

**MIK HOLDING JSC AND ITS
SUBSIDIARIES**
(Incorporated in Mongolia)

**Unaudited interim condensed consolidated financial statements
30 September 2022**

MIK HOLDING JSC AND ITS SUBSIDIARIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2022
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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 consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the "Group"), do hereby state that, in our opinion, the accompanying interim condensed consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2022 and its financial performance and its cash flows for the nine-months period ended in accordance with IAS 34 Interim Financial Reporting (IAS34).



Ulaanbaatar, Mongolia
Date: 1 November 2022

Sansar Ganbaatar
Chief Financial Officer

MIK HOLDING JSC AND ITS SUBSIDIARIES

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

For the nine months period ended 30 September 2022

	Notes	Unaudited nine months ended	
		30 September 2022 MNT'000	30 September 2021 MNT'000
Interest income	3	243,657,877	275,606,205
Interest expense	4	(194,432,288)	(209,076,185)
Net interest income		<u>49,225,589</u>	<u>66,530,020</u>
Fee and commission expense	5	(4,878,488)	(7,310,006)
Other operating income	6	3,339,473	3,020,851
Total operating income		<u>47,686,574</u>	<u>62,240,865</u>
Credit loss reversal/(expense)	7	(3,488,007)	8,986,700
Net gain/(loss) on change in fair value of derivative financial instruments	18	94,219,024	(7,604,326)
Modification loss on purchased mortgage pool receivables	8	(110,531,915)	(99,685,166)
Modification gain on collateralized bonds	9	53,509,605	–
Net operating loss		<u>81,395,281</u>	<u>(36,061,927)</u>
Operating expenses	10	(10,638,755)	(13,227,721)
Other operating expenses	11	(74,118,556)	(15,513,439)
Loss before tax		<u>(3,362,030)</u>	<u>(64,803,087)</u>
Income tax credit/(expense)	12	(3,937,821)	(185,624)
Loss for the period, representing total comprehensive loss		<u><u>(7,299,850)</u></u>	<u><u>(64,988,711)</u></u>
Loss per share (MNT)			
Basic and diluted loss per share	13	<u>(478.78)</u>	<u>(4,262.42)</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES**Consolidated Statement of Financial Position**

As at 30 September 2022

		Unaudited	Audited
		30 September 2022	31 December 2021
	Notes	MNT'000	MNT'000
ASSETS			
Cash and bank balances	14	108,619,692	549,820,809
Debt instruments at amortised cost	15	190,512,595	80,766,979
Mortgage pool receivables with recourse	16	358,499,686	364,341,576
Loan receivables with recourse	17	89,919,808	44,840,080
Purchased mortgage pool receivables	18	3,274,643,264	2,901,349,797
Financial assets at fair value through profit or loss	19	145,499,187	145,499,187
Derivative financial instruments	20	139,227,215	66,638,901
Other assets	21	44,519,013	30,180,342
Property and equipment	22	37,054,655	37,709,674
Intangible assets		283,805	201,833
Income tax prepayments		1,321,386	1,566,195
Deferred tax assets		3,009,508	3,009,508
TOTAL ASSETS		<u>4,393,109,814</u>	<u>4,225,924,881</u>
LIABILITIES			
Other liabilities	23	6,255,554	13,194,729
Borrowed funds	24	35,625,963	41,581,993
Debt securities	25	823,968,125	1,004,976,075
Collateralised bonds	26	3,508,511,396	3,141,395,589
Income tax payables		42,662	25,875
Deferred tax liabilities		21,859,439	20,604,092
TOTAL LIABILITIES		<u>4,396,263,138</u>	<u>4,221,778,353</u>
EQUITY			
Ordinary shares		20,709,320	20,709,320
Share premium		52,225,115	52,225,115
Treasury shares		(62,143,136)	(62,143,136)
Reserve		(13,944,621)	(6,644,771)
TOTAL EQUITY		<u>(3,153,323)</u>	<u>4,146,528</u>
TOTAL LIABILITIES AND EQUITY		<u>4,393,109,815</u>	<u>4,225,924,881</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES**Consolidated Statement of Changes in Equity****For the nine months period ended 30 September 2022**

