

MIK HOLDING JSC AND ITS SUBSIDIARIES
(Incorporated in Mongolia)

Unaudited interim condensed consolidated financial statements
30 June 2021

MIK HOLDING JSC AND ITS SUBSIDIARIES

For the period ended 30 June 2021

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STATEMENT BY EXECUTIVES

We, Gantulga Badamkhatan, being the Chief Executive Officer, and Sansar Ganbaatar, being the Chief Financial Officer, primarily responsible for the interim condensed unaudited consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the “Group”), do hereby state that, in our opinion, the accompanying interim condensed consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2021 and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 *Interim Financial Reporting* (IAS34).



Gantulga Badamkhatan
Chief Executive Officer

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Sansar Ganbaatar
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 6 August 2021

MIK HOLDING JSC AND ITS SUBSIDIARIES

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

For the six months period ended 30 June 2021

	Notes	Unaudited six months ended	
		30 June 2021 MNT'000	30 June 2020 MNT'000
Interest income	3	185,296,154	164,631,619
Interest expense	4	(140,599,093)	(143,848,235)
Net interest income		<u>44,697,061</u>	<u>20,783,384</u>
Fee and commission expense	5	(4,729,296)	(5,208,475)
Other operating income	6	2,879,690	3,280,037
Total operating income		<u>42,847,455</u>	<u>18,854,946</u>
Credit loss expense	7	3,789,189	(9,939,360)
Net gains on change in fair value of derivative financial instruments	18	(2,445,862)	14,556,987
Modification loss on purchased mortgage pool receivables	8	(6,623,788)	–
Net operating income/(loss)		<u>37,566,993</u>	<u>23,472,573</u>
Operating expenses	9	(10,541,213)	(5,779,338)
Other operating expenses	10	(15,604,279)	(19,024,054)
Profit/(loss) before tax		<u>11,421,501</u>	<u>(1,330,819)</u>
Income tax credit/(expense)	11	(4,296,934)	(4,556,542)
Profit/(loss) for the period, representing total comprehensive income/(loss)		<u><u>7,124,567</u></u>	<u><u>(5,887,361)</u></u>
Earnings/(loss) per share (MNT)			
Basic and diluted earnings/(loss) per share	12	<u>467.28</u>	<u>(386.14)</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
ASSETS			
Cash and bank balances	13	226,205,580	224,428,660
Debt instruments at amortised cost	14	261,456,641	95,608,264
Mortgage pool receivables with recourse	15	551,893,346	614,463,700
Purchased mortgage pool receivables	16	2,891,306,953	2,854,533,414
Financial assets at fair value through profit or loss	17	140,997,079	140,997,079
Derivative financial instruments	18	80,135,229	82,581,091
Other assets	19	25,764,004	2,366,846
Property and equipment	20	34,390,345	32,353,623
Intangible assets		144,372	200,196
Income tax prepayments		1,108,203	830,239
Deferred tax assets		20,448,055	20,418,109
TOTAL ASSETS		4,233,849,808	4,068,781,221
LIABILITIES			
Other liabilities	21	13,294,237	14,726,583
Borrowed funds	22	41,728,434	41,919,385
Debt securities issued	23	965,629,851	825,603,454
Collateralised bonds	24	3,024,541,407	3,007,051,362
Income tax payables		658,676	213,851
Deferred tax liabilities		30,141,600	28,535,548
TOTAL LIABILITIES		4,075,994,204	3,918,050,183
EQUITY			
Ordinary shares	25	20,709,320	20,709,320
Share premium	25	52,225,115	52,225,115
Treasury shares	24	(62,143,136)	(62,143,136)
Reserve		147,064,306	139,939,739
TOTAL EQUITY		157,855,604	150,731,038
TOTAL LIABILITIES AND EQUITY		4,233,849,808	4,068,781,221

