

LENDMN NBFI JSC
(incorporated in Mongolia)

Audited financial statements
31 December 2019



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GENERAL INFORMATION

Chairman: Deigerjargal.B

Members of Board of Directors: Tsevegmid.N
Bayarsaikhan.V
Boldbaatar.O
Enkh-Amgalan.S

Independent members of Board of Directors: Borgil.S
Jargalsuren.J
Nomin.Ch

Registered address: Pearl tower, Tourist street 34,
3rd khoroo, Chingeltei District,
Ulaanbaatar, Mongolia


Principal bankers: Khan Bank LLC
State Bank LLC
Golomt Bank LLC
Xacbank LLC
Trade and Development Bank LLC
Capitron Bank LLC

Auditors: Ernst & Young Mongolia Audit LLC
Certified Public Accountants



STATEMENT BY EXECUTIVE MANAGEMENT

We, Boldbaatar Ochirsuren, being the Chief Executive Officer of LendMN NBFI JSC (the "Company"), and Otgongerel Dembereldovd, being the Chief Accountant primarily responsible for the financial management of the Company, do hereby state that, in our opinion, the accompanying financial statements set out between pages 1 and 43 present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Boldbaatar Ochirsuren
Chief Executive Officer
Otgongerel Dembereldovd
Chief Accountant

Date: 3 February 2020

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of LendMN NBFI JSC

Opinion

We have audited the financial statements of LendMN NBFI JSC (the "Company"), which comprise the statement of financial position as at 31 December 2019 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the 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 Financial Statements* section of our report, including in relation to the matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

Key Audit Matters (Cont'd.)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers	
<p>The impairment of loans and advances to customers is estimated by the Company's management through the application of judgement and use of highly subjective assumptions.</p> <p>Due to significance of loans and advances to customers, representing over 85% of the Company's total assets as at 31 December 2019, and the related estimation uncertainty we considered impairment of loans and advances to customers as a key audit matter.</p> <p>The impairment method is based on a forward looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including:</p> <ul style="list-style-type: none"> • Staging of financial assets; • Development of ECL models and the choice of inputs, including probability of default ("PD") and loss given default ("LGD"); • Determination of the Exposure at Default ("EAD"), including the credit conversion factor for the undrawn loan commitments. • Determination of associations between macroeconomic scenario, economic inputs, and the effect on inputs to the ECL calculation; and • Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model. <p>Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in notes 2 and 4 to the financial statements, respectively.</p> <p>Other relevant disclosures of loans and advances to the customers and related credit risk management are included in notes 6, 12 and 22.3 to the financial statements, respectively.</p>	<p>Our audit procedures included evaluating the methodologies, inputs and assumptions used by the Company in its ECL model in calculation of impairment of loans and advances to customers.</p> <p>For assessment of impairment allowance of loans and advances to customers as of 31 December 2019, we evaluated the Company's ECL model including the assessment of basis for classification of exposures into the 3 stages, and the appropriateness of the PD, LGD and EAD determination and the forward-looking macroeconomic variables incorporated in the model.</p> <p>In testing the appropriateness of the stage classifications, we have tested loan overdue information and other related information.</p> <p>We compared the key inputs to the ECL model to the Company's internal available historical data, externally available industry, financial and economic data. Our testing included the followings:</p> <ul style="list-style-type: none"> • Tested the accuracy of internal data applied for the calculation of historical PD and LGD; • Checked the parameters to external data sources where available, including the monthly average USD/MNT exchange rate used in multiple scenario analysis; and • Checked completeness of the EAD including the accuracy of the credit conversion factors to the historical data. <p>We also considered the consistency of judgement applied in the key inputs to the ECL model.</p> <p>We assessed the adequacy of the related disclosure in the notes to the financial statements.</p>

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFJ JSC

Other Information included in the Annual Report

The Directors and executives are responsible for the other information. The other information comprises the other sections of the Annual Report not including the 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 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 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 financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this audit report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 and using 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 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 financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd.)

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFJ JSC

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants



Signed by

Mandakhbayar Dorjbat
Director

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 3 February 2020

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LendMN NBFJ JSC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

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	Notes	2019 MNT'000	2018 MNT'000
Interest and similar income	5	18,321,082	7,143,319
Interest expense	5	(4,854,241)	(511,934)
Net interest and similar income		13,666,841	6,631,385
Credit loss expense	6	(1,818,802)	(408,525)
Net interest and similar income after allowance for impairment		12,048,039	6,222,860
Administrative and operating expenses	7	(5,565,125)	(3,278,084)
Other income/(expense), net	8	(451,539)	(79,446)
Profit before income tax		6,031,375	2,865,350
Income tax expense	9	(1,121,186)	(305,037)
Profit for the year, representing total comprehensive income attributable to equity holders of the Parent		4,910,189	2,560,313
Earnings per share		MNT	MNT
Equity holders of the parent			
Basic and diluted earnings per share	10	6.16	3.37

	Notes	31.12.2019 MNT'000	31.12.2018 MNT'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	2,382,196	4,218,150
Loans and advances to customers	12	49,457,676	19,199,366
Derivative financial instruments	13	130,642	-
Deferred tax assets	9.3	48,186	-
Other assets	14	4,571,315	124,423
		<u>56,590,015</u>	<u>23,541,939</u>
NON-CURRENT ASSETS			
Intangible assets	15	342,002	387,784
Property and equipment	16	385,882	258,051
Right of use assets	17	776,219	-
Prepayments	18	6,835	135,663
		<u>1,510,938</u>	<u>781,498</u>
TOTAL ASSETS		<u>58,100,953</u>	<u>24,323,437</u>
CURRENT LIABILITIES			
Borrowings	19	32,475,285	8,572,376
Lease liabilities	17	170,427	-
Other liabilities	20	1,297,090	868,955
Deferred tax liability	9.3	23,124	-
Current income tax liability	9.2	151,395	7,690
		<u>34,117,321</u>	<u>9,449,021</u>
NON-CURRENT LIABILITIES			
Borrowings	19	6,104,737	1,520,041
Lease liabilities	17	680,417	-
		<u>6,785,154</u>	<u>1,520,041</u>
TOTAL LIABILITIES		<u>40,902,475</u>	<u>10,969,062</u>
EQUITY			
Share capital	21.1	10,756,859	10,756,859
Treasury shares	21.2	(266,086)	-
Other reserve	21.3	57,348	57,348
Retained earnings		6,650,357	2,540,168
TOTAL EQUITY		<u>17,198,478</u>	<u>13,354,375</u>
TOTAL LIABILITIES AND EQUITY		<u>58,100,953</u>	<u>24,323,437</u>

LendMN NBFJ JSC
Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital MNT'000 (Note 21.1)	Treasury shares MNT'000 (Note 21.2)	Other reserve MNT'000 (Note 21.3)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2018	6,000,000	-	-	(20,145)	5,979,855
Total comprehensive income for the year	-	-	-	2,560,313	2,560,313
Issuance of ordinary shares by listing	5,000,000	-	-	-	5,000,000
Listing related direct expense	(243,141)	-	-	-	(243,141)
Equity-settled share-based payment transaction	-	-	57,348	-	57,348
At 31 December 2018	10,756,859	-	57,348	2,540,168	13,354,375
Total comprehensive income for the year	-	-	-	4,910,189	4,910,189
Dividend (Note 21)	-	-	-	(800,000)	(800,000)
Treasury shares	-	(266,086)	-	-	(266,086)
At 31 December 2019	10,756,859	(266,086)	57,348	6,650,357	17,198,478

