LENDMN NBFI JSC
(incorporated in Mongolia)

Audited financial statements
31 December 2018

CONTENTS

GENERAL INFORMATION

Chairman:	Boldbaatar.O
Members of Board of Directors:	Mathew Welch Tsevegmid.N Bayarsaikhan.V Delgerjargal.B Enkh-Amgalan.S
Independent members of Board of Directors:	Gantulga.B Borgil.S Jargalsuren.J
Registered address:	New Mind Group building, 5th khoroo, Sukhbaatar Discrict, Ulaanbaatar, Mongolia
Principal bankers:	Khan Bank LLC State Bank LLC Golomt Bank LLC Xacbank LLC Trade and Development Bank LLC Capitron Bank LLC
Auditors:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY EXECUTIVE MANAGEMENT

We, Delgerjargal Bayanjargal, being the Chief Executive Officer of LendMN NBFI JSC (the "Company"), and Otgongerel Dembereldovd, being the Chief Accountant primarily responsible for the financial management of the Company, do hereby state that, in our opinion, the accompanying financial statements set out between pages 1 and 39 present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Delgerjargal Bayanjargal
Chief Executive Officer

Date: 30 January 2019

Otgongerel Dembereldovd
Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of LendMN NBFI JSC

Opinion

We have audited the financial statements of LendMN NBFI JSC (the "Company"), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matters below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

Key Audit Matters (Cont'd.)

Key audit matter	**How our audit addressed the key audit matter**
Impairment of loans and advances to customers	
The impairment of loans and advances to customers is estimated by the Company's management through the application of judgement and use of highly subjective assumptions. Due to the significance of loans and advances to customers, representing over 75% of the Company's total assets as at 31 December 2018, and the related estimation uncertainty, we considered impairment of loans and advances to customers as a key audit matter. The impairment method is based on a forward looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including: • Staging of financial assets; • Development of ECL models and the choice of inputs, including probability of default ("PD") and loss given default ("LGD"); • Determination of the Exposure at Default ("EAD"), including the credit conversion factor for the undrawn loan commitments. • Determination of associations between macroeconomic scenario, economic inputs, and the effect on inputs to the ECL calculation; and • Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model. Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in notes 2 and 4 to the financial statements, respectively. Other relevant disclosures of loans and advances to the customers and related credit risk management are included in notes 5, 12 and 20.3 to the financial statements, respectively.	Our audit procedures included evaluating the methodologies, inputs and assumptions used by the Company in its ECL model in calculation of impairment of loans and advances to customers. For assessment of impairment allowance of loans and advances to customers as of 1 January 2018 and 31 December 2018, we engaged EY internal specialist to assist with our audit in evaluating the Company's ECL model including the assessment of basis for classification of exposures into the 3 stages, and the appropriateness of the PD, LGD and EAD determination and the forward-looking macroeconomic variables incorporated in the model. In testing the appropriateness of the stage classifications, we have tested loan overdue information and other related information. We compared the key inputs to the ECL model to the Company's internal available historical data, externally available industry, financial and economic data. Our testing included the followings: • Tested the accuracy of internal data applied for the calculation of historical PD and LGD; • Checked the parameters to external data sources where available, including the monthly USD/MNT exchange rate used in multiple scenario analysis; and • Checked completeness of the EAD including the accuracy of the credit conversion factors to the historical data. We also considered the consistency of judgement applied in the key inputs to the ECL model. We assessed the adequacy of the related disclosure in the notes to the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

Other Information included in the Annual Report

The Directors and executives are responsible for the other information. The other information comprises the other sections of the Annual Report not including the financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so to consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of LendMN NBFI JSC

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Director

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 30 January 2019

	Notes	31.12.2018 MNT'000	31.12.2017 MNT'000
Interest and similar income	6	7,143,319	961,707
Interest expense	6	(511,934)	(57,934)
Net interest and similar income		**6,631,385**	**903,773**
Credit loss expense	7	(408,525)	(15,351)
Net interest and similar income after allowance for impairment		**6,222,860**	**888,422**
Administrative and operating expenses	8	(3,278,064)	(815,624)
Other expenses		(79,446)	(40,099)
Profit before income tax		**2,865,350**	**32,699**
Income tax expense	9	(305,037)	(8,778)
Profit for the year, representing total comprehensive income attributable to equity holders of the Parent		**2,560,313**	**23,921**
Earnings per share		**MNT**	**MNT**
Equity holders of the parent			
Basic and diluted earnings per share	10	3.37	0.16

	Notes	31.12.2018 MNT'000	31.12.2017 MNT'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	4,218,150	2,391,070
Loans and advances to customers	12	19,199,366	4,289,481
Current income tax prepayments		-	3,928
Other assets		124,423	740
		23,541,939	**6,685,219**
NON-CURRENT ASSETS			
Intangible assets	13	387,784	265,252
Property and equipment	14	258,051	90,958
Prepayments	15	135,663	87,998
		781,498	**444,208**
TOTAL ASSETS		**24,323,437**	**7,129,427**
CURRENT LIABILITIES			
Closed bonds	16	6,565,017	1,022,356
Bank loans	16	2,007,359	-
Other liabilities	17	868,955	88,532
Current income tax liability		7,690	-
		9,449,021	**1,110,888**
NON CURRENT LIABILITIES			
Long term bank loans	16	1,520,041	-
		1,520,041	**-**
TOTAL LIABILITIES		**10,969,062**	**1,110,888**
EQUITY			
Share capital	18	10,756,859	6,000,000
Other reserve	19	57,348	-
Retained earnings		2,540,168	18,539
TOTAL EQUITY		**13,354,375**	**6,018,539**
TOTAL LIABILITIES AND EQUITY		**24,323,437**	**7,129,427**