	Ordinary shares	Share premium	Treasury shares	Retained earnings*	Total equity
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 1 January 2021	20,709,320	52,225,115	(62,143,136)	139,939,739	150,731,038
Total comprehensive loss	–	–	–	(146,584,510)	(146,584,510)
At 31 December 2021 and 1 January 2022	20,709,320	52,225,115	(62,143,136)	(6,644,771)	4,146,528
Total comprehensive loss	–	–	–	(7,299,850)	(7,299,850)
At 30 September 2022	<u>20,709,320</u>	<u>52,225,115</u>	<u>(62,143,136)</u>	<u>(13,944,621)</u>	<u>(3,153,323)</u>

* Included in retained earnings as at 30 September 2022 are restricted retained earnings of MNT 131,187,385 thousand (30 September 2021: MNT 176,613,425 thousand) that are attributable to the Group's Special Purpose Companies ("SPCs"). The restriction relates to the issuance of Residential Mortgage-Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related Financial Regulatory Commission ("FRC") regulation.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the nine months period ended 30 September 2022

	Notes	Unaudited nine months ended	
		30 September 2022 MNT'000	30 September 2021 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		(3,362,030)	(64,803,087)
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Interest on borrowed funds	4	2,976,641	3,415,590
Interest on debt securities	4	60,415,952	75,390,281
Loss/(gain) on repurchase of debt securities issued	6,11	(3,028,459)	15,439,937
Gain on disposal of property and equipment	6	(33,224)	(2,505,460)
Amortisation of deferred grants		–	(117)
Credit loss expense/(reversal)	7	3,488,008	(8,986,700)
Modification loss on purchased mortgage pool receivables	8	110,531,915	99,685,166
Modification gain on collateralised bonds	9	(53,509,605)	–
Depreciation of property and equipment	10	1,428,326	983,551
Amortisation of intangible assets	10	125,850	89,418
Unrealised foreign exchange loss/(gain), net	11	73,415,914	(294,603)
Write-off of property and equipment	11	31,244	8,541
Loss on disposal of foreclosed property	11	27,844	24,691
Realized gain on derivative financial instruments	20	21,630,709	–
Net loss/(gain) on derivative financial instruments	20	(94,219,024)	7,604,325
<i>Operating profit before working capital changes</i>		<u>119,920,061</u>	<u>126,051,533</u>
<i>Changes in working capital:</i>			
Due from banks – placement with original maturities of more than three months		19,050,389	(49,805,178)
Due from banks – placement with banks classified as Stage 3		1,240,147	–
Debt instruments at amortised cost		23,690,888	–
Mortgage pool receivables with recourse		5,853,703	136,284,632
Loan receivables with recourse		(45,410,940)	–
Purchased mortgage pool receivables		18,391,717	99,960,171
Other assets		(14,366,515)	(26,395,521)
Collateralised bonds		(84,812,988)	(168,916,530)
Other liabilities		(6,876,041)	(3,135,953)
Cash generated from operations		<u>36,680,420</u>	<u>114,043,154</u>
Interest paid classified as operating activities		(81,798,931)	(94,091,805)
Income tax paid		(2,420,879)	(3,914,976)
Net cash flows generated from operating activities		<u>(47,539,390)</u>	<u>16,036,373</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in debt instruments at amortised cost		(133,852,532)	(189,113,526)
Purchase of property and equipment		(834,463)	(32,905,967)
Proceeds from disposal of property and equipment		–	32,557,965
Purchase of intangible assets		(207,821)	–
Net cash flows used in investing activities		<u>(134,894,817)</u>	<u>(189,461,528)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of debt securities		–	692,059,616
Repayment of borrowed funds		(5,283,308)	(245,363)
Repurchase of debt securities issued		(280,028,386)	(572,100,502)
Net cash flows generated from/(used in) financing activities		<u>(285,311,694)</u>	<u>119,713,750</u>
Net increase/(decrease) in cash and cash equivalents		<u>(467,745,900)</u>	<u>(53,711,405)</u>
Effect of exchange rate changes on cash and cash equivalents		46,366,597	(698,886)
Cash and cash equivalents at 1 January		<u>530,507,287</u>	<u>177,952,348</u>
Cash and cash equivalents at 30 September	14	<u><u>109,127,983</u></u>	<u><u>123,542,057</u></u>

1. Corporate and Group information

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

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

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

2. Significant accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2022 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 2021.