	Notes	2019 MNT'000	2018 MNT'000
Cash flows from operating activities			
Profit before tax		6,031,375	2,855,350
<i>Adjustments for:</i>			
Impairment on loans and advances to customers	6	1,592,096	392,310
Depreciation of property and equipment and right of use assets	7	321,072	59,464
Amortization of intangible assets	7	46,332	33,932
Impairment on undrawn commitments	6	26,706	16,215
Accretion interest on lease liability	17, 5	167,108	-
Interest expense on borrowings	5	4,487,133	511,934
Fair value gain of derivative financial instruments	14, 8	(130,642)	-
Unrealised foreign exchange loss	8	197,265	-
Share-based contribution	21.3	-	57,348
Operating profit before working capital changes		12,738,445	3,936,553
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers		(31,850,406)	(15,338,090)
Net increase in other assets		(4,315,984)	(123,683)
Net decrease (increase) in prepayments		41,328	(47,665)
Net increase in other liabilities		71,593	78,724
Cash used in operations		(23,315,024)	(11,494,161)
Income taxes paid		(1,002,543)	(293,419)
Interest portion of the lease liability paid		(167,108)	-
Interest paid		(4,064,203)	(290,906)
Net cash used in operating activities		(28,548,878)	(12,078,486)
Cash flows from investing activities			
Purchase of property and equipment	16	(250,646)	(226,557)
Purchase of intangible assets	15	(550)	(156,464)
Net cash used in investing activities		(251,196)	(383,021)
Cash flows from financing activities			
Proceeds from issue of shares, net		-	4,756,859
Purchase of treasury shares		(266,088)	-
Proceeds from closed bonds issued		4,143,883	6,328,992
Proceeds from borrowings		30,050,429	3,520,041
Proceeds from trust financing		14,766,321	-
Repayment of closed bonds issued		(7,028,000)	(1,000,000)
Repayment of borrowings		(12,864,666)	-
Repayment of trust financing		(1,331,464)	-
Principle portion of the lease liability		(127,867)	-
Dividend paid		(660,000)	-
Net cash from financing activities		26,682,550	13,605,892
Net increase/(decrease) in cash and cash equivalents		(2,117,524)	1,144,385
Cash and cash equivalents at the beginning of the year	11	3,535,455	2,391,070
Cash and cash equivalents at the end of the year	11	1,417,931	3,535,455

LendMN NBFJ JSC
Statement of Cash Flow (Cont'd.)
For the year ended 31 December 2019

		2019 MNT'000	2018 MNT'000
Operational cash flows from interest			
Interest received		17,981,554	6,651,308
Interest income	5	18,118,680	6,965,523
Non-cash transaction:			
Transfer from prepayment to property and equipment		87,500	-
Disposal of property and equipment	16	91,735	-
Right of use assets	17	978,711	-
Lease liability	17	978,911	-

Reconciliation of the liabilities arising from financing activities is shown below:

	Interest bearing borrowings		Lease liability	
	2019 MNT'000	2018 MNT'000	2019 MNT'000	2018 MNT'000
As at 1 January	10,092,417	1,022,356	-	-
At recognition	-	-	978,711	-
Proceeds	48,960,633	9,849,033	-	-
Repayment	(21,224,130)	(1,000,000)	-	-
Interest expenses during the year	4,487,133	511,934	167,108	-
Interest paid/lease payments	(4,064,203)	(290,906)	(294,975)	-
Unrealised foreign exchange loss	328,172	-	-	-
At 31 December	38,580,022	10,092,417	850,844	-

1 Corporate information

LendMN NBFJ JSC (the "Company") is a joint stock company listed on Mongolian Stock Exchange ("MSE") and incorporated and domiciled in Mongolia. The Company was listed on the MSE on 14 March 2018, and became a publicly traded company. The Company operates under a non-banking financial institution ("NBFJ") special license No. 1/493 issued by Financial Reporting Committee ("FRC") on 24 June 2015. The special license covers permission for lending and online payment money transfer activities in Mongolia. On 20 March 2019, the Company obtained Trust service license and Factoring service license No. 45 issued by the FRC. On 23 May 2019, the Company obtained Foreign currency transaction service license No 128 issued by the FRC.

Principal activity. The Company provides 24/7 mobile phone based financial services to issue instant loans for under/served people using its LendMN technology developed by AND Systems Tech LLC, a fellow subsidiary incorporated in Mongolia. The LendMN technology is a fintech solution licensed by AND Systems tech LLC. In 2018, the Company enhanced its operational scope by launching a new product, Lend Wallet, which is a digital wallet that enables customers to make various types of payments and financial transactions through the Lend Wallet application.

The ultimate parent company is AND Global Pte.Ltd, a fintech company incorporated in Singapore.

The Company's registered address is Pearl Tower, Tourist street 34, 3rd khoroo, Chingeltei District, Ulaanbaatar, Mongolia.

The financial statements are presented in Mongolian Tugriks ("MNT"), and all values are rounded to the nearest thousands, unless otherwise stated.

The financial statements of the Company were authorised for issuance in accordance with the resolution of the Board of Directors on 3 February 2020.

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which includes all IFRS, International Accounting Standards ("IAS") and Interpretations) as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared under the historical cost convention except derivative financial instruments which have been measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (including changes to the accounting policy as disclosed in note 3).

Financial instruments – Initial recognition. Financial assets and liabilities, with the exception of loans and advances to customers and other receivables, are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers and other receivables are recognised when funds are transferred to the customers' accounts.

Financial instruments – Classification and initial measurement. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

2 Summary of significant accounting policies (Cont'd.)

Financial instruments – Classification and initial measurement (Cont'd.).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Financial instruments – Measurement of financial assets and liabilities. The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair value through other comprehensive income ("FVOCI"), or
- Fair value through profit or loss ("FVPL")

Financial instruments – Loans and advances to customers. the Company measures loans and advances to customers at amortised cost only 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 ("SPPI") on the principal amount outstanding.

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

As a second step of its classification process the Company assesses the contractual terms of financial assets 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.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method ("EIR").

2 Summary of significant accounting policies (Cont'd.)

Financial instruments – Loans and advances to customers (Cont'd.).

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

Undrawn loan commitments are commitments under which the Company is required to provide a loan with pre-specified terms to the customer.

Financial liabilities – Debt issued and other borrowed funds. Debt issued and other borrowed funds are contractual obligations to local and foreign financial institutions.

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost using the EIR. The amortised cost of debt issued and other borrowed is calculated using EIR by taking into account any transaction costs related to the transaction.

An analysis of the Company's debt issued and other borrowed funds are disclosed in Note 19.

Derivatives recorded at fair value through profit or loss. 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 in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Company enters into derivative transactions with financial institution. These include cross currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in profit or loss as gain/(loss) from financial derivatives.

Derecognition of financial assets. 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 financial asset have expired.

Derecognition of financial liability. A financial liability is derecognised when the obligation under the liability is discharged, 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 profit or loss.

The effective interest method. Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. 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 Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan.

2 Summary of significant accounting policies (Cont'd.)

Impairment of financial assets. The adoption of IFRS 9 has changed the Company's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments.

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, Stage 3 and Purchased or originated credit impaired (POCI), 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.
- POCI: Purchased or originated credit impaired assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

When estimating the ECLs, the Company considers three scenarios (a base case, a best case, and a worst case). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 22.3.

When estimating ECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life.

For outstanding loans and receivables as at 31 December 2019 and 2018, the ECL is presented together with the loans and receivables. For undrawn loan commitments, the ECL is recognised within Provisions.

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

- USD/MNT exchange rate
- Percent change of the monthly inflation rate
- Monthly average probability of default rate of consumer loans of Mongolian commercial banks

2 Summary of significant accounting policies (Cont'd.)

Impairment of financial assets (Cont'd).

- Monthly average probability of default rate of payroll loans of Mongolian commercial banks

Collateral. The Company's loans and receivables (cash at banks and loans and advances to customers) are not collateralised.

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.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments (primarily term deposits with banks) with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statements.

Property and equipment. The property and equipment owned by the Company is stated at cost less depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Furniture, office equipment and vehicles	10 years
Computers and technical equipment	3 years
Office renovation	5 years

The residual value of an asset is the estimated amount that Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases (Applicable before 1 January 2019). Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2 Summary of significant accounting policies (Cont'd.)

Leases (Applicable after 1 January 2019). The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office building – 5 years ownership of the leased asset transfers to the Company.