	Share capital MNT'000 (Note 18)	Other reserve MNT'000 (Note 19)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2017	**800,000**	**-**	**(5,382)**	**794,618**
Total comprehensive income for the year	-	-	23,921	23,921
Issuance of ordinary shares	5,200,000	-	-	5,200,000
At 31 December 2017	**6,000,000**	**-**	**18,539**	**6,018,539**
Impact of adopting IFRS 9 (Note 5)	-	-	(38,684)	(38,684)
Restated opening balance under IFRS 9 at 1 January 2018	**6,000,000**	**-**	**(20,145)**	**5,979,855**
Total comprehensive income for the year	-	-	2,560,313	2,560,313
Issuance of ordinary shares by listing	5,000,000	-	-	5,000,000
Listing related direct expense	(243,141)	-	-	(243,141)
Equity-settled share-based payment transaction	-	57,348	-	57,348
At 31 December 2018	**10,756,859**	**57,348**	**2,540,168**	**13,354,375**

	Notes	31.12.2018 MNT'000	31.12.2017 MNT'000
Cash flows from operating activities			
Profit before tax		2,865,350	32,699
Adjustments for:			
Impairment on loans and advances to customers	7	392,310	15,351
Depreciation of property and equipment	8	59,464	11,771
Amortization of intangible assets	8	33,932	29,748
Other provision charges	8	-	15,805
Impairment on undrawn commitments	7	16,215	-
Share-based contribution	19	57,348	-
Operating profit before working capital changes		**3,424,619**	**105,374**
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers		(15,338,090)	(4,180,672)
Net (increase) decrease in other assets		(123,683)	13,960
Net increase in prepayments		(47,665)	(87,998)
Net increase in other liabilities		299,752	77,991
Cash used in operations		**(11,785,067)**	**(4,071,345)**
Income taxes paid		(293,419)	(12,868)
Net cash used in operating activities		**(12,078,486)**	**(4,084,213)**
Cash flows from investing activities			
Purchase of property and equipment	14	(226,557)	(79,941)
Purchase of intangible assets	13	(156,464)	(153,000)
Proceeds from disposal of property and equipment		-	285
Net cash used in investing activities		**(383,021)**	**(232,656)**
Cash flows from financing activities			
Proceeds from issue of shares, net		4,756,859	5,200,000
Proceeds from closed bonds issued*		6,328,992	1,795,000
Proceeds from borrowing*		3,520,041	750,000
Repayment of closed bonds issued*		(1,000,000)	(795,000)
Repayment of borrowing*		-	(750,000)
Net cash from financing activities		**13,605,892**	**6,200,000**
Net increase in cash and cash equivalents		**1,144,385**	**1,883,131**
Cash and cash equivalents at the beginning of the year	11	2,391,070	507,939
Cash and cash equivalents at the end of the year	11	**3,535,455**	**2,391,070**
Operational cash flows from interest			
Interest received		6,651,308	844,516
Interest expense	6	511,934	57,934
Interest paid		(290,906)	(35,578)

Changes in liabilities arising from financing activities:

* There are no non-cash changes except interest accrual of MNT 221,028 thousand on closed bonds and bank loans to the movement arising from financing activities during the year ended 31 December 2018 (2017: MNT 22,356 thousand).

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

	31.12.2018 MNT'000	31.12.2017 MNT'000
Interest bearing bank loans and closed bonds		
As at 1 January	1,022,356	-
Proceeds	9,849,033	2,545,000
Repayment	(1,000,000)	(1,545,000)
Interest accrual during the year	511,934	57,934
Interest paid	(290,906)	(35,578)
At 31 December	**10,092,417**	**1,022,356**

1 Corporate Information

LendMN NBFI JSC (the "Company") is a joint stock company listed on Mongolian Stock Exchange ("MSE") and incorporated and domiciled in Mongolia. The Company was listed on the MSE on 14 March 2018, and so became a publicly traded company. The Company operates under a non-banking financial institution ("NBFI") special license No. 1/493 issued by the Financial Reporting Committee ("FRC") on 24 June 2015. The special license covers permission for lending and online payment money transfer activities in Mongolia.

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

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

The Company's registered address is: New Mind Group's building, 5th khoroo, Sukhbaatar district, Ulaanbaatar, Mongolia.

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in Mongolian Tugriks ("MNT"), and all values are rounded to the nearest thousands, unless otherwise stated.

The financial statements of the Company were authorised for issuance in accordance with the resolution of the Board of Directors on 30 January 2019.

2 Summary of Significant Accounting Policies

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

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2 Summary of Significant Accounting Policies (Cont'd.)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

Financial instruments – Measurement of financial assets and liabilities. From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost,
- Fair value through other comprehensive income ("FVOCI"), or
- Fair value through profit or loss ("FVPL")

Before 1 January 2018, the Company classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost). Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Financial instruments – Loans and advances to customers. Before 1 January 2018, The Company's loans and advances to customers include unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. As at 31 December 2017, the Company had the following financial assets classified as loans and receivables for IFRS measurement purposes: cash and cash equivalents and loans and advances to customers.

From 1 January 2018, the Company measures loans and advances to customers at amortised cost only if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

2 Summary of Significant Accounting Policies (Cont'd.)

Financial instruments – Loans and advances to customers (Cont'd). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

Undrawn loan commitments are commitments under which the Company is required to provide a loan with pre-specified terms to the customer. Under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the Expected Credit Loss ("ECL") requirements.