MIK HOLDING JSC AND ITS SUBSIDIARIES

Interim Condensed Consolidated Statement of Changes in Equity

For the six months period ended 30 June 2021

	Ordinary shares MNT'000	Share premium MNT'000	Treasury shares MNT'000	Retained earnings* MNT'000	Total equity MNT'000
1 January 2020	20,709,320	52,225,115	(62,143,136)	251,894,434	262,685,733
Total comprehensive loss	-	-	-	(111,954,695)	(111,954,695)
At 31 December 2020	20,709,320	52,225,115	(62,143,136)	139,939,739	150,731,038
Total comprehensive loss				7,124,567	7,124,567
At 30 June 2021	20,709,320	52,225,115	(62,143,136)	147,064,306	157,855,605

* Included in retained earnings as at 30 June 2021 are restricted retained earnings of MNT 220,978,371 thousand (30 June 2020: MNT 272,681,678 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related Financial Regulatory Commission ("FRC") regulation.

MIK HOLDING JSC AND ITS SUBSIDIARIES
Interim Condensed Consolidated Statement of Cash Flows
For the six months period ended 30 June

		Unaudited six months ended	
	Notes	30 June 2021	30 June 2020
		MNT'000	MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		11,421,501	(1,330,819)
Adjustments to reconcile profit before tax to net cash flows:			
Unrealised foreign exchange loss	9	(4,918)	14,044,576
Credit loss expense/(reversal)		(3,789,189)	12,839,795
Modification loss on purchased mortgage pool receivables		6,623,788	-
Depreciation of property and equipment		710,464	848,625
Amortisation of intangible assets		56,409	56,629
Interest expense		52,221,798	143,848,235
Write-off of property and equipment	9	4,387	833
Loss on disposal of foreclosed property	9	22,726	-
Gain on disposal of property and equipment	9	(2,562,955)	-
Loss on repurchase of debt securities issued		15,439,937	-
Amortisation of deferred grants		(117)	(528)
Net change in fair value of derivative financial instruments		2,445,862	-
Operating profit before working capital changes		82,589,693	170,307,346
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		(43,421,981)	(385,005)
Debt instruments at amortized cost		-	29,665,358
Mortgage pool receivables		128,714,172	177,487,222
Other assets		(23,420,469)	(52,754,753)
Collateralized bonds		(90,561,855)	(131,862,276)
Other liabilities		(1,715,653)	(8,327,919)
Cash used in operations operations		52,183,907	184,129,973
Interest paid		(42,777,535)	(133,115,020)
Income tax paid		(2,553,967)	2,481,814
Net cash flows used from operating activities		6,852,406	53,496,767
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in debt instruments at amortized cost		(166,212,645)	-
Purchase of property and equipment		(32,752,247)	(187,391)
Purchase of intangible assets		-	(17,641)
Proceeds from disposal of property and equipment		32,557,965	-
Net cash flows used in investing activities		(166,406,927)	(205,032)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt securities issued		692,058,090	-
Repurchase of debt securities		(576,598,813)	(35,212,585)
Net proceeds from debt instruments		-	1,500,000
Net proceeds from borrowed funds		(163,338)	(137,738)
Payments to purchase mortgage pool receivables with recourse		-	(28,370,262)
Net cash flows from financing activities		115,295,939	(62,220,585)
Net increase/(decrease) in cash and cash equivalents		(44,258,582)	(8,928,850)
Effect of exchange rate changes on cash and cash equivalents		(50,690)	(4,220,421)
Cash and cash equivalents at 1 January		177,952,348	220,600,862
Cash and cash equivalents at 30 June	13	133,643,076	207,451,591

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

1. Corporate and Group information

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

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

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

2. Significant accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with *IAS 34 Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

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

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

Amendments to IFRS 3: Definition of a Business

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

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

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

3. Interest income and segment information

During the period ended 30 June 2021 and 2020, the Group was engaged in a single business segment, which is the purchasing of mortgage pools and issuing RMBS securitised by those mortgage pools in Mongolia.