After lease commencement, a lessee shall measure the right-of-use asset using a cost model. Under the cost model a lease asset is measured at cost less accumulated depreciation and accumulated impairment. The right of use asset is subject to impairment. Refer to section "Impairment of non-financial assets" and also note 17 for Right of use assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Please refer to note 17 for details.

Intangible assets. The Company's intangible assets other than goodwill have definite useful lives and primarily include capitalised licenses.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful lives in years</u>
LendMN technology licenses (Lending and wallet systems)	10 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2 Summary of significant accounting policies (Cont'd.)

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income or directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Value added tax (VAT). Management has assessed that the Company has no VAT liabilities arising from non-financial services activities, while financial services activities (such as lending) are exempted from VAT based on Value Added Tax Law of Mongolia. Thus, the Company was not registered for VAT as at 31 December 2019 and 31 December 2018.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Other liabilities. Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Income and expense recognition. Interest income and expense are recorded for financial instruments other than credit-impaired assets on accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument and for processing transaction documents. LendMN fee income, charged on each loan disbursement, is also part of the effective interest rate although it is not called interest income.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' in the ECL models, the Company 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 Company reverts to calculating interest income on a gross basis. For purchased or originated credit-impaired (POCI) financial assets, the Company calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset.

2 Summary of significant accounting policies (Cont'd.)

Income and expense recognition (Cont'd.). The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Share capital and reserves. 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.

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

Foreign currency translation. The functional currency of the Company is a currency of the primary economic environment in which the entity operates. Thus, the Company's functional currency and presentation currency is the national currency of Mongolia, Mongolian Tugrik ("MNT").

Monetary assets and liabilities are translated into the Company's functional currency at the official exchange rate of the Bank of Mongolia ("BOM") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Company's functional currency at year-end official exchange rates of the BOM are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statements of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by the Company's employees. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when absences occur. As required by law, companies in Mongolia make contributions to the government pension scheme - Social Security and Health Insurance Fund. Such contributions are recognised as an expense in the profit or loss as incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Share-based payments. AND Global Pte.Ltd (the ultimate parent company of the Company) granted equity settled share-based payments to key employee(s) of the Company through an Employee Stock Ownership Plan in 2018. The fair value of these equity settled transactions is determined at grant date and is recognised as an employee expense in the statement of profit or loss, with the corresponding increase in equity, on a straight-line basis over the vesting period. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At each reporting date, the Company revises its estimates of the number of options that are likely to vest. Any adjustment from this revision is recognised in the statement of profit or loss with a corresponding adjustment to equity. The Company does not operate any cash-settled share-based payment schemes or share-based payment transactions with cash alternatives as defined in IFRS 2.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2 Summary of significant accounting policies (Cont'd.)

Earnings per share. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company (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 period 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.

Transactions with related parties. A related party is a person or entity that is related to the Company:

- (a) A person or a close member of that person's family is related to a Company if that person:
 - (i) has control or joint control of the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company.
- (b) An entity is related to a Company if any of the following conditions applies:
 - (i) The entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) 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).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 25.

3 Changes to accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2019:

New and amended standards and interpretations

- | | |
|---|--|
| • IFRS 16 | <i>Leases</i> |
| • IFRIC Interpretation 23 | <i>Uncertainty over Income Tax Treatment</i> |
| • Amendments to IFRS 9 | <i>Prepayment Features in Negative Compensation</i> |
| • Amendments to IAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| • Annual Improvements (2015-2017 cycle) | <i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes, IAS 23 Borrowing costs</i> |
| • Amendments to IAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |

3 Changes to accounting policy and disclosures (Cont'd.)

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

1. IFRS 16, Leases

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

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

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company adopted IFRS 16 using the modified retrospective approach, with the date of initial application of 1 January 2019. The Company applied only to contracts that were previously identified as lease applying IAS 17 as at date of initial application.

2. IFRIC-Int 23, Uncertainty over Income Taxes Treatment

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

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

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

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a single territory, it assessed whether the Interpretation had an impact on its financial statements.

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

3 Changes to accounting policy and disclosures (Cont'd.)

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

3. Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

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

These improvements include:

• IAS 12 *Income Taxes*

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

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not have any effect on its financial statements.

• IAS 23 *Borrowing Costs*

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not have any effect on its financial statements.

Standards issued but not yet effective

The Standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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

3 Changes to accounting policy and disclosures (Cont'd.)

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

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

4 Critical accounting estimates, and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances to customers. The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows 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 Company's ECL calculations are outputs of the 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 judgements and estimates include:

- Staging of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as USD/MNT exchange rates and inflation rates, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Intangible assets. The intangible assets of the Company consist of licenses for the LendMN Lending and Wallet Systems' exclusive use right in the territory of Mongolia for a term of 50 years. Management estimates the useful life to be 10 years based on their best estimate of the expectation of the system usage. Changes in the expected usage and technology developments could impact the economic useful lives, which would lead to revision of amortization period in the future.

Lease. The Company entered into a new office building lease contract on 23 October 2018 and recognized right of use assets. Management estimates the lease period to be 5 years in line with lease contract based on their best estimate of the expectation of the asset usage. The lease liability is initially measured at present value of the lease payments, discounted at the discount rate for the lease. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right to use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which require estimation when no observable rates are available or when they need to be adjusted to reflect the lease term and condition of lease.

4 Critical accounting estimates, and judgments in applying accounting policies (Cont'd.)

The Company estimates the IBR using observable inputs (such as market interest rate). The estimated IBR is 18% p.a minimum of interest rate of fixed asset purchase loan of five top commercial banks in Mongolia with same lease period.

As at date of initial application, the Company has two office lease contracts. The one is new office lease which the Company made the lease contract in October 2018; however, the commencement date is partially started in October 2018 and fully started in February 2019 due to leasehold improvement operation. The other is old office lease which was made in 2017 and ceased in June 2019. The two-month lease payment is MNT 14 million. The management estimated transition difference related to the IFRS 16 is assessed to be insignificant. Therefore, the Company did not recognize the transition difference on lease in its financial statements as at 1 January 2019.

Management estimates that the lease period shall not be early terminated and extended due to an unforeseen future change.

5 Net interest and similar income and segment information

During the years ended 31 December 2019 and 2018, the Company was engaged in a single business segment, which is issuing instant loans to the individual borrowers in Mongolia. Information reported to the Company's chief decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Company's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented. As the Company's major operations and customers are located in Mongolia, no further geographical segment information is provided. There has been no single external customer that has contributed revenue exceeding 10% or more of the Company's revenue during the years ended 31 December 2019 and 2018.

	2019 MNT'000	2018 MNT'000
Interest income		
Interest income on bank accounts	202,402	177,796
LendMN fee income		
Loans and advances to customers – LendMN system	18,118,680	6,965,523
Total interest and similar income	<u>18,321,082</u>	<u>7,143,319</u>
Interest expense		
Interest expenses on borrowings	(4,487,133)	(511,934)
Interest accretion on lease liability	(167,108)	-
Total interest and similar expenses	<u>(4,654,241)</u>	<u>(511,934)</u>

LendMN fee income represents the one-time fee charged on loan disbursements made through the LendMN system. This fee income represents part of the effective interest rate in accordance with IFRS and is deferred over the life of the respective loan.

During the year, included in interest expense on borrowings are MNT 167,108 that represents accretion interest on lease liabilities, refer to Note 17.

