742	–	102,244	551,588,372
Debt instruments at amortised cost	3,939,877	601,645	608,330	6,384,479	65,908,948	52,000,946	129,444,225
Mortgage pool receivables with recourse	6,088,089	25,381,521	28,247,846	50,315,758	326,404,456	60,046,909	496,484,579
Loan receivables with recourse	3,094,740	6,030,451	8,647,722	14,925,755	15,572,723	35,598	48,306,989
Purchased mortgage pool receivables	5,794,394	11,503,184	17,332,379	233,819,926	1,176,443,378	4,511,387,013	5,956,280,274
Financial assets at FVPL	–	–	–	–	–	145,499,187	145,499,187
Derivative financial instruments	–	66,638,901	–	–	–	–	66,638,901
Other assets	11,286,039	–	–	–	–	–	11,286,039
Total financial assets	509,742,723	161,560,504	54,836,277	325,987,660	1,584,329,505	4,769,071,897	7,405,528,566
Other liabilities	11,336,073	–	–	–	–	–	11,336,073
Borrowed funds	–	5,508,699	1,708,562	2,177,397	34,891,782	11,857,651	56,144,091
Debt securities issued	–	262,008,415	1,162,310	32,172,923	812,478,123	–	1,107,821,771
Collateralised bonds	–	39,862,586	39,890,150	130,482,243	917,311,233	3,576,593,252	4,704,139,464
Total financial liabilities	11,336,073	307,379,700	42,761,022	164,832,563	1,764,681,138	3,588,450,903	5,879,441,399
Net liquidity gap	498,406,650	(145,819,196)	12,075,255	161,155,097	(180,351,633)	1,180,620,994	1,526,087,167

31. Risk management (cont'd.)

31.3. Liquidity risk (cont'd.)

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	68,072,017	80,340,017	26,628,700	46,276,040	2,998,626	–	224,315,400
Debt instruments at amortised cost	4,990,095	1,051,873	–	46,386,356	44,022,274	–	96,450,598
Mortgage pool receivables with recourse	22,885,639	2,177,032	2,115,508	579,881,842	4,934,653	2,469,029	614,463,700
Purchased mortgage pool receivables	17,603,691	12,527,337	12,318,053	90,407,122	760,697,671	1,960,979,546	2,854,533,420
Financial assets at FVPL	–	–	–	–	151,339,694	–	151,339,694
Derivative financial instruments	–	–	–	–	78,274,700	–	78,274,700
Other assets	546,009	410,000	–	–	–	–	956,009
Total financial assets	114,097,451	98,047,733	41,062,261	762,951,360	1,042,267,618	1,963,448,572	4,020,333,521
Other liabilities	13,137,079	–	–	2,000,250	–	–	15,137,329
Borrowed funds	–	1,857,877	600,617	2,439,452	43,698,769	13,705,596	62,302,311
Debt securities issued	–	38,990,273	–	38,990,273	838,790,739	–	916,771,285
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	13,137,079	98,047,733	57,465,689	226,460,337	2,298,861,426	3,247,959,100	5,941,931,364
Net liquidity gap	100,960,372	(1,541,474)	(16,403,428)	536,491,023	(1,256,593,808)	(1,284,510,528)	(1,921,597,843)

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.

31.4. 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

31. Risk management (cont'd.)

31.4. Market risk

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 2021, the Group's interest-bearing assets (bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan 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.

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 2021						
Interest-bearing financial assets	644,305,673	25,582,878	116,677,258	565,564,442	2,800,841,972	4,152,972,223
Interest-bearing financial liabilities	396,234,953	3,932,470	59,663,792	1,136,446,843	2,591,675,599	4,187,953,657
Net interest sensitivity gap	248,070,720	21,650,408	57,013,466	(570,882,401)	209,166,373	(34,981,434)

31.4. Market risk(cont'd.)

Interest rate risk (cont'd.)

	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	96,506,259	41,062,261	762,951,360	1,042,267,618	1,963,448,572	4,020,333,521
Interest-bearing financial liabilities	98,047,733	57,465,689	226,460,337	2,298,861,426	3,247,959,100	5,941,931,364
Net interest sensitivity gap	(1,541,474)	(16,403,428)	536,491,023	(1,256,593,808)	(1,284,510,528)	(1,921,597,843)

31.5 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.

32. 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 2021				
Financial assets measured at FVPL				
Unquoted investment in Fund	–	–	–	–
Unquoted investment in TDB Capital	–	–	145,499,187	145,499,187
Derivative financial instruments	–	66,638,901	–	66,638,901
	–	66,638,901	145,499,187	212,138,088
At 31 December 2020				
Financial assets measured at FVPL				
Unquoted investment in Fund	–	–	1,214,582	1,214,582
Unquoted investment in TDB Capital	–	–	150,000,000	150,000,000
Derivative financial instruments	–	78,274,700	–	78,274,700
	–	78,274,700	151,214,582	229,489,282

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.

33. 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.

The Group was not subject to any other externally imposed capital requirements throughout 2021 and 2020.

34. Subsequent events

On 14 January 2022, an amendment to the original cross-currency swap agreement with TDB was signed extending the term of the arrangement until 24 January 2024 to continue to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international capital market. With the amendment, the nominal amount was reduced from USD 295.4 million to USD 196 million, with interest payable quarterly starting from 14 April 2022 on a net basis.

On 29 January 2022, the Group made the final principal and coupon payment on its 2022 Notes and settled their debt as per schedule.

On 15 February 2022, MIK Asset Twenty-Nine LLC was established as a legal entity. As of the auditor's report date, the SPC has not yet received the special license from FRC to purchase mortgage pools and issue RMBS.

The Group fully settled its MNT 5 billion loan obtained from TDB to finance its working capital on 8 January 2022.

In March 2022, the Government made a decision to further extend the mortgage payment deferral program by another six months up to 31 December 2022.

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