2.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2021:

New and amended standards and interpretations

- Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 *Interest Rate Benchmark Reform – Phase 2* and IFRS 16
- Amendments to IFRS 16 *Covid-19 Related Rent Concessions (beyond 30 June 2021)*

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions - Amendments to IFRS 16 (beyond 30 September 2021)

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide 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.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. This amendment had no impact on the consolidated financial statements of the Group as it doesn’t have any leases.

Standards issued but not yet effective

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

2. Significant accounting policies (cont'd.)

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

• IFRS 17	<i>Insurance Contracts</i> ²
• Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²
• Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ¹
• Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
• Amendments to IAS 37	<i>Onerous Contracts – Costs of Fulfilling a Contract</i> ¹
• IFRS 1 First-time adoption of International Financial Reporting Standards	<i>Subsidiary as a first-time adopter</i> ¹
• IFRS 9 Financial Instruments	<i>Fees in the '10 per cent' test for derecognition of financial liabilities</i> ¹
• IAS 41 Agriculture	<i>Taxation in fair value measurements</i> ¹
• Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ²
• Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

3. Interest income and segment information

During the period ended 30 September 2022 and 2021, the Group was engaged in a single business segment, which is the purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. There has been no single external customer that has contributed revenue exceeding 10% or more of the Group's revenue during the period ended 30 September 2022 and 2021.

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
<i>Interest income calculated using the effective interest method</i>		
Purchased mortgage pool receivables (without recourse)	174,003,684	171,972,437
Mortgage pool receivables with recourse	34,386,529	75,545,551
Bank balances	3,311,056	9,915,456
Debt instruments at amortised cost	11,192,405	8,745,231
Loan receivables with recourse	9,943,655	1,574,103
	<u>232,837,329</u>	<u>267,752,779</u>
<i>Other interest income</i>		
Financial assets at FVPL	10,820,548	7,853,426
	<u>243,657,877</u>	<u>275,606,205</u>

Included in interest income from purchased mortgage pool receivables for the nine months period ended September 2022 is an amount of MNT 150.9 billion (2021: MNT 46.0 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 nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
<i>Interest expense calculated using the effective interest method</i>		
Collateralised bonds	121,742,412	120,511,942
Debt securities issued	60,415,952	75,390,281
Borrowed funds	2,976,641	3,415,590
Other payables	–	390,466
	<u>185,135,006</u>	<u>199,708,279</u>
<i>Other interest expense</i>		
Derivative financial instruments	9,297,283	9,367,906
	<u>194,432,288</u>	<u>209,076,185</u>

4. Interest expense (cont'd)

Included in interest expense on collateralised bonds for the period ended 30 September 2022 is an amount of MNT 39.0 billion (2021: MNT14.4 billion), representing accrued interest arising from the amortisation of the modification gain on collateralized bonds over the deferral period as further detailed in Note 9.

5. Fee and commission expense

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Loan service fee	4,868,482	7,296,435
Bank service charge	10,006	13,571
	<u>4,878,488</u>	<u>7,310,006</u>

6. Other operating income

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Gain on repurchase of debt securities issued	3,028,459	–
Gain on disposal of property and equipment	33,224	2,505,460
Others	277,791	515,391
	<u>3,339,474</u>	<u>3,020,851</u>

7. Credit loss expense/(reversal)

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Mortgage pool receivables with recourse	(11,812)	(9,041,299)
Cash and bank balances	(468,721)	(3,368,797)
Debt instruments at amortised cost	416,027	432,809
Purchased mortgage pool receivables (without recourse)	3,221,301	2,990,587
Loan receivables with recourse	331,212	–
	<u>3,488,008</u>	<u>(8,986,700)</u>

8. Modification loss on purchased mortgage pool receivables

In April 2020, in order to relieve the impact of the Covid-19 pandemic on the Mongolian economy and the mortgage market, the Government and the BoM implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants to defer the principal and interest payments. Initially the deferral program was approved for six months up to 1 October 2020, which was extended four times by the authorities up to 31 December 2022. 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 nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Modification loss on purchased mortgage pool receivables	<u>110,531,915</u>	<u>99,685,166</u>

9. Modification gain on collateralised bonds

In conjunction with the mortgage principal and interest repayment deferral program as noted in Note 8, MIK Asset Ten SPC LLC to MIK Asset Twenty-Eight SPC LLC were given the option by the BoM to defer the coupon payments due to them on the senior RMBS up to 31 December 2022 if they did not have the ability to pay, given that these entities are relatively new and do not have sufficient reserves.