6 Credit loss expense

The table below shows the impairment charges on financial assets for the year recorded in profit or loss:

	2019 MNT'000	2018 MNT'000
Impairment Loss		
Impairment on loans and advances to customers (Note 12)	1,592,096	392,310
Impairment on undrawn commitment (Note 20)	26,706	16,215
Total Impairment loss	<u>1,618,802</u>	<u>408,525</u>

7 Administrative and operating expenses

	2019 MNT'000	2018 MNT'000
Staff costs	1,882,989	984,286
LendMN system maintenance/service fee (Note 25)	1,362,523	707,917
Advertising and marketing services	625,745	695,640
Bank charge	476,524	211,058
Depreciation of property and equipment and right-of-use assets (Note 16 and 17)	321,072	59,464
Professional services	302,823	191,073
Social security contributions	229,566	113,828
Amortization of intangible assets (Note 15)	46,332	33,932
Maintenance expense	35,360	9,726
Rental expense	19,404	106,081
Share-based contribution	-	57,348
Other expenses	262,787	107,711
Total administrative and operating expenses	<u>5,565,125</u>	<u>3,278,064</u>

8 Other income/(expenses), net

	2019 MNT'000	2018 MNT'000
Other income	13,313	-
Other expense	(182,213)	(79,119)
Unrealised foreign exchange losses, net	(197,265)	-
Realised foreign exchange losses, net	(216,016)	(327)
Gains from change in fair value of derivative financial instruments	130,642	-
Total other losses	<u>(451,539)</u>	<u>(79,446)</u>

9 Income tax

9.1 Income tax expenses

Income taxes recorded in profit or loss for the year comprises the following:

	2019 MNT'000	2018 MNT'000
Current tax:		
Current income tax	1,146,248	305,037
Deferred tax:		
Relating to origination of temporary differences (Note 9.3)	(25,062)	-
Income tax expense for the year	1,121,186	305,037

The Company provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Company is 10% for the first MNT 3 billion (2018: MNT 3 billion) of taxable income in a financial year, and 25% (2018: 25%) on the excess of taxable income over MNT 3 billion (2018: MNT 3 billion) in accordance with Mongolian tax legislation.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Company are as follows:

	2019 MNT'000	2018 MNT'000
Profit before tax	6,031,375	2,865,350
Tax at statutory rate of 25% (2018: 10%)	1,507,844	286,535
Tax effect of:		
- Non-deductible expenses	93,702	18,502
- Special tax rate	(30,360)	-
- Effect of where applicable tax rate is lower than 25%	(450,000)	-
Income tax expense for the year	1,121,186	305,037

The effective income tax rate for the Company for the year ended 31 December 2019 is 18.60% (2018: 10.65%).

9.2 Income tax liabilities/(assets)

	2019 MNT'000	2018 MNT'000
As at 1 January	7,690	(3,928)
Income tax expense for the year (Note 9.1)	1,146,248	305,037
Income tax paid during the year	(1,002,543)	(293,419)
As at 31 December	151,395	7,690

9.3 Deferred tax balance

Deferred tax assets/(liabilities) were recognised for deductible or taxable timing differences resulting from the unrealised exchange difference arising from monetary assets and liabilities, fair value gain on the derivative financial instruments and lease asset depreciation and interest accretion.

9 Income Tax (Cont'd.)

9.3 Deferred tax balance (Cont'd.)

2019	Opening balance MNT'000	Recognised in profit or (losses) MNT'000 (Note 9.1)	Closing balance MNT'000
Deferred tax assets in relation to:			
Unrealised foreign exchange losses	-	34,977	34,977
Lease asset depreciation and interest accretion	-	13,209	13,209
	-	48,186	48,186
Deferred tax liabilities in relation to:			
Gain on change in fair value of derivative financial instruments	-	(23,124)	(23,124)
	-	(23,124)	(23,124)
Deferred tax assets	-	25,062	25,062

10 Earnings per share

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share is equivalent to the basic earnings per share.

	2019	2018
Profit or loss, representing total comprehensive income for the year (net of taxes) attributable to equity holders of the Company (MNT'000)	4,910,189	2,560,313
Weighted average number of ordinary shares for basic and diluted earnings per share*	797,458,537	760,000,000
Earnings per share (MNT)	6.16	3.37
	2019	2018
Earnings per share	MNT	MNT
Equity holders of the Company:		
Basic earnings per share	6.16	3.37
Diluted earnings per share	6.16	3.37

*The weighted-average number of ordinary shares take into account the weighted-average effect of movement in treasury shares during the year, refer to Note 21.2.

11 Cash and cash equivalents

	31.12.2019 MNT'000	31.12.2018 MNT'000
Cash on hand	914	1,088
Cash at bank	2,381,282	4,217,062
Total cash and cash equivalents	2,382,196	4,218,150
(-) Funding for wallet balance (Note 20)	(964,265)	(682,695)
Total cash and cash equivalents for statement of cashflow	1,417,931	3,535,455

11 Cash and cash equivalents (Cont'd.)

Cash at bank balances are current accounts placed in commercial banks operating in Mongolia and are not collateralised. The carrying amount of cash and cash equivalents approximates fair value. Current accounts outstanding as at 31 December 2019 are placed at interest rates ranging between 0.0%-9.75% p.a. (31 December 2018: 0.0%-9.75%). Cash at bank as at 31 December 2018 includes a short-term time deposit of MNT 500 million which bears interest rate of 13% p.a and matured on 27 January 2019.

The Company estimated the expected credit loss on cash and cash equivalents in accordance with IFRS 9 as at 31 December 2019 and 31 December 2018. As most of the cash and cash equivalents are demand deposits, the estimated expected credit loss is assessed to be insignificant. Therefore, the Company did not recognize the expected credit losses on cash and cash equivalents in its financial statements for the years ended 31 December 2019 and 2018.

The cash balance of individual wallet is restricted and is accounted separately as it is not used as a funding source by the Company, making it available on demand. Cash and cash equivalents corresponding to the wallet balance as at 31 December 2019 is MNT 964,265 thousand (2018: MNT 682,695 thousand).

12 Loans and advances to customers

	31.12.2019 MNT'000	31.12.2018 MNT'000
Consumer loans issued through LendMN system, gross	51,009,394	19,642,922
Less: Allowances for ECL (Note 22.3)	(1,551,718)	(443,556)
Total loans and advances to customers	49,457,676	19,199,366

Based on the business model of the Company, all borrowers of the Company using the LendMN application are individuals who use micro loans to finance their consumption and short-term finance needs.

As at 31 December 2019, The Company pledged total of MNT 10,400,000 thousand of performing loan portfolio (2018: MNT 8,000,000 thousand) as collaterals for credit line and the loans received from other financial institutes. Please refer to Note 19.

12.1 Impairment allowance for loans and advances to customers

The Company assesses impairment of loans in accordance with IFRS 9. Under the general approach, the Company classifies the loan portfolio into Stage 1, 2 and 3 as follows, and calculate probability-weighted forward-looking PDs and LGDs separately for each stage. The details of calculation and policies about ECL allowances are explained in Note 22.3.

Stage 1: Loan portfolio on time + Loan portfolio past due less than 31 days

Stage 2: Loan portfolio past due by 31-90 days

Stage 3: Loan portfolio past due by more than 90 days

Allowances for impairment losses for loans and advances to customers as at 31 December 2019 and 31 December 2018 at each stage are as follows:

Expected credit loss	Drawn exposure	Forward- looking PD	Forward- looking LGD	ECLs as part of Loan Balance
At 31 December 2019				
Stage 1	48,210,148	0.77%	56.22%	208,775
Stage 2	978,532	58.26%	56.22%	320,154
Stage 3	1,820,714	100.00%	56.22%	1,022,789
	51,009,394			1,551,718

12.1 Impairment allowance for loans and advances to customers (Cont'd.)

	Drawn exposure	Forward-looking PD	Forward-looking LGD	ECLs as part of Loan Balance
At 31 December 2018				
Stage 1	19,019,885	0.81%	65.28%	100,125
Stage 2	259,329	62.63%	65.28%	106,021
Stage 3	363,708	100.00%	65.28%	237,410
	19,642,922			443,556

The table below shows credit quality of the total loan portfolio.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2019 Total MNT'000	2018 Total MNT'000
Performing loan	48,210,148	-	-	48,210,148	19,019,885
Non-performing loan	-	978,532	1,820,714	2,799,246	623,037
Total	48,210,148	978,532	1,820,714	51,009,394	19,642,922