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

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

An analysis of the Company's debt issued and other borrowed funds are disclosed in Note 16.

Derecognition of financial assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

Derecognition of financial liability. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

The effective interest method. Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan.

2 Summary of Significant Accounting Policies (Cont'd.)

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

Overview of ECL method. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Whether a financial instrument's credit risk has increased significantly since initial recognition is determined by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on that, the financial assets are grouped into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired, as described below:

- Stage 1: When financial assets are first recognised, an allowance is based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved, and the financial assets has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, an allowance is based on the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved, and the financial assets has been reclassified from Stage 3.
- Stage 3: Financial assets considered credit-impaired. An allowance is based on the LTECLs.
- POCI: Purchased or originated credit impaired assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

When estimating the ECLs, the Company considers three scenarios (a base case, a best case, and a worst case). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 20.3.

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

2 Summary of Significant Accounting Policies (Cont'd.)

Impairment of financial assets (Cont'd). For outstanding loans and receivables as at 31 December 2018, the ECL is presented together with the loans and receivables. For undrawn loan commitments, the ECL is recognised within Provisions.

Forward looking information. In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:
- Percent change of the USD/MNT exchange rate
- Percent change of the monthly inflation rate
- Monthly average probability of default rate of consumer loans of Mongolian commercial banks
- Monthly average probability of default rate of payroll loans of Mongolian commercial banks

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

Write-offs. The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the period.

Impairment of financial assets (Policy applicable before 1 January 2018). Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:
- any instalment is overdue, and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

Impairment provision on loans and advances to customers is mostly determined based on collective assessment. If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

2 Summary of Significant Accounting Policies (Cont'd.)

Impairment of financial assets (Policy applicable before 1 January 2018) (Cont'd). Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the period.

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Cont'd.)

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

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

	Useful lives in years
LendMN technology licenses	10 years

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

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

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

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

Value added tax (VAT). Management has assessed that the Company has no VAT liabilities arising from non-financial services activities, while financial services activities (such as lending) are exempted from VAT based on Value Added Tax Law of Mongolia. Thus, the Company was not registered for VAT as at 31 December 2018 and 31 December 2017.

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

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

2 Summary of Significant Accounting Policies (Cont'd.)

Income and expense recognition. Interest income and expense are recorded on for financial instruments other than credit-impaired assets an accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument and for processing transaction documents. LendMN fee income, charged on each loan disbursement, is also part of the effective interest rate although it is not called interest income.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' in the ECL models, the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis. For purchased or originated credit-impaired (POCI) financial assets, the Company calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

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

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

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

2 Summary of Significant Accounting Policies (Cont'd.)

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

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

Earnings per share. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax, if any) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

(a) A person or a close member of that person's family is related to a Company if that person:
  - (i) has control or joint control of the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company.

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 23.

3 Changes to Accounting Policy and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2018:

New and amended standards and interpretations

• IFRS 9	*Financial Instruments*
• IFRS 15	*Revenue from Contracts with Customers*
• IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
• Annual Improvements (2014-2016 cycle)	*Amendments to a number of IFRSs issued in December 2016*
• Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*

1. IFRS 9, Financial instruments

In September 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 5. Impacts arising from the adoption of IFRS 9 are summarised as follows:

(i) Classification and measurement
Adoption of IFRS 9 does not have a significant impact on the classification and measurement of Company's financial assets. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost upon adoption. The accounting for financial liabilities remains largely the same as it was under IAS 39.

(ii) Changes to the impairment calculation
The adoption of IFRS 9 has changed the Company's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The Company applied the general approach and recorded 12-month expected losses on financial assets whose credit risks have not been increased at the reporting date and lifetime expected losses on financial assets whose credit risks have been increased at the reporting date. Details of the Company's impairment method are disclosed in Note 20.3.

2. IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard superseded all current revenue recognition requirements under IFRSs. The Company adopted IFRS 15 on 1 January 2018. The adoption of IFRS 15 did not result in significant impact on the amounts reported on the Company's financial statements.

The other new and amended standards and interpretation did not result in an impact to the financial statements.

3 Changes to Accounting Policy and Disclosures (Cont'd.)

Standards issued but not yet effectives

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

• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
• IFRS 16	*Leases* [1]
• IFRS 17	*Insurance Contracts* [2]
• IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment* [1]
• Amendments to IFRS 9	*Prepayment Features in Negative Compensation* [1]
• Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [1]
• Annual Improvements (2015-2017 cycle)	*Amendments to a number of IFRSs issued in December 2017* [1]
• Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement* [1]

[1] *Effective for annual periods beginning on or after 1 January 2019*
[2] *Effective for annual periods beginning on or after 1 January 2021*
[3] *The effective date of this amendment is indefinitely postponed by IASB, but an entity that early adopts the amendments must apply them prospectively.*

Further information about those IFRSs that are expected to be applicable to the Company is as follows:

IFRIC-Int 23, Uncertainty over Income Taxes Treatment

IFRIC-Int 23 supports the requirements in IAS12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes. It is effective for annual periods beginning on or after 1 January 2019. The interpretation is not expected to have any material impact on the financial position or performance of the Company upon adoption on 1 January 2019.

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases IFRS 16 is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. In 2019, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances to customers. The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of the models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

Under IAS 39, The Company regularly reviewed its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Company, or national or local economic conditions that correlate with defaults on assets in the Company.