9. Modification gain on collateralised bonds (cont'd)

As of 30 September 2022, all nineteen of the aforementioned SPCs have opted to defer the coupon payments on collateralised bonds. Similar to the contract modification on purchased mortgage pool receivables, management assessed that the deferral did not result in substantially different cash flows and hence the modification did not result in a derecognition of the collateralised bonds. Based on the change in cash flows discounted at the original EIR, the Group recognised a modification gain on collateralised bonds.

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Modification gain on collateralised bonds	53,509,605	–

10. Operating expenses

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Personnel expenses	5,927,492	5,837,636
Professional service fees	382,001	4,510,053
Depreciation expense	1,428,326	983,551
Advertisement expense	536,704	375,180
Utility expense	38,618	158,648
Amortisation of intangible assets	125,850	89,418
Business trip expense	369,606	6,820
Other operating expenses	1,830,158	1,266,414
	10,638,755	13,227,721

11. Other operating expenses

	Unaudited nine months ended	
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Unrealised foreign exchange loss, net	73,415,914	(294,603)
Entertainment expense	179,431	67,158
Realised foreign exchange loss, net	96,740	47,847
Loss on repurchase of debt securities issued	–	15,439,937
Loss on disposal of foreclosed property	27,844	24,691
Write-off of property and equipment	31,244	8,541
Others	367,383	219,867
	74,118,556	15,513,438

12. Income tax

The Group provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rates for profits of the Group are 10% (2021: 10%) for the first MNT 6 billion (2021: MNT 6 billion) of taxable income, and 25% (2021: 25%) on the excess of taxable income over MNT 6 billion (2021: 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 nine months period ended 30 September 2022 and 2021 are:

	Unaudited nine months ended	
	30 September 2022	30 September 2021
Current tax		
Current income tax	2,682,475	3,558,884
Deferred tax		
Relating to origination of temporary differences	1,255,346	(3,373,259)
	3,937,821	185,625

13. Loss per share

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

	Unaudited nine months ended	30 September 2021
	30 September 2022	30 September 2021
	MNT'000	MNT'000
Loss for the year and total comprehensive loss for the year (net of tax) attributable to equity holder of the Parent	<u>(7,299,850)</u>	<u>(64,988,711)</u>
Weighted-average number of ordinary shares for basic and diluted loss per share*	<u>15,246,891</u>	<u>15,246,891</u>
Loss per share		
	MNT	MNT
Equity holders of the Parent for the year: Basic and diluted loss per share	<u>(478.78)</u>	<u>(4,262.42)</u>

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

14. Cash and bank balances

	Unaudited	Audited
	30 September 2022	31 December 2021
	MNT'000	MNT'000
Cash on hand	<u>58,888</u>	<u>285,106</u>
Current accounts with banks	29,747,731	460,389,875
Term deposits with banks	66,483,123	70,451,739
Trust accounts with banks	7,738,055	12,306,748
Collection accounts with banks	<u>5,100,187</u>	<u>7,364,355</u>
Gross carrying amount	<u>109,127,984</u>	<u>550,797,823</u>
Allowance for impairment losses	<u>(508,293)</u>	<u>(977,014)</u>
Net carrying amount	<u><u>108,619,691</u></u>	<u><u>549,820,809</u></u>

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

Additional cash flow information

	Unaudited	Audited
	30 September 2022	31 December 2021
	MNT'000	MNT'000
Cash and bank balances	109,127,984	550,797,823
Less: Placement with banks with original maturities of more than three months	–	(19,050,389)
Less: Cash and bank balances classified as Stage 3	–	(1,240,147)
Total cash and cash equivalents for the consolidated statement of cash flows	<u><u>109,127,984</u></u>	<u><u>530,507,287</u></u>

14.1. Impairment allowance for cash and bank balances

	Unaudited
	30 September 2022
	MNT'000
At 1 January	977,014
Credit loss expense/(reversal) (Note 7)	<u>(468,721)</u>
At 30 September	<u><u>508,293</u></u>

15. Debt instruments at amortised cost

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Gross loan notes receivables	200,204,812	90,043,167
Allowance for impairment losses	<u>(9,692,217)</u>	<u>(9,276,188)</u>
Net debt instruments at amortised cost	<u>190,512,595</u>	<u>80,766,979</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

QSC LLC

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

TDB Leasing LLC

On 25 March 2021, the Group purchased loan notes from TDB Leasing LLC (Olympic Bond) for MNT 1 billion. The notes have an interest rate of 15 percent per annum and are due to mature on 26 March 2023, with interest repayable semi-annually and principal repayable at maturity.