An analysis of changes in gross carrying amount and the corresponding ECL allowances in relation to the loan and advances to customer is, as follows:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2019 Total MNT'000
Gross carrying amount as at 1 January 2019	19,019,885	259,329	363,708	19,642,922
New assets originated or purchased	439,329,846	-	-	439,329,846
Assets derecognized or repaid	(407,194,307)	(151,800)	(133,333)	(407,479,440)
Transfer to stage 2	(2,945,276)	2,945,276	-	-
Transfer to stage 3	-	(2,074,273)	2,074,273	-
Write-offs	-	-	(483,934)	(483,934)
At 31 December 2019	48,210,148	978,532	1,820,714	51,009,394
Gross carrying amount as at 1 January 2018	4,245,972	49,140	9,720	4,304,832
New assets originated or purchased	152,526,404	-	-	152,526,404
Assets derecognized or repaid	(136,114,242)	(778,706)	(295,366)	(137,188,314)
Transfer to stage 2	(1,638,249)	1,638,249	-	-
Transfer to stage 3	-	(649,354)	649,354	-
At 31 December 2018	19,019,885	259,329	363,708	19,642,922
ECL allowance as at 1 January 2019	100,125	106,021	237,410	443,556
New assets originated or purchased	1,902,524	-	-	1,902,524
Assets derecognized or repaid	(1,763,360)	(49,666)	(74,901)	(1,887,927)
Transfer to stage 2	(12,755)	12,755	-	-
Transfer to stage 3	-	(678,656)	678,656	-
Impact on year end ECL of exposures transferred between stages during the year	(17,759)	929,700	665,558	1,577,499
Write offs	-	-	(483,934)	(483,934)
At 31 December 2019	208,775	320,154	1,022,789	1,551,718

12 Loans and advances to customers (Cont'd.)

12.1 Impairment allowance for loans and advances to customers (Cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2018 Total MNT'000
ECL allowance as at 1 January 2018	22,177	21,600	7,469	51,246
New assets originated or purchased	802,926	-	-	802,926
Assets derecognized or repaid	(714,996)	(318,354)	(192,803)	(1,226,153)
Transfer to stage 2	(8,624)	8,624	-	-
Transfer to stage 3	-	(265,472)	265,472	-
Impact on year end ECL of exposures transferred between stages during the year	(1,358)	659,623	157,272	815,537
At 31 December 2018	100,125	106,021	237,410	443,556

Movement analysis for impairment losses for loans and advances to customer as follows:

	31.12.2019 MNT'000	31.12.2018 MNT'000
At 1 January	443,556	51,246
Charge for the year (Note 6)	1,592,096	392,310
Written off during the year	(483,934)	-
At 31 December	1,551,718	443,556

13 Derivative financial instruments

The Company entered into derivatives for foreign currency risk management purpose, as explained in note 2 in the summary of significant accounting policies. Derivatives held for risk management purpose include cross currency swaps and do not meet the hedge accounting requirement. The table below shows the fair values of derivative financial instruments recorded as assets together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

31 December 2019	Fair value of assets MNT'000	Notional amount MNT'000
Derivatives		
Cross currency swaps	130,642	9,621,990
Total derivative financial instruments	130,642	9,621,990

Starting from November 2019, the Company entered into certain short-term cross currency swap contracts with a commercial bank. The Company's short-term USD/MNT swaps are ranging in maturity from 6 to 8 months. The swap agreements are designed to manage the risk of variability of cash flows denominated in USD from the borrowings received from foreign financial institutions. As at 31 December 2019, the Company had short-term cross currency swap agreements with a commercial bank in place with notional amount of USD 3,520,000 or MNT 9,621,990 thousand.

13 Derivative financial instruments (Cont'd.)

At the initiation, the Company pays USD funds and receives MNT funds at the adjusted spot rate with haircut from 2% to 3%, and subsequently upon maturity the Company receives USD funds and pays MNT funds at agreed forward rate (forward rates ranging from MNT 2,793 to MNT 2,971.06). Please refer to Note 24 for fair value disclosure of derivative financial instruments. Risk management strategy and how it is applied to manage risks disclosed in Note 22.

14 Other assets

	31.12.2019 MNT'000	31.12.2018 MNT'000
Time deposit	4,373,632	-
Other receivables	165,500	120,285
Supply materials	30,324	4,138
Taxes receivables other than on income	1,859	-
Total assets	4,571,315	124,423

Time deposit as at 31 December 2019 represents a short-term time deposit denominated in USD and amounted to USD 1,600,000 at Trade Development Bank which bears interest rate from 5% to 5.4% p.a and partially matures on 29 April 2020 and 14 May 2020. The other receivables include accrued interest receivable of the time deposit for an amount of MNT 127,479 thousand.

The Company estimated the expected credit loss on time deposit in accordance with IFRS 9 as at 31 December 2019. The time deposit has been pledged on borrowings from commercial bank, refer to Note 19 (ii). As the Company considered that there is no exposure at default, the expected credit loss is assessed to be insignificant. Accordingly, the Company did not recognize the expected credit losses on time deposit in its financial statements for the year ended 31 December 2019.

15 Intangible assets

	2019 MNT'000	2018 MNT'000
At cost		
At 1 January	456,464	300,000
Additions	550	156,464
At 31 December	457,014	456,464
Accumulated amortization		
At 1 January	68,680	34,748
Charge for the year (Note 7)	46,332	33,932
At 31 December	115,012	68,680
Net carrying value	342,002	387,784

The intangible assets of the Company consist of licenses for the LendMN system's exclusive rights of use in the territory of Mongolia for lending activities and wallet transactions purchased from AND Systems Tech LLC, a fellow subsidiary. The lending application or the original platform was purchased in December 2016 from AND System Tech LLC, which has customer on-boarding, credit scoring, banking back-end, customer support and reporting modules and the LendMN Application. The one-time license fee for the LendMN system's exclusive right of use was MNT 300,000 thousand.

Upon a launch of e-wallet service in 2018, the Company entered into an agreement with its related company AND Systems Tech LLC on 1 November 2018 to purchase the exclusive right of use of the wallet application for all wallet related transactions. The wallet application is an upgrade to the lending application but containing the original functionality of lending within. The one-time license fee for the LendMN wallet's exclusive right of use was MNT 150,000 thousand.

15 Intangible assets Intangible asset (Cont'd.)

Both license agreements are not cancellable unless such is mutually agreed or the Company no longer holds its lending licenses. Although both license periods are for 50 years, LendMN system is amortised over 10 years and the e-wallet application is amortised over the remaining useful life of the LendMN system based on the management's best estimate of the useful life of each license.

16 Property and equipment

	Furniture, office equipment & vehicle MNT'000	Computers and equipment MNT'000	Office renovation MNT'000	Total MNT'000
At 31 December 2019				
At cost				
At 1 January 2019	60,695	146,239	123,310	330,244
Additions**	45,743	111,955	180,448	338,146
Disposal*	-	-	(123,310)	(123,310)
At 31 December 2019	106,438	258,194	180,448	545,080
Accumulated depreciation				
At 1 January 2019	8,643	44,199	19,351	72,193
Charge for the year (Note 7)	9,869	72,290	36,421	118,580
Disposal*	-	-	(31,575)	(31,575)
At 31 December 2019	18,512	116,489	24,197	159,198
Net carrying amount	87,926	141,705	156,251	385,882
At 31 December 2018				
At cost				
At 1 January 2018	41,651	62,036	-	103,687
Additions	19,044	84,203	123,310	226,557
At 31 December 2018	60,695	146,239	123,310	330,244
Accumulated depreciation				
At 1 January 2018	3,310	9,419	-	12,729
Charge for the year (Note 7)	5,333	34,780	19,351	59,464
At 31 December 2018	8,643	44,199	19,351	72,193
Net carrying amount	52,052	102,040	103,959	258,051

There is no borrowing cost capitalized and the properties and equipment are not pledged for any of the Company's liabilities.

*In February 2019, in relation to movement to its new office, the Company transferred a leasehold improvement made in the old office lease with carrying amount of MNT 91,735 to AND Systems Tech LLC, a related party, in exchange for settlement of account payable.