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

Impairment losses on cash and cash equivalents. The Company estimates expected credit loss on cash and cash equivalents in accordance with IFRS 9 as at 31 December 2018 and 31 December 2017. The general approach has been applied in the estimation of the expected credit losses. As almost all of the cash and cash equivalents are demand deposits and their lifetime is 1 day only, the estimated expected credit loss is insignificant. Therefore, the Company did not recognize the expected credit losses on cash and cash equivalents in its financial statements for the year ended 31 December 2018.

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

5 Transition disclosure

The following table sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	IAS 39 measurement at 31 December 2017 MNT'000	**Re-measurement MNT'000**	**IFRS 9 at 1 January 2019 MNT'000**
Loans and advances to customers	4,289,481	(35,895)	4,253,586
Provision	-	2,789	2,789

The adoption of IFRS 9 did not result in any reclassification impact to the Company.

The impact of transition to IFRS 9 on retained earnings is, as follows:

	Retained earnings MNT'000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**18,539**
Impact of adopting IFRS 9:	
Recognition of IFRS 9 ECLs for loans and advances to customers	(35,895)
Recognition of IFRS 9 ECL for undrawn commitment	(2,789)
Opening balance under IFRS 9 (1 January 2018)	**(20,145)**
Total change in equity due to adopting IFRS 9	**(38,684)**

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loans and advances to customers and undrawn commitments in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Notes 12 and 21 to the financial statements.

	Loan loss provision under IAS 39/IAS 37 at 31 December 2017 MNT'000	**Re-measurement MNT'000**	**ECLs under IFRS 9 at 1 January 2018 MNT'000**
Impairment allowance for loans and advances to customers	15,351	35,895	51,246
Impairment allowance for undrawn loan commitments	-	2,789	2,789
	15,351	**38,684**	**54,035**

6 Net Interest and similar income and segment information

During the years ended 31 December 2018 and 2017 the Company was engaged in a single business segment, which is issuing instant loans to the individual borrowers in Mongolia. Information reported to the Company's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Company's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented. As the Company's major operations and customers are located in Mongolia, no further geographical segment information is provided. There has been no single external customer that has contributed revenue exceeding 10% or more of the Company's revenue during the years ended 31 December 2018 and 2017.

	31.12.2018 MNT'000	**31.12.2017 MNT'000**
Interest income		
Interest income on bank accounts	177,796	31,232
Other interest income	-	2,454
LendMN fee income		
Loans and advances to customers – LendMN system	6,965,523	928,021
Total interest and similar income	**7,143,319**	**961,707**
Interest expense		
Closed bonds and bank loans interest expenses	**(511,934)**	**(57,934)**

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

7 Credit loss expense

The table below shows the impairment charges on financial assets for the year recorded in the income statement:

	31.12.2018 MNT'000	**31.12.2017 MNT'000**
Impairment Loss		
Impairment on loans and advances to customers (Note 12)	392,310	15,351
Impairment on undrawn commitment (Note 17)	16,215	-
Total Impairment loss	**408,525**	**15,351**

8 Administrative and Operating Expenses

	31.12.2018 MNT'000	31.12.2017 MNT'000
Staff costs	984,286	249,648
LendMN system maintenance/service fee (Note 23)	707,917	84,712
Advertising and marketing services	695,640	178,287
Bank charge	211,058	22,042
Professional services	191,073	148,449
Social security contributions	113,828	25,675
Rent expense	106,081	24,026
Depreciation of property and equipment (Note 14)	59,464	11,771
Share-based contribution	57,348	-
Amortization of intangible assets (Note 13)	33,932	29,748
Maintenance expense	9,726	9,440
Other provision charges (Note 17)	-	15,805
Other expenses	107,711	16,021
Total administrative and operating expenses	**3,278,064**	**815,624**

9 Income Tax

9.1 Income tax expenses

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

	31.12.2018 MNT'000	31.12.2017 MNT'000
Current income tax	305,037	8,778
Income tax expense for the year	**305,037**	**8,778**

The Company provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Company is 10% for the first MNT 3 billion (2017: MNT 3 billion) of taxable income in a financial year, and 25% (2017: 25%) on the excess of taxable income over MNT 3 billion (2017: MNT 3 billion) in accordance with Mongolian tax legislation.

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

	31.12.2018 MNT'000	31.12.2017 MNT'000
Profit before tax	**2,865,351**	**32,699**
Tax at statutory rate of 10% (2017: 10%)	286,535	3,270
Tax effect of:		
- Non-deductible expenses	18,502	5,508
Income tax expense for the year	**305,037**	**8,778**

The effective income tax rate for the Company for the year ended 31 December 2018 is 10.65% (2017: 26.84%).

9 Income Tax (Cont'd.)

9.2 Income tax liabilities/(assets)

	31.12.2018 MNT'000	31.12.2017 MNT'000
As at 31 December 2017	**(3,928)**	**162**
Income tax expense	305,037	8,778
Income tax paid	(293,419)	(12,868)
As at 31 December 2018	**7,690**	**(3,928)**

10 Earnings per Share

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

	2018	2017
Profit or loss, representing total comprehensive income for the year (net of taxes) attributable to equity holders of the Company (MNT'000)	2,560,314	23,921
Weighted average number of ordinary shares for basic and diluted earnings per share	760,000,000	152,390,110
Earnings per share (MNT)	**3.37**	**0.16**

Earnings per share	**2018 MNT**	**2017 MNT**
Equity holders of the Company:		
Basic earnings per share	3.37	0.16
Diluted earnings per share	3.37	0.16

The calculation of basic earnings per share has been based on the weighted-average number of ordinary shares for the year, in accordance with IAS 33.70. Refer to Note 18.