On 3 May 2022, the Group purchased 2,000 loan notes from TDB Leasing LLC (Olympic Bond) with a par value of MNT 1 million each for consideration of MNT 2 billion. The loan notes bear an interest rate of 13.2 percent per annum and are due to mature in 24 months.

Khukh Mongol Gobi Trans LLC

The Group purchased loan notes issued by Khukh Mongol Gobi Trans LLC in the amounts of MNT 3.0 billion on 29 July 2021 and MNT 3.0 billion on 9 November 2021, for a total of MNT 6 billion. All notes bear an interest rate of 17 percent per annum and are due to mature in one year from the date of purchase. On 29 June 2022, the initial contract maturity of 29 July 2022 was extended until 30 September 2022, with an amendment to pay the interest repayable on 30 September 2022.

Globull Investment and Development Pte Ltd

On 1 July, the Group purchased 2,500 secured callable bonds with a par value of USD 10,000 each for a consideration of USD 25 million. The secured callable bond bears an interest rate of 12 percent per annum and is due to mature in 12 months.

15.1. Impairment allowance for debt instruments at amortised cost

	Unaudited 30 September 2022 MNT'000
At 1 January	9,276,188
Credit loss expense/(reversal) (Note 7)	<u>416,029</u>
At 30 September	<u>9,692,217</u>

16. Mortgage pool receivables with recourse

The Group acquires mortgage pool receivables with recourse from commercial banks, most of whom are shareholders of the Group. The Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, mortgage pool receivables with recourse represent, in substance, loans issued to commercial banks in Mongolia, which are collateralised by related mortgage loan receivables of those commercial banks, as well as by the related residential properties that are used as collateral, as additional guarantee.

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Mortgage pool receivables	352,147,889	357,798,130
Accrued interest receivables	8,317,800	8,521,261
Gross mortgage pool receivables with recourse	<u>360,465,689</u>	<u>366,319,391</u>
Allowance for impairment losses	<u>(1,966,003)</u>	<u>(1,977,815)</u>
Net mortgage pool receivables with recourse	<u><u>358,499,686</u></u>	<u><u>364,341,576</u></u>

16.1. Impairment allowance for mortgage pool receivables with recourse

	Unaudited 30 September 2022 MNT'000
At 1 January	1,977,815
Credit loss expense/(reversal) (Note 7)	<u>(11,812)</u>
At 30 September	<u><u>1,966,003</u></u>

17. Loan receivables with recourse

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Gross loan receivables with recourse	91,020,975	45,610,035
Allowance for impairment losses	<u>(1,101,167)</u>	<u>(769,955)</u>
Net loan receivables with recourse	<u><u>89,919,808</u></u>	<u><u>44,840,080</u></u>

Loan receivables with recourse represent consumer loan receivables from individual borrowers and legal entities, purchased from financial institutions.

17.1. Impairment allowance for loan receivables with recourse

	Unaudited 30 September 2022 MNT'000
At 1 January	769,955
Credit loss expense (Note 7)	<u>331,212</u>
At 30 September	<u><u>1,101,167</u></u>

18. Purchased mortgage pool receivables

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Purchased mortgage pool receivables	3,282,517,663	2,905,100,780
Accrued interest receivables	6,887,509	7,789,619
Gross purchased mortgage pool receivables	<u>3,289,405,171</u>	<u>2,912,890,399</u>
Allowance for impairment losses	<u>(14,761,908)</u>	<u>(11,540,602)</u>
Net purchased mortgage pool receivables	<u><u>3,274,643,264</u></u>	<u><u>2,901,349,797</u></u>

18. Purchased mortgage pool receivables (cont'd)

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.