**Addition during the year includes transfer from prepayment of MNT 87,500 (2018: nil).

17 Lease

The Company has entered into a lease contract for a new office building in October 2018 for 5 years term. The Company's obligations under its lease is secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets. The lease contract has an extension option with that the Company can extend the lease term by 2 years without notification and prepayment. For a termination option, the Company can cease the lease with 2 months prior notice from expiry date without additional payments. Please refer to Note 4 for management judgement on lease asset.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Office building MNT'000
At recognition in February 2019	978,711
Depreciation expense (Note 7)	(202,492)
As at 31 December 2019	776,219

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019 MNT'000
At recognition in January 2019	978,711
Accretion of interest (Note 5)	167,108
Payments	(294,975)
As at 31 December	850,844
Current	170,427
Non-current	680,417

The maturity analysis of lease liability is disclosed in Note 22.4

The following are the amounts recognized in profit or loss:

	2019 MNT'000
Depreciation	202,492
Interests	167,108
Total amount recognized in profit or loss	369,600

The Company had total cash outflows for leases of MNT 294,975 thousand in 2019.

18 Prepayments

	31.12.2019 MNT'000	31.12.2018 MNT'000
Prepayment for new office	-	87,500
Other	6,835	48,163
Total prepayments	6,835	135,663

19 Borrowings

		Interest rate p.a	Current	31.12.2019		Total
				MNT'000		
				Non-current		
Closed bonds	(i)	11.24%-18.5%	2,507,756	1,093,408		3,601,164
Loans	(ii)	11.1%-19.2%	18,333,646	2,800,000		21,133,646
Trust financing	(iii)	10%-19%	11,633,883	2,211,329		13,845,212
Total borrowings			32,475,285	6,104,737		38,580,022

		Interest rate p.a	Current	31.12.2018		Total
				MNT'000		
				Non-current		
Closed bonds	(iv)	12%-18%	6,565,017	-		6,565,017
Loans	(v)	17.75%-19.2%	2,007,359	1,520,041		3,527,400
Total borrowings			8,572,376	1,520,041		10,092,417

- (i) As at 31 December 2019, the Company has issued 2,435 units of closed bonds with par value of MNT 1,000,000, with quarterly and/or bi-annual coupon interest payment at a range of 17-18.5% per annum and matures between 26 February 2020 and 17 December 2020 with 7 repayments. And Systems LLC, the parent company has issued a guarantee letter with amount of MNT 110,000 thousand for some closed bond buyers. On 5 December 2019, the Company has issued additional 4 units of closed bonds with par value of USD 100,000, with quarterly coupon interest payment at 11.24% per annum, and maturity of 2 year. The bond matures on 5 December 2021 and payment is guaranteed by And Systems LLC.
- (ii) On 2 November 2018, the Company obtained MNT 1,200,000 thousand overdraft loan from Trade and Development Bank of Mongolia, whereby the Company pledged MNT 1,200,000 thousand of performing loans and advances to customers and MNT 1,450,000 thousand of future cash inflow to be collected through its current accounts at commercial banks against the facility. The loan matures on 2 November 2020.

As at 31 December 2019, the Company received loans amounting to a MNT 6,409,000 thousand from commercial banks and other financial institutes, whereby the Company pledged MNT 4,600,000 thousand of performing loans and advances to customers and USD 1,600,000 of term deposit. The loans mature between 10 March 2020 and 18 September 2020 with 4 repayments.

On 31 October 2019, the Company obtained a MNT 5,000,000 thousand credit line from And Systems LLC, with monthly coupon interest payment calculated at 24.44% per annum, and maturity of 2 year and facility matures on 31 October 2021. As at 31 December 2019, the Company utilised 2,800,000 thousand of its credit line loan.

As at 31 December 2019, the Company has a MNT 3,795,000 thousand and a USD 1,752,000 loans from And Systems LLC, with quarterly and/or bi-annual coupon interest payment calculated at a range of 11.1-21.11% per annum, and matures between 14 February 2020 and 20 November 2020 with 16 repayments.

- (iii) As at 31 December 2019, the Company has a MNT 4,748,000 thousand trust financing from third parties with monthly, quarterly and/or bi-annual coupon interest payment at a range of 16.5-19% per annum, and matures between 9 April 2020 and 28 April 2022 with 16 repayments. The Company pledged MNT 4,600,000 thousand of performing loans on the trust financing from a domestic entity. The Company has received additional USD 3,287,470 trust financing from third parties, with monthly, quarterly and/or bi-annual coupon interest payment at a range of 10-18.57% per annum, and maturity in between 29 April 2020 and 7 May 2022 with 20 repayments.

19 Borrowings (Cont'd.)

- (iv) On 10 November 2017, the Company issued 1,000,000 units of closed bonds with par value of MNT 1,000, with quarterly coupon interest payment calculated at 16% per annum, and maturity of 1 year and subsequently extended by 3 months. All of the closed bonds were fully sold on the same day to one of the minority shareholders of the ultimate parent company. The bond is to mature on 11 February 2019. Per Board Resolution No. 18/14 on June 04, 2018, the Company has issued additional 5,400,000 units of closed bonds with par value of MNT 1,000, with quarterly and/or bi-annual coupon interest payment calculated at a range of 16-17% per annum, and maturity between 18 June 2019 and 13 November 2019 with 7 repayments.
- (v) On 20 December 2018, the Company obtained a MNT 2,000,000 thousand credit line from commercial bank, whereby the Company pledged MNT 4,000,000 thousand of performing loans and advances to customers and current accounts at commercial banks against the facility. The facility is to mature on 20 December 2020.

On 31 December 2018, the Company received a MNT 2,000,000 thousand loan from commercial bank, whereby the Company pledged MNT 4,000,000 thousand of performing loans and advances to customers and MNT 2,000,000 thousand of future cash inflow to be collected through its current accounts at commercial banks against the facility. The loan is matured and repaid on 25 December 2019.

20 Other liabilities

	31.12.2019 MNT'000	31.12.2018 MNT'000
Other financial liabilities:		
Payables to other companies and individuals	1,076,324	795,742
Other payables	168,627	39,858
Total other financial liabilities	1,244,951	835,600
Other non-financial liabilities:		
Taxes payable other than income tax	-	7,922
Provision for future possible tax liabilities	6,429	6,429
Provision for undrawn commitment (Note 22.3)	45,710	19,004
Total other non-financial liabilities	52,139	33,355
Total other liabilities	1,297,090	868,955

Payables to other companies and individuals include payables or cash balance of individual e-wallet account holders as well as merchant wallet balances, totalling MNT 964,265 thousand (2018: MNT 682,695 thousand). The remaining balance accounts for payables due to partnering merchants and other parties.

Other payables include dividend payable of MNT 140,000 thousand to AND Systems LLC, the parent company. Please refer to Note 21.1 for dividend declaration information.

In compliance with IFRS 9 standards, the Company calculated expected credit loss for undrawn commitments that are highly potential to become loan products. Movements in the provision for undrawn commitment is as follows:

	2019 MNT'000	2018 MNT'000
At 1 January	19,004	2,789
ECL charges on undrawn commitment (Note 6)	26,706	16,215
At 31 December	45,710	19,004

20 Other liabilities (Cont'd.)

Movements in the provision for future possible tax liabilities is as follows:

	2019 MNT'000	2018 MNT'000
At 1 January	6,429	15,805
Utilised tax provision during the year	-	(9,376)
At 31 December	<u>6,429</u>	<u>6,429</u>

21 Share capital and reserves

21.1 Share Capital

The Company is a listed company established under the Company Law of Mongolia. The total authorised and issued share capital of the Company represents 800,000,000 ordinary shares (2018: 800,000,000) with par value of MNT 10 (2018: MNT 10). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

On 14 March 2018, the Company issued by listing 200,000,000 ordinary shares at MNT 25 per share on the Mongolian Stock Exchange through IPO, thus raised equity of MNT 5,000,000 thousand.

	Number of outstanding shares	Share capital MNT'000
At 1 January 2018	600,000,000	6,000,000
New shares issued 14 March 2018 by listing	200,000,000	5,000,000
Listing related direct costs	-	(243,141)
At 31 December 2018 and at 31 December 2019	<u>800,000,000</u>	<u>10,756,859</u>

The immediate parent company of the Company is AND Systems LLC and the ultimate parent company is AND Global Pte.Ltd, a fintech start-up company incorporated in Singapore.