11 Cash and Cash Equivalents

	31.12.2018 MNT'000	31.12.2017 MNT'000
Cash on hand	1,088	1,675
Cash at bank	4,217,062	2,389,395
Total cash and cash equivalents	**4,218,150**	**2,391,070**
(-) Funding for wallet balance	(682,695)	-
Total cash and cash equivalents for statement of cashflow	**3,535,455**	**2,391,070**

Cash at bank balances are current accounts placed in commercial banks operating in Mongolia and are not collateralised. The carrying amount of cash and cash equivalents approximates fair value. Current accounts outstanding as at 31 December 2018 are placed at interest rates ranging between 0.0%-9.75% p.a. (31 December 2017: 0.0%-3.7%). Cash at bank as at 31 December 2018 includes a short-term time deposit of MNT 500 million which bears interest rate of 13% p.a and matures on 27 January 2019 (2017: nil).

The Company estimated the expected credit loss on cash and cash equivalents in accordance with IFRS 9 as at 31 December 2018 and 31 December 2017. As most of the cash and cash equivalents are demand deposits, the estimated expected credit loss is assessed to be insignificant. Therefore, the Company did not recognize the expected credit losses on cash and cash equivalents in its financial statements for the year ended 31 December 2018. As at 31 December 2017, cash and cash equivalents are classified as neither past due nor impaired under the incurred credit loss model of IAS 39.

The cash balance of individual wallet is restricted and is accounted separately as it is not used as a funding source by the company, making it available on demand. Cash and cash equivalents corresponding to the wallet balance as at 31 December 2018 is MNT 682,695 (2017: nil).

12 Loans and Advances to Customers

	31.12.2018 MNT'000	31.12.2017 MNT'000
Consumer loans issued through LendMN system, gross	19,642,922	4,304,832
Less: Allowances for ECL/Impairment losses (Note 20.3)	(443,556)	(15,351)
Total loans and advances to customers	**19,199,366**	**4,289,481**

The Company pledged total of MNT 8,000,000 thousand of performing loan portfolio as collaterals for credit line and the loans received from other financial institutes.

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

12.1 Impairment allowance for loans and advances to customers

The Company assesses impairment of loans in accordance with IFRS 9. Under the general approach, the Company classifies the loan portfolio into Stage 1, 2 and 3 as follows, and calculate probability-weighted forward-looking PDs and LGDs separately for each stage. The details of calculation and policies about ECL allowances are explained in Note 20.3.
Stage 1: Loan portfolio on time + Loan portfolio past due less than 31 days
Stage 2: Loan portfolio past due by 31-90 days
Stage 3: Loan portfolio past due by more than 90 days

12 Loans and Advances to Customers (Cont'd.)

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

Allowances for impairment losses for loans and advances to customers as at 31 December 2018 and 1 January 2018 at each stage are as follows:

At 31 December 2018

Expected credit loss	Drawn exposure MNT'000	Forward-looking PD	Forward-looking LGD	Total allowance for ECL MNT'000
Stage 1	19,019,885	0.81%	65.28%	100,124
Stage 2	259,329	62.63%	65.28%	106,020
Stage 3	363,708	100.00%	65.28%	237,412
	19,642,922			**443,556**

At 1 January 2018

Expected credit loss	Drawn exposure MNT'000	Forward-looking PD	Forward-looking LGD	Total allowance for ECL MNT'000
Stage 1	4,245,972	0.68%	76.84%	22,177
Stage 2	49,140	57.21%	76.84%	21,600
Stage 3	9,720	100.00%	76.84%	7,469
	4,304,832			**51,246**

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2018 Total MNT'000	2017 Total MNT'000
Performing loan	19,019,885	-	-	19,019,885	4,245,972
Non-performing loan	-	259,329	363,708	623,037	58,860
Total	**19,019,885**	**259,329**	**363,708**	**19,642,922**	**4,304,832**

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	2018 Total MNT'000
Gross carrying amount as at 1 January 2018	**4,245,972**	**49,140**	**9,720**	**4,304,832**
New assets originated or purchased	152,526,404	-	-	152,526,404
Assets derecognized or repaid (excluding write offs)	(136,114,242)	(778,706)	(295,366)	(137,188,314)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(1,638,249)	1,638,249	-	-
Transfer to stage 3	-	(649,354)	649,354	-
At 31 December 2018	**19,019,885**	**259,329**	**363,708**	**19,642,922**

12 Loans and Advances to Customers (Cont'd.)

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

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

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

	MNT'000
At 1 January 2017	-
Charge for the year (Note 7)	15,351
At 31 December 2017 under IAS 39	**15,351**
Impact of transition under IFRS 9	35,895
At 1 January 2018	**51,246**
Charges for the year (Note 7)	392,310
At 31 December 2018	**443,556**

13 Intangible assets

	31.12.2018 MNT'000	31.12.2017 MNT'000
At cost		
At 1 January	300,000	300,000
Additions	156,464	-
At 31 December	**456,464**	**300,000**
Accumulated amortization		
At 1 January	34,748	5,000
Charge for the year (Note 8)	33,932	29,748
At 31 December	**68,680**	**34,748**
Net carrying value	**387,784**	**265,252**

The intangible assets of the Company consist of licenses for the LendMN system's exclusive right of use in the territory of Mongolia for lending activities and wallet transactions purchased from AND Systems Tech LLC, a related party.