	Unaudited six months ended	
	30 June 2021 MNT'000	30 June 2020 MNT'000
Purchased mortgage pool receivables (without recourse)	116,995,265	87,535,850
Mortgage pool receivables with recourse	45,467,196	53,471,941
Debt instruments at amortised cost	11,206,228	14,836,414
Bank balances	<u>6,420,617</u>	<u>8,787,414</u>
	<u>180,089,306</u>	<u>164,631,619</u>
<i>Other interest income</i>		
Financial assets at FVPL	<u>5,206,849</u>	<u>–</u>
	<u>185,296,155</u>	<u>164,631,619</u>

Included in interest income from purchased mortgage pool receivables for the year six months ended 30 June 2021 is an amount of MNT 94.8 billion, representing accrued interest arising from the amortisation of the modification loss on purchased mortgage pool receivables over the deferral period as further detailed in Note 8.

4. Interest expense

	Unaudited six months ended	
	30 June 2021 MNT'000	30 June 2020 MNT'000
Collateralised bonds	80,592,670	78,699,271
Debt securities issued	49,954,256	43,703,580
Borrowed funds	2,267,542	3,498,310
Other payables	<u>390,466</u>	<u>2,497,586</u>
	<u>133,204,934</u>	<u>128,398,747</u>
<i>Other interest expense</i>		
Derivative financial instruments (Note 18)	<u>7,394,159</u>	<u>15,449,488</u>
	<u>140,599,093</u>	<u>143,848,235</u>

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Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

5. Fee and commission expense

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Loan service fee	4,718,313	5,203,492
Bank service charge	10,983	4,983
	<u>4,729,296</u>	<u>5,208,475</u>

6. Other operating income

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Other income	<u>2,879,690</u>	<u>3,280,037</u>

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

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Purchased mortgage pool receivables (without recourse) (Note 16)	(4,282,869)	(4,867,620)
Mortgage pool receivables with recourse (Note 15)	5,772,114	(3,801,745)
Cash and cash equivalents (Note 13)	2,664,212	(425,871)
Debt instruments at amortised cost (Note 14)	(364,268)	(844,124)
Net credit loss (expense)/reversal	<u>3,789,189</u>	<u>(9,939,360)</u>

8. Modification loss on purchased mortgage pool receivables

In April 2020, in order to relieve the impact of the coronavirus (“Covid-19”) pandemic on the Mongolian economy and the mortgage market, the Government and the Bank of Mongolia (“BoM”) implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants in deferring the principal and interest payments for a period of up to six months, which was extended for another eight months up to 1 July 2021. On 30 June 2021, the Government and the Bank of Mongolia made another decision to extend the deferral program until the end of 2021.

As of 31 January 2021, which was the final date for applications to defer payments on mortgages issued under the Affordable Housing Finance Program until 1 July 2021, additional 2,146 borrowers were approved for deferral since 1 January 2021, totalling 47,584 borrowers in aggregate. Management assessed that the modification of the terms of loan contracts did not result in substantially different cash flows and hence the modification did not result in a derecognition of the mortgage pools. Based on the change in cash flows discounted at the original EIR, the Group recognised a modification loss on purchased mortgage pool receivables.

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Modification loss on purchased mortgage pool receivables	<u>6,623,788</u>	<u>–</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

9. Operating expenses

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Personnel expenses	4,126,523	3,354,819
Depreciation expense	710,464	848,625
Professional service fees	4,451,040	139,299
Advertisement expense	86,438	137,369
Utility expense	132,554	134,317
Amortisation of intangible assets	56,409	56,629
Business trip expense	–	73,638
Other operating expenses	977,785	1,034,642
	<u>10,541,213</u>	<u>5,779,338</u>

10. Other operating expense

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Unrealised foreign exchange loss, net	(4,918)	25,289,106
Entertainment expense	49,057	217,393
Realised foreign exchange loss/(gain), net	22,469	412,065
Loss/ (gain) on repurchase	15,439,937	(6,511,698)
Loss on disposal of foreclosed property	22,726	–
Write-off of property and equipment	4,387	–
Others	70,621	(383,645)
	<u>15,604,279</u>	<u>19,024,054</u>

11. Income tax expense

The Group provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group are 10% (2020: 10%) for the first MNT 6 billion (2020: MNT 6 billion) of taxable income, and 25% (2020: 25%) on the excess of taxable income over MNT 6 billion (2020: MNT 6 billion). The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings.