The shareholders and their percentages of ownership are as follows:

	31.12.2019	31.12.2018
AND Systems LLC	75%	75%
Public	24.5%	25%
Treasury shares	0.5%	-
	<u>100%</u>	<u>100%</u>

In January 2019, the Company declared dividend of MNT 800,000 thousand to the shareholders (2018: nil).

21.2 Treasury shares

The Company repurchased 4,000,000 shares at average of MNT 66.52 per share, representing the market price, for a total amount of MNT 266,086 thousand between 19 April 2019 and 21 June 2019 for consideration of a staff remuneration purpose.

21 Share capital and reserves (Cont'd.)

21.3 Other reserve

In June 2018, AND Global Pte Ltd, the ultimate holding entity of the Company, granted share awards to the Company's key management personnel. The share award is accounted for as an equity-settled share-based payment transaction as the Company does not have an obligation to settle the award. The award was conditional upon continuous employment with the Company and achievement of non-market key performance indicators for the financial year ended 31 December 2018. No movement has been made in other reserve during the year.

22 Risk management disclosures

22.1 Introduction

The main risks inherent in the Company's operations are credit risk, liquidity risk and operational risk, all of which are controlled by the Company's Chief Executive Officer. The primary goal of risk management is to allocate capital to business segments commensurate with their risk/reward profiles and to maximise the Company's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

The Company has a risk management framework which is not designed to eliminate the risk but to optimise the risk and return trade off. The risk management framework in place is to ensure that:

- (i) Individuals who manage the risks clearly understand the requirement and measurement system;
- (ii) The capital allocation is consistent with the risk of exposures; and
- (iii) The Company's performance objectives are aligned with the risk appetite and tolerance.

22.2 Risk management structure

The Chief Executive Officer is currently responsible for the overall risk management approach and for approving the risk policy and the credit policy which specify risk appetite and tolerance. On 10 May 2018, the shareholder appointed a board of directors with 9 members. In April 2019, the Chief Executive Officer appointed a senior risk manager whose main objective will be setting up the overall risk management structure of the Company. The Board has appointed an internal audit on 21 August 2018.

22.3 Credit risk

Impairment assessment

The main credit risk of the Company arises from loan losses from its lending activities. The credit risk can arise from 1) the credit limit approval process and 2) the handling of loan lifecycle after the loan disbursement. The credit risk from the credit limit approval process can arise from approval of an inappropriate credit amount with inappropriate fee level to a customer due to inaccurate credit scoring of the LendMN System's credit scoring module. The credit scoring of the Company is based on a machine learning algorithm that constantly improves its credit assessment accuracy based on its own historical credit data including late repayments and overdue status of past loans. The machine learning system based on deep learning technology instantly updates its credit scoring algorithm as more credit information is gathered by the system itself and adjusts the credit scoring algorithm prospectively.

Management of the Company sets the credit amount intervals and fee levels and the LendMN system makes the credit decision automatically and constantly updates its credit scoring algorithm. Management monitors the overdue loans based on the targeted percentage for each interval of overdue loan as to overdue more than 1 day, 30 days, 60 days or 90 days.

22 Risk management disclosures (Cont'd.)

22.3 Credit risk (Cont'd.)

The Company considers a loan default and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the loan becomes 90 days past due.

The credit risk for the Company can also arise after the LendMN System's credit decision and the subsequent loan disbursements. The account receivables department together with the call center monitors the overdue loans on a daily basis by identifying any trends in the repayment behaviour of its customers. The account receivables department ensures that the overdue loan notification module of the LendMN System is operating as effective as possible and updates the notification module if a trend is noted in the repayment behaviour of its customers. The call center supports the account receivables department by providing timely and accurate repayment guidance to customers under the direct supervision of the account receivables department.

Definition of default

The Company considers a financial instrument defaulted and therefore stage 3 (credit-impairment) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company's PD estimation process

The Company adopted IFRS 9 in 2018. The expected credit loss model under IFRS 9 applies to bank deposits, loans, debt securities and trade receivables that are recorded at amortized cost or fair value through other comprehensive income, plus lease receivables, contract assets and loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

Short term loans and advances to customers impairment assessment

The Company uses its historical level of loan loss provision and considered the following forward-looking macro-economic factors to come up with a forward-looking probability-weighted PD:

- Monthly % change of the USD/MNT exchange rate,
- Monthly average exchange rate of USD/MNT (Absolute value);
- Monthly inflation rate,
- Percentage point change of monthly inflation rate;
- Monthly unemployment rate,
- Monthly average salary,
- Monthly Gini coefficient; and

To determine which macro-economic variables are the best predictors of the forward-looking PD for the Company's loan product, the Company has run a linear regression analysis on the monthly PD for the last 34 months against those macro-economic variables and the final model consisted of the monthly average exchange rate of USD/MNT as an independent variable which is considered as the best predictor.

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 borrower's ability to increase its exposure while approaching default and potential early payments too.

Loss given default

The Company calculated historical LGDs on a monthly basis on its historical loan data between March 2017 and December 2019 based on the following formula:

$$\text{LGD} = 1 - (\text{Recovery of loans over 90 days} / \text{Any loan over 90 days})$$

22 Risk management disclosures (Cont'd.)

22.3 Credit risk (Cont'd.)

The same regression analysis that was run on the historical PDs has been conducted on the historical 34 monthly LGDs and the final model consisted of the monthly USD/MNT exchange rate as an independent variable. The model passed both the quantitative and qualitative thresholds statistically significant coefficient at confidence level of 95%.

The Company calculated the final LGD rate by taking the weighted average of the three LGDs while the probabilities of each scenario are 25%, 45%, and 30% (2018: 10%, 40% and 50%) for the best, the base and the worst case respectively. Management has given 45% of probability for the base case scenario in LGD for 2019 calculation as Moody's report named "Rating Action, released in October 2019 states that "Mongolia is rated B3 and stable outlook" where Moody's expects Mongolian foreign exchange reserves to be sufficient to meet external debt obligations and growth to remain relatively strong. This resulted in a probability-weighted forward-looking LGD of 56.22%.

As the average loan term is 26 days, the time value of money is ignored for the expected credit loss calculation.

Credit conversion factor

The credit conversion factor is estimated at 43% based on the average factor during the last 34-month historical data.

Significant increase in credit risk

The Company continuously monitor all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the loan balance becomes overdue by 31+ days, where the loan will be classified to Stage 2.

If the loan balance becomes overdue by 90 days, the Company considers a default has occurred and the loan will be classified to Stage 3.

Analysis of inputs to the ECL model

An overview of the approach to estimating ECLs is set out in Note 2, *Summary of Significant Accounting Policies* and in Note 4, *Critical Accounting Estimates, and Judgements in Applying Accounting Policies*. To ensure completeness and accuracy, the Company obtains the data used from third party sources (Mongol Bank, National Statistics Office etc.) and verifies the accuracy of inputs to the Company' ECL models including determining the weights attributable to the multiple scenarios.

The following table shows the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL model.

Macro-economic variables/Estimated PDs	Best case (min of past 34 months)	Base case (average of past 34 months)	Worst case (max of past 34 months)
Monthly average exchange rate of USD/MNT (absolute value)	0.01%	3.19%	6.39%
Estimated PDs	0.00%	1.44%	1.92%

Collateral and other credit enhancements

Cash at banks of the Company and loans and advances to customers issued by the Company are not collateralised (Note 12).

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22 Risk management disclosures (Cont'd.)

22.4 Liquidity risk

The Company manages its liquidity risk with an objective of having sufficient funds to meet its increasing demand for loan disbursements and its payment obligations resulting from the day to day operations of the Company. The funding required to meet the demand for loan disbursements is obtained from related parties either in the form of equity or debt, or debt from third parties.