13 Intangible assets (Cont'd.)

The lending application or the original platform was purchased in December 2016 from AND System Tech LLC, who has customer on-boarding, credit scoring, banking back-end, customer support and reporting modules and the LendMN Application. The one-time license fee for the LendMN system's exclusive right of use was MNT 300,000 thousand. MNT 153,000 thousand and MNT 147,000 thousand were paid by the Company in 2017 and 2016, respectively.

Upon a launch of e-wallet service, the Company entered into an agreement with its related company AND Systems Tech LLC on 1 November 2018 to purchase the exclusive right of use of the wallet application for all wallet related transactions. The wallet application is an upgrade to the lending application, but containing the original functionality of lending within. The one-time license fee for the LendMN wallet's exclusive right of use was MNT 150,000 thousand and was fully paid by the Company on 28 December 2018.

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

During the year, the company has purchased an accounting program "Spinal 6.0" for an amount of MNT 6,464 thousand on 1 February 2018.

14 Property and equipment

	Furniture, office equipment & vehicle MNT'000	Computers and equipment MNT'000	Office renovation MNT'000	Total MNT'000
At 31 December 2018				
Cost				
At 1 January 2018	**41,651**	**62,036**	**-**	**103,687**
Additions	19,044	84,203	123,310	226,557
At 31 December 2018	**60,695**	**146,239**	**123,310**	**330,244**
Accumulated depreciation				
At 1 January 2018	**3,310**	**9,419**	**-**	**12,729**
Charge for the year (Note 8)	5,333	34,780	19,351	59,464
At 31 December 2018	**8,643**	**44,199**	**19,351**	**72,193**
Net carrying amount	**52,052**	**102,040**	**103,959**	**258,051**
At 31 December 2017				
Cost				
At 1 January 2017	**19,312**	**4,764**	**-**	**24,076**
Additions	22,953	56,988	-	79,941
Disposals	-	(330)	-	(330)
Reclassification	(614)	614	-	-
At 31 December 2017	**41,651**	**62,036**	**-**	**103,687**
Accumulated depreciation				
At 1 January 2017	**274**	**729**	**-**	**1,003**
Charge for the year (Note 8)	3,036	8,735	-	11,771
Disposals	-	(45)	-	(45)
At 31 December 2017	**3,310**	**9,419**	**-**	**12,729**
Net carrying amount	**38,341**	**52,617**	**-**	**90,958**

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

15 Prepayments

	31.12.2018 MNT'000	31.12.2017 MNT'000
Prepayment for new office	87,500	61,208
Accrued costs for the future issuance of new shares	-	21,096
Other	48,163	5,694
Total prepayments	**135,663**	**87,998**

Included in the "Other" category, is MNT 16,954 thousand representing employee health insurance premiums as of 31 December 2018.

16 Closed bonds and Bank loans

	31.12.2018 MNT'000	31.12.2017 MNT'000
Current closed bonds and bank loans	8,572,376	1,022,356
Non-current bank loans	1,520,041	-
Total closed bonds and bank loans	**10,092,417**	**1,022,356**

		Interest rate p.a	31.12.2018 MNT'000	31.12.2017 MNT'000
Closed bonds	(i)	12%-17%	6,565,017	1,022,356
Xac Bank	(ii)	18%	1,526,427	-
Bogd Bank	(iii)	17.75%	2,000,973	-
Total bank loans			**3,527,400**	**-**
Total closed bonds and bank loans			**10,092,417**	**1,022,356**

(i) On 10 November 2017, the Company issued 1,000,000 units of closed bonds with par value of MNT 1,000, with quarterly coupon interest payment calculated at 16% per annum, and maturity of 1 year and subsequently extended by 3 months. All of the closed bonds were fully sold on the same day to one of the minority shareholders of the ultimate parent company. The bond is to mature on 11 February 2019. Per Board Resolution No. 18/14 on June 04, 2018, the Company has issued additional 5,400,000 units of closed bonds with par value of MNT 1,000, with quarterly and/or bi-annual coupon interest payment calculated at a range of 16-17% per annum, and maturity between 18 June 2019 and 13 November 2019 with 7 repayments.

(ii) On 20 December 2018, the Company obtained a MNT 2,000,000 thousand credit line from Xac Bank, whereby the Company pledged MNT 4,000,000 thousand of performing loans and advances to customers and current accounts at Xac Bank and Khan Bank against the facility. The facility is to mature on 20 December 2020.

(iii) On 31 December 2018, the Company received a MNT 2,000,000 thousand loan from Bogd Bank, whereby the Company pledged MNT 4,000,000 thousand of performing loans and advances to customers and MNT 2,000,000 thousand of future cash inflow to be collected through its current accounts at Khan Bank, Golomt Bank, State Bank, Bogd Bank and Trade Development Bank against the facility. The loan is to mature on 25 December 2019.

17 Other Liabilities

	31.12.2018 MNT'000	31.12.2017 MNT'000
Other financial liabilities:		
Payables to other companies and individuals	795,742	72,727
Other payables	39,848	-
Total other financial liabilities	**835,600**	**72,727**
Other non-financial liabilities:		
Taxes payable other than income tax	7,922	-
Provision for future possible tax liabilities	6,429	15,805
Provision for undrawn commitment (Note 7, 20.3)	19,004	-
Total other non-financial liabilities	**33,355**	**15,805**
Total other liabilities	**868,955**	**88,532**

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

	MNT'000
At 1 January 2017/31 December 2017 under IAS39/IAS37	**-**
Impact of adopting IFRS 9 (Note 5)	2,789
At 1 January 2018	**2,789**
ECL charges on undrawn commitment (Note 7)	16,215
At 31 December 2018	**19,004**

Amount due to other companies and individuals include payables or cash balance of individual e-wallet account holders as well as merchant wallet balances, totalling MNT 682,695 thousand (2017: nil). The remaining balance accounts for payables due to partnering merchants and other parties.