The components of income tax expense for the six months period ended 30 June 2021 and 2020 are:

	Unaudited six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Current tax		
Current income tax	2,720,827	2,679,709
Deferred tax		
Relating to origination of temporary differences	1,576,108	1,876,833
	<u>4,296,935</u>	<u>4,556,542</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

12. Earnings per share

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

	Unaudited six months ended	30 June 2020
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Profit/(loss) for the year and total comprehensive income/(loss) for the year (net of tax) attributable to equity holder of the Parent	<u>7,124,567</u>	<u>(5,887,361)</u>
Weighted-average number of ordinary shares for basic and diluted earnings/(loss) per share*	<u>15,246,891</u>	<u>15,246,891</u>
Earnings/(loss) per share	MNT	MNT
Equity holders of the Parent for the year: Basic and diluted earnings/(loss) per share	<u>467.28</u>	<u>(386.14)</u>

13. Cash and bank balances

	Unaudited	Audited
	30 June 2021	31 December 2020
	MNT'000	MNT'000
Cash on hand	<u>298,454</u>	<u>293,560</u>
Term deposits with banks	160,584,381	158,239,808
Current accounts with banks	23,529,168	61,181,257
Trust accounts with banks	20,806,886	7,136,176
Collection accounts with banks	<u>23,266,969</u>	<u>2,522,348</u>
Gross carrying amount	<u>228,485,857</u>	<u>229,373,149</u>
Allowance for impairment losses	<u>(2,280,277)</u>	<u>(4,944,489)</u>
Net carrying amount	<u>226,205,580</u>	<u>224,428,660</u>

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

Additional cash flow information

	Unaudited	Audited
	30 June 2021	31 December 2020
	MNT'000	MNT'000
Cash and bank balances	228,485,857	229,373,149
Less: Placement with banks with original maturities of more than three months	(94,842,781)	(51,420,801)
Less: Cash and bank balances classified as Stage 3	–	(5,832,895)
Total cash and cash equivalents for the consolidated statement of cash flows	<u>133,643,076</u>	<u>172,119,453</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

13. Cash and bank balances (cont'd)

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

	Unaudited 30 June 2021 MNT'000
At 1 January 2021	(4,944,489)
Credit loss reversal (See Note 7)	2,664,212
At 30 June 2021	<u>(2,280,277)</u>

14. Debt instruments at amortised cost

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Loan notes receivables	79,548,438	85,548,438
Loan receivables with recourse	176,348,615	6,538,249
Accrued interest receivables on loan notes	2,869,707	5,060,289
Accrued interest on loan receivables with recourse	4,658,690	65,830
	<u>263,425,450</u>	<u>97,212,806</u>
Allowance for impairment losses	(1,968,810)	(1,604,542)
Net debt instruments at amortised cost	<u>261,456,640</u>	<u>95,608,264</u>

Loan notes receivables

Bodi International LLC

On 11 December 2018, the Group purchased through MIK HFC and its SPCs loan notes from Bodi International LLC ("Bodi") for MNT 25.0 billion and MNT 20.0 billion, respectively. The loan notes bear an interest rate of 12.2% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 July 2023 and principal repayable in three instalments beginning from 20 January 2023 to 12 December 2023.