18.1. Impairment allowance for purchased mortgage pool receivables

	Unaudited 30 September 2022 MNT'000
At 1 January	11,540,602
Credit loss expense/(reversal) (Note 7)	<u>3,221,305</u>
At 30 September	<u><u>14,761,907</u></u>

19. Financial assets at fair value through profit or loss

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Fair value as at 1 January	145,499,187	140,997,079
Acquisitions	–	–
Net gain/(loss) from change in fair value through profit or loss	–	<u>4,502,108</u>
Fair value as at 30 September	<u><u>145,499,187</u></u>	<u><u>145,499,187</u></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 September 2022, the Fund’s underlying investment comprised of principally an investment portfolio of the Group’s shares.

Investment in preference shares

In November 2020, the Group sold back all preference shares held in TDB Capital LLC (“TDB Capital”), and purchased 30,000 new preference shares of TDB Capital, 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 the BoM policy rate plus 1 percent and have no fixed maturity terms.

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

20. Derivative financial instruments

On 28 March 2019, the Group entered into a cross-currency swap agreement with nominal amount of USD 295.4 million or MNT 777,151 million with commercial bank for foreign currency risk management purposes. The swap agreement is designed to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international market in January and February 2019. The USD/MNT swap was a maturity of three years, with interest payable semi-annually beginning 30 September 2019 to 30 March 2022 on a net basis. On 14 January 2022, an amendment to the original cross-currency swap agreement with commercial bank was signed extending the term of the arrangement until 24 January 2024 to continue to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international capital market. With the amendment, the nominal amount was reduced from USD 295.4 million to USD 196 million, with interest payable quarterly starting from 14 April 2022 on a net basis.

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

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Fair value as at 1 January	66,638,901	82,581,091
Net gains/(loss) on derivative financial instruments	94,219,024	(15,942,190)
Realized fair value gain from derivative financial instruments reduction	(21,630,709)	–
Fair value as at 30 September	<u>139,227,216</u>	<u>66,638,901</u>

21. Other assets

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Financial assets		
Other receivables	<u>20,690,582</u>	<u>9,673,011</u>
Non-financial assets		
Prepayments	20,011,250	16,710,008
Foreclosed properties	200,014	759,650
Consumables and office supplies	373,613	118,474
Value-added tax receivables	3,243,554	2,919,199
	<u>23,828,431</u>	<u>20,507,331</u>
	<u>44,519,012</u>	<u>30,180,342</u>

Included in other receivables as at 30 September 2022 is accrued interest on preference shares held in TDB Capital LLC of MNT 20,023,957 thousand (31 December 2021: MNT 9,203,412 thousand)

22. Property and equipment

As of 30 September 2022, property and equipment with a carrying amount of MNT 37,054,655 thousand (2021: MNT 37,709,674 thousand), of which amount of MNT 35,213,475 thousand (2021: MNT 36,330,836 thousand) of premises are collateralised for borrowed funds.

23. Other liabilities

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Financial liabilities		
Interest payable on cross-currency swap	–	2,148,019
VAT payable	–	2,944,266
Other payables	5,718,893	6,243,788
	<u>5,718,893</u>	<u>11,336,073</u>
Non-financial liabilities		
Withholding tax liability	536,660	1,858,656
	<u>6,255,553</u>	<u>13,194,729</u>

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

24. Borrowed funds

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
TDB	10,125,963	15,451,856
Golomt Bank LLC (“Golomt”)	25,500,000	26,130,137
	<u>35,625,963</u>	<u>41,581,993</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 10,125,963 thousand and MNT 10,415,691 thousand at 30 September 2022 and 31 December 2021, respectively.
- (b) On 8 January 2019, the Group obtained a loan of MNT 5 billion with an interest rate of 11.0% per annum from TDB to finance its working capital. The Group fully settled the loan per schedule on 8 January 2022.

Golomt:

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

25. Debt securities

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Debt securities at amortised cost	<u>823,968,125</u>	<u>1,004,976,075</u>

International capital market

On 8 February 2021, the Group issued senior notes (“2024 Notes”) with nominal value of USD 250 million on the international capital market to refinance its senior notes issued on the same market in 2019. The 2024 Notes bear an interest of 8.85% per annum payable semi-annually in arrears starting from 8 August 2021 to 8 February 2024. The bond is unconditionally and irrevocably guaranteed by the Company.