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

	31.12.2018 MNT'000	31.12.2017 MNT'000
At 1 January	**15,805**	**-**
Utilised tax provision during year	(9,376)	15,805
At 31 December	**6,429**	**15,805**

18 Share Capital

The Company is a listed company established under the Company Law of Mongolia. The total authorised and issued share capital of the Company represents 800,000,000 ordinary shares (2017: 600,000,000) with par value of MNT 10 (2017: MNT 10). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

On 14 March 2018, the Company issued by listing 200,000,000 ordinary shares at MNT 25 per share on the Mongolian Stock Exchange.

18 Share Capital (Cont'd.)

	Number of outstanding shares	Share capital MNT'000
At 1 January 2017	**800,000**	**800,000**
New shares issued on 27 September 2017 and 30 October 2017	3,700,000	3,700,000
Effect of share split at 14 November 2017	445,500,000	-
New shares issued at 30 November 2017	150,000,000	1,500,000
At 31 December 2017 and at 1 January 2018	**600,000,000**	**6,000,000**
New shares issued 14 March 2018 by listing	200,000,000	5,000,000
Listing related direct costs	-	(243,141)
At 31 December 2018	**800,000,000**	**10,756,859**

On 28 July 2017, Mrs. Idermaa Garavsuren transferred her 800,000 ordinary shares of the Company to AND Systems LLC and subsequently on 27 September 2017, the Company issued 1,700,000 new ordinary shares with a nominal amount of MNT 1,000 per share and the new shares were subscribed and paid in cash by AND Systems LLC.

On 30 October 2017, the Company issued 2,000,000 ordinary shares with par value of MNT 1,000 for MNT 2,000,000 thousand and it was fully subscribed by its immediate parent company, AND Systems LLC. The Financial Regulatory Committee of Mongolia approved this share capital on 13 November 2017 and AND Systems LLC fully paid the share prices on the same day.

On 14 November 2017, the shareholders of the Company resolved that each current ordinary share with par value of MNT 1,000 be split into 100 common shares with par value of MNT 10, making the total number of authorised and fully paid ordinary shares to be 450,000,000.

On 30 November 2017, the Company issued additional 150,000,000 ordinary shares with par value of MNT 10 for MNT 1,500,000 thousand and it was fully subscribed by its immediate parent company, AND Systems LLC. The Financial Regulatory Committee of Mongolia approved this share capital on 27 December 2017 and AND Systems LLC fully paid the share prices on the same day.

On 14 March 2018 the Company issued 200,000,000 ordinary shares at MNT 25 per share on the MSE through IPO, thus raised equity of MNT 5,000,000 thousand. The Company became a publicly traded company.

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

The shareholders and their percentages of ownership are as follows:

	31.12.2018	31.12.2017
AND Systems LLC	75%	100%
Public	25%	-
	100%	**100%**

19 Other reserve

On June 2018, AND Global Pte.Ltd, the ultimate holding entity of LENDMN NBFI JSC, granted share awards to the Company's key management personnel. The share award is accounted for as an equity-settled share-based payment transaction as the Company does not have an obligation to settle the award. The award was conditional upon continuous employment with the Company and achievement of non-market key performance indicators for the financial year ended 31 December 2018.

20 Risk Management Disclosures

20.1 Introduction

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

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

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

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

20.2 Risk management structure

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

20.3 Credit risk

Impairment assessment

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

20 Risk Management Disclosures (cont'd)

20.3 Credit risk (Cont'd.)

Management of the Company sets the credit amount intervals and fee levels and the LendMN system makes the credit decision automatically and constantly updates its credit scoring algorithm. Management monitors the overdue loans based on the targeted percentage for each interval of overdue loan as to overdue more than 1 day, 30 days, 60 days or 90 days. The Company considers a loan default and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the loan becomes 90 days past due.

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

Definition of default

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

The Company's PD estimation process

The Company is to adopt IFRS 9 starting from the financial period ending 31 December 2018. The expected credit loss model under IFRS 9 applies to bank deposits, loans, debt securities and trade receivables that are recorded at amortized cost or fair value through other comprehensive income, plus lease receivables, contract assets and loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

Short term loans and advances to customers impairment assessment

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

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

To determine which macro-economic variables are the best predictors of the forward-looking PD for the Company's loan product, the Company has run a linear regression analysis on the monthly PD for the last 24 months against those macro-economic variables and the final model consisted of the monthly % change of the USD/MNT exchange rate as an independent variable which is considered as the best predictor.

20 Risk management disclosure (cont'd)

20.3 Credit risk (Cont'd.)

Exposure at default

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

Loss given default

The Company calculated historical LGDs on a monthly basis on its historical loan data between January 2017 and December 2018 based on the following formula:

LGD=1-(Recovery of loans over 90 days/Any loan over 90 days)

The same regression analysis that was run on the historical PDs has been conducted on the historical 22 monthly LGDs and the final model consisted of the monthly % change of the USD/MNT exchange rate as an independent variable. The model passed both the quantitative and qualitative thresholds statistically significant coefficient at confidence level of 95%.