Capital Bank receivership / QSC LLC

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

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

On 2 March 2020, the Group sold its loan notes previously issued by the Capital Bank Receivership with an outstanding value of MNT 41 billion of principal and MNT 4 billion of interest accruals to QSC LLC ("QSC"). In return, QSC issued a new loan note ("QSC loan note") to the Group with interest at 13 percent per annum, and its due date was 20 July 2021. On 28 June 2021, the Group received the portion of the loan notes and amended the contract terms. As per amend, loan notes have an interest rate of Central Bank policy rate plus 2 percent per annum and its extended due by 28 June 2024.

Loan receivables with recourse

Loan receivables with recourse represent financial lease receivables from individual borrowers, purchased from TDB Leasing LLC on 11 December 2020. The loans bear an interest rate of 19 percent per annum and are fully matured in July 2021.

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

On 5 April 2021, Group purchased loans with recourse from GSB Capital NBFI LLC amounting to MNT 13.9 billion. The loans bear an interest rate of 17.5 per annum and are due to mature on 4 November 2022.

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Notes to the Interim Condensed Consolidated Financial Statements – 30 June 2021

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

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

	Unaudited 30 June 2021 MNT'000
At 1 January 2021	(1,604,542)
Credit loss reversal (See Note 7)	<u>(364,268)</u>
At 30 June 2021	<u><u>(1,968,810)</u></u>

15. Mortgage pool receivables with recourse

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

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Mortgage pool receivables	535,392,621	602,096,468
Accrued interest receivables	<u>21,247,017</u>	<u>22,885,639</u>
Gross mortgage pool receivables with recourse	<u>556,639,638</u>	<u>624,982,107</u>
Allowance for impairment losses	<u>(4,746,293)</u>	<u>(10,518,407)</u>
Net mortgage pool receivables with recourse	<u><u>551,893,345</u></u>	<u><u>614,463,700</u></u>

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

	Unaudited 30 June 2021 MNT'000
At 1 January 2021	(10,518,407)
Credit loss reversal (Note 7)	<u>5,772,114</u>
At 30 June 2021	<u><u>(4,746,293)</u></u>

16. Purchased mortgage pool receivables

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Purchased mortgage pool receivables	2,903,698,414	2,855,198,064
Accrued interest receivables	<u>10,465,124</u>	<u>17,909,068</u>
Total gross purchased mortgage pool receivables	<u>2,914,163,539</u>	<u>2,873,107,132</u>
Allowance for impairment losses	<u>(22,856,585)</u>	<u>(18,573,718)</u>
Net purchased mortgage pool receivables	<u><u>2,891,306,954</u></u>	<u><u>2,854,533,414</u></u>

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

MIK HOLDING JSC AND ITS SUBSIDIARIES

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16. Purchased mortgage pool receivables (cont'd)

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

	Unaudited 30 June 2021 MNT'000
At 1 January 2021	(18,573,718)
Credit loss expense (Note 7)	<u>(4,282,867)</u>
At 30 June 2021	<u>(22,856,585)</u>

17. Financial assets at fair value through profit or loss

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Fair value as at 1 January	140,997,079	4,699,931
Acquisitions	–	150,000,000
Net loss from change in fair value through profit or loss	<u>–</u>	<u>(13,702,852)</u>
Fair value as at 30 June	<u>140,997,079</u>	<u>140,997,079</u>

Investment in fund

On 25 December 2018, the Group purchased 500,000 investment units of Asia Diversified Real Estate Fund One Private Investment Fund LLC (the “Fund”) at 10,000 per unit at a total amount of MNT 5.0 billion. The Fund is a registered fund licensed by the FRC and has issued 1,500,000 investment units and is due for liquidation upon maturity in 10 years since its establishment in 2018.

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

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

As at 30 June 2021, the Fund’s underlying investment comprises of principally an investment portfolio of the Company’s shares.