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

On 15 February 2022, 1 April 2022, 14 June 2022 and 15 June 2022, the Group purchased a portion of its 2024 Notes in principal amounts of USD 5 million, USD 1.2 million, USD 2 million, and USD 3 million, respectively. (2021: USD 4 million).

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

25. Debt securities (cont'd)

OTC market

On 28 December 2021, the Group issued a USD 12 million bond on the local over-the-counter market. The debt securities bear an interest rate of 6.8% per annum, with interest payable semi-annually and principal payable upon maturity in three years. Qualifying transaction costs are capitalised and amortised over the life of the financial instruments using EIR.

26. Collateralised bonds

		Unaudited	Audited
		30 September 2022	31 December 2021
	Interest rate	MNT'000	MNT'000
Senior bonds	4.50%	1,916,843,649	2,069,291,847
Junior bonds	10.50%	504,351,582	477,232,799
Senior bonds II	4.50%	273,741,888	287,875,579
Senior bonds I	1.00%	475,753,329	178,982,108
Senior bonds II	9.00%	219,690,122	64,200,980
Senior bonds III	13.00%	58,729,760	56,170,330
Junior bonds	9.00%	59,401,067	7,641,946
		<u>3,508,511,396</u>	<u>3,141,395,589</u>

The senior and junior bonds as at 30 September 2022 and 31 December 2021 represent bonds issued by the SPCs upon their mortgage pool purchases under the RMBS program of the government of Mongolia. Starting with the twenty-second issuance of RMBS, senior bonds were offered in three tranches: senior bonds I issued to the MoF, senior bonds II issued to the BoM, and senior bonds III issued to commercial banks, while prior to this change, all senior bonds were issued to the BoM and the MoF. Junior bonds are solely issued to commercial banks. The bonds are collateralised by the purchased mortgage pool receivables (see Note 18).

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

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

Covid-19 impact

In conjunction with the mortgage principal and interest repayment deferral program as noted in Note 8, MIK Asset Ten SPC LLC to MIK Asset Twenty-Eight SPC LLC were given the option by the BoM to defer the coupon payments due to them on the senior RMBS up to 31 December 2022 if they did not have the ability to pay, given that these entities are relatively new and do not have sufficient reserves.

27. Ordinary shares

There were 5,462,429 shares held as treasury shares as at 30 September 2022 (31 December 2021: 5,462,429 shares). Excluding these shares, the total number of issued shares as at 30 September 2022 was 15,246,891 shares (31 December 2021: 15,246,891 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

28. Contingent liabilities and commitments

Legal claims

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

Assets pledged and restricted

RMBS issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 30 September 2022, the Group had mortgage pool receivables with the gross amount of MNT 3,289,405,171 thousand (2021: MNT 2,912,890,399 thousand) pledged as collateral for the RMBS (see Note 18). The related liabilities amount is MNT 3,508,511,396 thousand as of 30 September 2022 (2021: MNT 3,141,395,589 thousand) (see Note 26).

29. Related party disclosures

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

Investment in preference shares from shareholder of related party

In November 2020, the Group sold back all preference shares held in TDB Capital and purchased a total of 30,000 new preference shares of TDB Capital, 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 the BoM policy rate plus 1 percent and have no fixed maturity terms.

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

Accrued interest on preference shares held in TDB Capital amounted to MNT 20,023,957 thousand (2021: MNT 9,203,412 thousand) as at 30 September 2022 (see Note 21).

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 (see Note 24).

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.

Investment in related party

On 20 March 2020, the Group invested in MNT 45 billion loan notes bearing 13 percent interest per annum issued by QSC LLC, a related party of a board member of the Group. The initial contract maturity of 20 July 2021 was extended till June 2024 during the year, with an amended interest rate of the BoM policy rate plus 2 percent per annum.

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 19). The Fund has issued 1,500,000 investment units and is due for liquidation upon maturity in 10 years since its establishment in 2018.

Borrowed funds

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 .

On 8 January 2019, the Group obtained a loan of MNT 5 billion with an interest rate of 11.0% per annum from TDB to finance its working capital. The Group fully settled the loan per schedule on 8 January 2022 (see Note 24).