Analysis of financial liabilities by remaining contractual maturities

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

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
31 December 2019							
Undrawn commitment	7,517,004	-	-	-	-	-	7,517,004
Closed bond	-	555,398	1,625,646	615,634	1,210,162	-	4,006,840
Bank loans	-	2,767,313	41,202,460	6,745,781	3,379,328	-	24,094,882
Trust financing	-	386,262	9,482,113	2,741,093	3,172,380	-	15,781,848
Lease liabilities	-	77,493	77,493	154,986	872,227	-	1,182,199
Other liabilities	964,265	253,364	-	-	-	-	1,217,629
	8,481,269	4,039,830	22,387,712	10,257,494	8,634,097	-	53,800,402
31 December 2018							
Undrawn commitment	3,610,064	-	-	-	-	-	3,610,064
Closed bond	-	1,216,058	1,283,027	4,773,449	-	-	7,272,534
Bank loans	-	88,085	532,768	1,638,358	1,520,041	-	3,779,252
Other liabilities	835,600	-	-	-	-	-	835,600
	4,445,664	1,304,143	1,815,795	6,411,807	1,520,041	-	15,497,450

The Management expects that not all the undrawn commitments will be drawn in a short period of time.

22 Risk management disclosures (Cont'd.)

22.5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Company manages and monitors this risk element using sensitivity analyses and Company does not have significant market risk due to the short-term nature of its loans and advances.

22.6 Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk arises primarily from loans and advances to customers, short-term and long-term bank loans and closed bonds. The Company does not use hedge instruments to manage interest rate risk. The Company's exposures to interest rate risk for changes in interest rates primarily relates to the Company's fixed rate current accounts in the bank, loans and advances to customers and closed bond and bank loans. As of the reporting date, the Company has not adopted sensitivity analysis to measure interest rate risk due principally to the fact that the Company has no floating interest rate financial assets and financial liabilities on financial reporting date.

22.7 Operational risk

Operational risk is the probability of loss arising from system failure, human errors, fraud or external events. When controls fail to perform, operational disabilities can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Company cannot 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, the Company seeks to manage operational risk and reduce it.

22.8 Foreign currency exchange rate risk

The Company defines the foreign currency exchange rate risk as potential loss due to adverse changes in currency exchange rates and their implied volatility. The Company sets risk limits on the level of exposure by foreign currencies, which are monitored on a frequent basis against the approved risk appetite.

	31.12.2019		31.12.2018	
	Liabilities MNT'000	Assets MNT'000	Liabilities MNT'000	Assets MNT'000
Foreign exchange dominated	15,029,435	14,126,197	-	3,895

Foreign exchange sensitivity analysis

The Company is mainly exposed to USD (referred to as "foreign currency"). The following table details the Company's sensitivity to a 10% increase and decrease in the MNT against the foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rate. This analysis assumes all other risk variables remained constant.

	Changes	2019	2018
		MNT'000	MNT'000
Effect on profit /(loss) before tax	+/-10%	541,069/ (1,202,682)	389/ (389)

23 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of own estimates and internal professional advice, management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Mongolian tax, currency and customs 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 Company may be challenged by the relevant authorities.

The 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.

The 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, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. 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 believes that its interpretation of the relevant legislation is appropriate, and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk 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.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorised credit line in the forms of LendMN instant loans. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Company. The Company can be exposed to loss in an amount equal to the total unused credit commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The nominal gross values of undrawn credit commitment of the Company as of 31 December 2019 was MNT 7,517,004 thousand (31 December 2018: MNT 3,610,064 thousand). An allowance for impairment of MNT 45,711 thousand was recognized as at 31 December 2019 (31 December 2018: MNT 19,004 thousand) for the credit related commitments. Refer to Note 20 and 22.3 for detail.

24 Fair value of financial instruments

The methods and assumptions applied in determining fair values.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

24 Fair value of financial instruments (Cont'd.)

Fair value of derivative financial liability is categorised under Level 2 where the Company determines the fair value based on valuation technique (i.e. mathematical models) using market observable inputs shown below.

- Overnight repo of Bank of Mongolia;
- Mongolian government bond yield;

The following table demonstrates the sensitivity to a reasonably possible change in observable inputs, with all other variables held constant.

31 December 2019	Change	Effect on profit before tax MNT'000
Overnight repo of Bank of Mongolia	+/-0.5%	20,651/ (20,651)
Mongolian government bond yield	+/-0.5%	(21,744)/ 21,744

Due to the short-term nature of all financial instruments (except noted above), the fair values of financial instruments approximate their carrying amount.

25 Related party transactions

Balances and transactions with related parties are disclosed below.

The key management compensation for 2019 and 2018 are presented below.

	2019 MNT'000	2018 MNT'000
Salaries and bonus	344,506	128,633
Share based contribution (Note 7)	-	57,348
Social and health insurance	43,715	15,416
	<u>388,221</u>	<u>201,397</u>

At 31 December 2019 and 31 December 2018, the outstanding balances with related parties were as follows:

	Notes	31.12.2019 MNT'000	31.12.2018 MNT'000
Loans to related parties-LendMN system	(i)	1,726	5,690
Loans from parent company	(ii)	12,238,420	-
Receivables from a related company	(iii)	-	43,130
Payable to related parties	(iii)	360,307	-

The income statement items with related parties for the year then ended 31 December 2019 and 2018 were as follows:

		2019 MNT'000	2018 MNT'000
Interest income from loans issued-LendMN system	(i)	1,818	1,084
LendMN system maintenance fee (Note 7)	(iv)	1,362,523	707,917
Consulting service fee	(vi)	43,573	-
Interest expense on the closed bonds	(v)	-	4,603
Interest expense on the loan	(ii)	910,491	-

25 Related party transactions (Cont'd.)

- (i) Loans to related parties – LendMN system consist of outstanding loans to key management individuals of the Company and its immediate parent company disbursed via the LendMN system. During the year ended 31 December 2019, the Company disbursed MNT 53,470 thousand loans to key managements, out of which MNT 51,745 thousand were fully repaid and MNT 1,726 thousand are outstanding as at 31 December 2019 with accrued interest of MNT 189 thousand (2018: MNT 180 thousand).
- (ii) The Company received loans from its parent company, AND Systems LLC for an amount of MNT 22,780,741 thousand, out of which MNT 9,196,614 were fully repaid and 11,384,127 are outstanding as at 31 December 2019 with accrued interest of MNT 201,279 thousand.

As at 31 December 2019, the Company also has trust funding of USD 320,000 from a Board member. The accrued interest is USD 1,333.

- (iii) Receivables from a related company, AND Systems LLC and AND Systems Tech LLC, are unsecured, interest free and receivable on demand.

Payable to related parties include an accrued interest payable on received loan for an amount of MNT 204,924 thousand, dividend payable to AND Systems LLC for an amount of MNT 140,000 thousand and MNT 15,383 thousand unsecured and interest fee payable.

- (iv) Effective from 1 July 2017, the Company signed a maintenance and service agreement with AND Systems Tech LLC for the LendMN system's on-going maintenance. The monthly fee payable to AND Systems Tech LLC under this agreement is determined based on the number of lending transactions during a month and is payable on a monthly basis. In addition, on 1 November 2018 the Company signed an additional maintenance and service agreement with AND Systems Tech LLC for the wallet system's on-going maintenance and support services. The number of wallet transactions (excluding loan related transactions) will be the basis of the fee calculation and payable on a monthly basis.
- (v) The Company issued unsecured closed bond to its parent company, AND Systems LLC on 1 March 2018, interest at 12% per annum and was repayable within 1 month. The accrued interest of the bond was MNT 4,603 thousand and was paid fully with the principal amount on 16 March 2018.
- (vi) During the year, the Company received consulting services on some loans received from AND Systems LLC which equal to 2.2% of loan amount.

26 Events after the end of reporting period

The following subsequent events occurred after the end of the reporting year and before the approval of these financial statements.

On 9 January 2020, The Company established a new subsidiary incorporated in Mongolia named Super Up Wallet LLC with 100% ownership.

Management believes that this subsequent event would not require any adjustments in the financial statements.

27 Mongolian translation

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.