Investment in preference shares

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

18. Derivative financial instrument

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

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18. Derivative financial instrument (cont'd)

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

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Fair value as at 1 January	82,581,091	55,516,592
Net gains on derivative financial instruments	<u>(2,445,862)</u>	<u>27,064,499</u>
Fair value as at 30 June	<u><u>80,135,229</u></u>	<u><u>82,581,091</u></u>

19. Other assets

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Financial assets		
Other receivables	<u>5,952,474</u>	<u>355,313</u>
Non-financial assets		
Prepayments	15,910,763	1,434,444
Foreclosed properties	531,999	498,739
Consumables and office supplies	116,694	69,830
Value-added tax receivables	<u>3,252,074</u>	<u>8,520</u>
	<u>19,811,530</u>	<u>2,011,533</u>
	<u><u>25,764,004</u></u>	<u><u>2,366,846</u></u>

20. Property and equipment

As at 30 June 2021, premises with carrying amount of MNT 34,390,345 thousand (30 June 2020: 30,463,909 thousand) are collateralized for borrowed funds (see Note 22).

21. Other liabilities

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Financial liabilities		
Interest payable on cross-currency swap	2,010,665	5,880,842
VAT payable	6,962	52,495
Other payables	<u>9,112,980</u>	<u>6,934,517</u>
	<u>11,130,607</u>	<u>12,867,854</u>
Non-financial liabilities		
Withholding tax liability	<u>2,163,630</u>	<u>1,858,729</u>
	<u><u>13,294,237</u></u>	<u><u>14,726,583</u></u>

Other payables include loan service fee payables to the banks for the collection of the purchased mortgage pool receivables. Loan service fee is normally settled to the banks with the next quarterly coupon payment of the RMBS.

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22. Borrowed funds

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
TDB	15,618,845	15,789,248
Golomt Bank LLC (“Golomt”)	26,109,589	26,130,137
	<u>41,728,434</u>	<u>41,919,385</u>

TDB:

- (a) On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion. The loan bears an interest rate of 14.4% per annum and the loan principal is repayable monthly beginning from 17 May 2018 to 17 May 2033. The outstanding borrowings amounted to MNT 10,584,187 thousand and MNT 10,753,084 thousand at 30 June 2021 and 31 December 2020, respectively.
- (b) On 8 January 2019, the Group obtained a loan of MNT 5 billion from TDB. The loan bears an interest rate of 11.0% per annum and the interest is repayable monthly beginning from 8 February 2019 to 8 January 2022, while the loan principal is repayable in full on 8 January 2022. The loan is secured by premises owned by the Group (see Note 20). The outstanding borrowings amounted to MNT 5,034,657 thousand and MNT 5,036,164 thousand at 30 June 2021 and 31 December 2020.

Golomt

- (c) The Group obtained a loan of MNT 25 billion from Golomt on 11 December 2018. The loan bears an interest rate of 10.0% per annum and the interest is repayable semi-annually beginning from 20 July 2019 to 20 January 2024, while the principal is repayable in full on 20 January 2024. The loan is secured by gross mortgage pool receivables with recourse of MNT 30 billion and cash in a current account held with Golomt.

23. Debt securities issued

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Debt securities at amortised cost	<u>965,629,851</u>	<u>825,603,454</u>

On 29 January and 12 February 2019, the Group issued Senior Notes (“Notes”) with nominal value of USD 250.0 million and USD 50.0 million, respectively, on the international capital market. The Notes bear interest of 9.75% per annum payable semi-annually in arrears starting from 29 January 2019 to 29 January 2022. The Notes are unconditionally and irrevocably guaranteed by the Company.

The Group repurchased a portion of the Notes in principal amount of USD 19,320,000 in a series of transactions that took place on 16 April 2020, 20 April 2020, 10 June 2020 and 31 July 2020.

On 8 February 2021, the Group issued USD 250.0 million Senior Notes on the international capital market. The Senior Notes have an annual coupon rate of 8.85% and are due to mature in 3 years in 2024. On 9 February 2021, the Group repurchased a portion of the Notes issued in 2019 in principal amount of USD 193,049,000.