Swap arrangement with related party

On 28 March 2019, the Group entered into a cross-currency interest rate swap agreement with nominal amount of USD 295.4 million or MNT 777,151 million with TDB 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 2022 Notes issued on the international market in January and February 2019 (see Note 25). The USD/MNT swap was a maturity of three years, with interest payable semi-annually beginning 30 September 2019 to 30 March 2022 on a net basis.

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

29. Related party disclosures (cont'd.)

Other payables

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

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
TDB	771,034	1,151,774
Khan Bank LLC	580,293	848,577
XacBank LLC	230,696	403,686
Golomt	637,406	907,981
Capitron Bank LLC	44,148	46,666
State Bank LLC	230,583	328,757
Total	<u>2,494,160</u>	<u>3,687,441</u>

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

Compensation to key management personnel

	Unaudited 30 September 2022 MNT'000	Audited 31 December 2021 MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	1,980,130	2,894,964
Contribution to social and health fund	243,289	313,902
	<u>2,223,419</u>	<u>3,208,866</u>

As at 30 September 2022, the Group has the following balances and transactions with related parties:

	Bank deposits		Collateralised bonds			
	Outstanding balance MNT'000	Interest Income MNT'000	Issued during the year		Outstanding balance MNT'000	Interest expense MNT'000
			senior bonds MNT'000	junior bonds MNT'000		
As at 30 September 2022						
TDB	68,112,293	2,232,614	133,657,000	14,850,900	238,878,293	13,594,833
Khan Bank LLC	2,442,746	63,736	113,433,000	12,603,700	198,826,039	11,342,068
Xac Bank LLC	1,421,433	–	41,039,500	4,560,000	79,080,610	4,611,080
Golomt	1,664,761	31,333	12,870,000	1,430,000	152,235,174	10,535,877
Capitron Bank LLC	16,166,904	419,602	24,103,200	2,678,200	22,521,521	995,468
State Bank LLC	9,914,788	276,974	119,224,000	13,247,200	119,292,455	5,456,991
Chinggis Khaan Bank LLC	717,501	–	–	–	3,666,325	285,399
	<u>100,440,426</u>	<u>3,024,259</u>	<u>444,326,700</u>	<u>49,370,000</u>	<u>814,500,417</u>	<u>46,821,716</u>
BoM	–	–	–	–	2,666,243,990	71,394,792
MoF	–	–	–	–	11,333,287	2,647,432
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,677,577,277</u>	<u>74,042,224</u>
Total	<u>100,440,426</u>	<u>3,024,259</u>	<u>444,326,700</u>	<u>49,370,000</u>	<u>3,492,077,694</u>	<u>120,863,940</u>
As at 31 December 2021						
TDB	509,784,756	5,741,395	92,572,300	10,286,100	199,805,982	14,273,643
Khan Bank LLC	4,328,747	–	66,571,000	7,397,100	149,856,290	12,656,924
Xac Bank LLC	1,641,286	–	37,898,000	4,211,200	76,335,608	4,678,961
Golomt	17,494,818	4,504,308	61,745,300	6,860,700	163,705,878	12,965,540
Capitron Bank LLC	5,670,495	539,186	14,040,900	1,560,300	17,142,282	791,703
State Bank LLC	2,309,655	–	47,747,600	5,305,600	80,661,951	4,769,417
Chinggis Khaan Bank LLC	1,239,947	16,472	82,800	9,300	3,628,806	388,007
	<u>542,469,704</u>	<u>10,801,361</u>	<u>320,657,900</u>	<u>35,630,300</u>	<u>691,136,797</u>	<u>50,524,195</u>
BoM	–	–	–	–	2,202,268,702	99,634,316
MoF	–	–	–	–	233,593,920	8,814,366
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,435,862,622</u>	<u>108,448,682</u>
Total	<u>542,469,704</u>	<u>10,801,361</u>	<u>320,657,900</u>	<u>35,630,300</u>	<u>3,126,999,419</u>	<u>158,972,877</u>

29. 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.

30. 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 September 2022 are restricted retained earnings of MNT 131,187,385 thousand (30 September 2021: MNT 176,613,425 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 2021.

The Group was not subject to any other externally imposed capital requirements throughout 30 September 2022 and 30 September 2021.

31. Subsequent events

There were no subsequent events that need disclosure.