Also on 28 June 2021, the Group repurchased a portion of the Notes issued in 2021 in principal amount of USD 4,000,000.

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

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24. Collateralised bonds

	Interest rate	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
Senior bonds	4.50%	2,212,487,544	2,307,314,223
Junior bonds	10.50%	448,947,492	433,256,183
Senior bonds II	4.50%	241,547,910	182,983,124
Senior bonds I	1.00%	71,998,263	51,090,047
Senior bonds III	13.00%	49,560,198	32,407,785
		<u>3,024,541,407</u>	<u>3,007,051,362</u>

The senior and junior bonds as at 30 June 2021 and 31 December 2020 represent bonds issued by the SPCs upon their mortgage pool purchases under the RMBS program of the government of Mongolia. Starting with the twenty-second issuance of RMBS, senior bonds were offered in three tranches: senior bonds I issued to the MoF, senior bonds II issued to the BoM, and senior bonds III issued to commercial banks, while prior to this change, all senior bonds were issued to the BoM and MoF. Junior bonds are solely issued to commercial banks. The bonds are collateralised by the purchased mortgage pool receivables

The principal payments of the senior bonds are payable on a quarterly basis and are equal to the quarterly principal repayment received from the purchased mortgage pool receivables acquired under the RMBS program. The principal of the junior bonds will only be redeemed after the full redemption of the principal of the senior bonds and the payments to junior bond holders are subordinate in right of payment and priority to the senior bonds. Commercial banks are to use the senior bonds to repay their loans from BoM and MoF.

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

Impact of Covid-19

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

25. Ordinary shares

There were 5,462,429 shares held as treasury shares as at 30 June 2021 (30 June 2020: 5,462,429). Excluding these shares, the total number of issued shares as at 30 June 2021 was 15,246,891 shares (30 June 2020: 15,246,891 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

26. Contingent liabilities and commitments

Legal claims

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

Assets pledged and restricted

Bonds issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 30 June 2021, the Group had mortgage pool receivables with the gross amount of MNT 2,914,163,539 thousand (2020: MNT 2,873,107,132 thousand) pledged as collateral for the bonds (see Note 16). The related liabilities amount is MNT 3,024,541,407 thousand as of 30 June 2021 (2020: 3,007,051,362 thousand).

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27. Related party disclosures

A number of transactions were entered into by the Group with related parties in the course of business. As all shareholders have the right to appoint a director, management considers them to be related parties.

Investment preference shares from shareholder of related party

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

Loans from/to shareholder of related party

The Group obtained a loan of MNT 25 billion from Golomt on 11 December 2018 with an interest rate of 10.0% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 January 2024 and principal repayable in full on 20 January 2024. The loan is secured by gross mortgage pool receivables with recourse of MNT 30 billion and cash in current accounts held with Golomt.

On 11 December 2018, the Group purchased through MIK HFC and SPCs loan notes from Bodi, for MNT 25.0 billion and MNT 20.0 billion, respectively. The loan notes bear an interest rate of 12.2% per annum, with interest repayable semi-annually beginning from 20 July 2019 to 20 July 2023 and principal repayable in three instalments beginning from 20 January 2023 to 12 December 2023. Golomt holds 4.95% shares of the Group as of 30 June 2021 (31 December 2020: 4.95%).

Investment in related party

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

On 2 March 2020, the Group sold its loan notes previously issued by the Capital Bank Receivership with an outstanding value of MNT 41 billion of principal and MNT 4 billion of interest accrual. The new loan note bears interest at 13 percent per annum and is due by 20 July 2021.

Investment made in the Investment Fund

On 25 December 2018, the Group purchased 500,000 investment units of Asia Diversified Real Estate Fund One Private Investment Fund LLC (the "Fund") at 10,000 per unit at a total amount of MNT 5.0 billion (see Note 17). The Fund has issued 1,500,000 investment units and is due for liquidation upon maturity in 10 years since its establishment in 2018.

Borrowings

On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion with an interest rate of 14.4% per annum. The loan principal and interest are repayable monthly beginning from 17 May 2018 to 17 May 2033 (see Note 22).

The Group obtained a loan of MNT 5 billion from TDB on 8 January 2019 with an interest rate of 11.0% per annum. Interest on the loan is repayable monthly beginning from 8 February 2019 to 8 January 2022 while the loan principal is repayable in full on 8 January 2022 (see Note 22).

Other payables

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

	Unaudited 30 June 2021 MNT'000	Audited 31 December 2020 MNT'000
TDB	1,281,221	1,094,205
Khan Bank LLC	954,825	811,877
XacBank LLC	390,405	310,154
Golomt	1,189,876	1,218,054
Capitron Bank LLC	40,712	48,709
State Bank LLC	296,952	294,184
Chinggis Khaan Bank LLC	460	3,545
Total	<u>4,154,451</u>	<u>3,780,728</u>

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

Compensation to key management personnel

	Unaudited for the six months ended	
	30 June 2021	30 June 2020
	MNT'000	MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	1,916,302	963,046
Contribution to social and health fund	201,140	83,358
	<u>2,117,442</u>	<u>1,046,404</u>

As at 30 June 2021 and 31 December 2020, the Group has the following balances and transactions with related parties:

As at 30 June 2021

	Bank deposits		Collateralised bonds		Outstanding balance	Interest expense
	Outstanding balance	Interest Income	Issued during the year			
	MNT'000	MNT'000	senior bonds	junior bonds	MNT'000	MNT'000
			MNT'000	MNT'000		
TDB	126,182,387	3,269,860	23,587,800	2,620,900	135,445,284	7,922,543
Khan Bank LLC	16,613,328	–	27,557,300	3,062,000	119,311,826	6,085,580
Xac Bank LLC	2,708,678	6,816	7,185,900	798,600	44,447,747	2,275,023
Golomt	53,129,181	2,595,350	23,063,100	2,562,600	124,168,167	7,555,530
Capitron Bank LLC	13,882,773	306,043	4,652,300	517,000	7,348,769	372,163
State Bank LLC	2,491,228	–	10,193,100	1,132,700	44,711,059	2,284,928
Chinggis Khaan Bank LLC	1,834,267	5,582	82,800	9,300	3,628,623	193,423
	<u>216,841,842</u>	<u>6,183,651</u>	<u>96,322,300</u>	<u>10,703,100</u>	<u>479,061,475</u>	<u>26,689,190</u>
BoM	–				2,294,734,361	51,317,002
MoF	–				243,865,953	4,503,214
	–	–	–	–	<u>2,538,600,314</u>	<u>55,820,216</u>
Total	<u>216,841,842</u>	<u>6,183,651</u>	<u>96,322,300</u>	<u>10,703,100</u>	<u>3,017,661,789</u>	<u>82,509,406</u>

As at 31 December 2020

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

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27. Related party disclosures (cont'd.)

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of the Group's business. The interest charged to and by related parties are at normal commercial rates in relation to bank deposits, borrowings and mortgage pools and at the rates specified in the RMBS.

28. Capital management

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

Included in retained earnings as at 30 June 2021 are restricted retained earnings of MNT 220,978,371 thousand (30 June 2020: MNT 272,681,678 thousand) that are attributable to the Group's SPCs and are restricted from distribution until the liquidation of the respective SPCs in accordance with the Articles of Charter of each SPC and FRC regulation. MIK HFC is also restricted from distribution of dividends in accordance with covenants related to debt securities issued in 2019 and 2021 respectively.

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

29. Fair value of financial instruments

Financial instruments for which fair value approximates carrying value

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

Fixed rates financial instruments

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

30. Subsequent events

There were no subsequent events that need disclosure.