The Company calculated the final LGD rate by taking the weighted average of the three LGDs while the probabilities of each scenario are 10%, 40%, and 50% for the best, the base and the worst case respectively. In International Monetary Fund (IMF) Country Report No. 18/303 – (Fifth Review under the Extended Fund Facility Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria), more flexibility on foreign exchange rates and less intervention from the Bank of Mongolia are strongly recommended. This resulted in a probability-weighted forward-looking LGD of 65.28%.

As the average loan term is 26 days and the Company's internal credit policy is to write off any loan that is past due more than by 365 days (1 year), the time value of money is ignored for the expected credit loss calculation.

Credit conversion factor

The credit conversion factor is estimated at 44% based on the average factor during the last 24-month historical data.

Significant increase in credit risk

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

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

20 Risk management disclosure (cont'd)

20.3 Credit risk (Cont'd.)

Analysis of inputs to the ECL model

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

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

Macro-economic variables/Estimated PDs	Best case (min of past 22 months)	Base case (average of past 22 months)	Worst case (max of past 22 months)
Monthly % change of the USD/MNT exchange rate	(1.87%)	0.29%	2.43%
Estimated PDs	0.84%	2.21%	3.56%

Collateral and other credit enhancements

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

20 Risk Management Disclosures (Cont'd.)

20.3 Credit risk (Cont'd)

Credit quality per class of financial assets

Refer to Note 12 for the credit quality analysis per class of financial assets as at 31 December 2018 in accordance with IFRS 9.

The following table represents the credit quality analysis per class of financial assets as at 31 December 2017 in accordance with IAS 39.

31 December 2017	Neither Past Due nor Individually Impaired MNT'000	Past due but not individually impaired: Less than 30 days MNT'000	31-60 days MNT'000	61-90 days MNT'000	More than 90 days MNT'000	Past due and impaired MNT'000	Total MNT'000
Cash and cash equivalents	2,391,070	-	-	-	-	-	2,391,070
Loans and advances to customers	4,128,038	117,345	28,970	13,129	5,146	12,204	4,304,832
Other receivables	740	-	-	-	-	-	740
Total	**6,519,848**	**117,345**	**28,970**	**13,129**	**5,146**	**12,204**	**6,696,642**

20 Risk Management Disclosures (Cont'd.)

20.4 Liquidity risk

The Company manages its liquidity risk with an objective of having sufficient funds to meet its increasing demand for loan disbursements and its payment obligations resulting from the day to day operations of the Company. The funding required to meet the demand for loan disbursements is obtained from related parties either in the form of equity or debt, or debt from external financial institutions. As the operations of the Company are expanding significantly, the Company also negotiates debt financing with third parties including commercial banks, non-banking financial institutions and other institutional investors such as private equity funds.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations.

31 December 2018	On demand MNT'000	Less than 3months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
Undrawn commitment	3,610,064	-	-	-	-	-	3,610,064
Closed bond	-	1,216,058	1,283,027	4,773,449	-	-	7,272,534
Bank loans	-	88,085	532,768	1,638,358	1,520,041	-	3,779,252
Other liabilities	835,600	-	-	-	-	-	835,600
	4,445,664	**1,304,143**	**1,815,795**	**6,411,807**	**1,520,041**	**-**	**15,497,450**
31 December 2017							
Undrawn commitment	1,519,044	-	-	-	-	-	1,519,044
Closed bond	-	40,000	40,000	1,080,000	-	-	1,160,000
Other liabilities	-	72,727	-	-	-	-	72,727
	1,519,044	**112,727**	**40,000**	**1,080,000**	**-**	**-**	**2,751,771**

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

20 Risk Management Disclosures (Cont'd.)

20.5 Market risk

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

20.6 Interest rate risk

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

20.7 Operational risk

Operational risk is the probability of loss arising from system failure, human errors, fraud or external events. When controls fail to perform, operational disabilities can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Company cannot eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back office functions, controlled access to systems, authorisation and reconciliation procedures, staff education and assessment processes, the Company seeks to manage operational risk and reduce it.

21 Contingencies and Commitments

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

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

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

21 Contingencies and Commitments (Cont'd.)

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

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

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

The nominal gross values of undrawn credit commitment of the Company as of 31 December 2018 was MNT 3,610,064 thousand (31 December 2017: MNT 1,519,044 thousand). An allowance for impairment of MNT 19,004 thousand was recognized as at 31 December 2018 (31 December 2017: nil) for the credit related commitments. Refer to Note 17 and 20.3 for detail.

22 Fair Value of Financial Instruments

The methods and assumptions applied in determining fair values.

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

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

The Company has calculated the fair value of its bank loans which approximates the carrying amount.

23 Related Party Transactions

Balances and transactions with related parties are disclosed below.

The key management compensation is presented below:

	31.12.2018 MNT'000	31.12.2017 MNT'000
Salaries	128,633	49,244
Share based contribution (Note 8)	57,348	-
Social and health insurance	15,416	5,417
	201,397	**54,661**

At 31 December 2018 and 31 December 2017, the outstanding balances with related parties were as follows:

	Notes	31.12.2018 MNT'000	31.12.2017 MNT'000
Loans to related parties-LendMN system	(i)	5,690	192
Payables to related parties		-	2,898
Receivables from a related company	(ii)	43,130	-

The income statement items with related parties for the year then ended 31 December 2018 and 2017 were as follows:

		31.12.2018 MNT'000	31.12.2017 MNT'000
Interest income from loans issued-LendMN system	(i)	1,482	2,386
Interest income from loans issued to management		-	809
LendMN system maintenance fee (Note 8)	(iii)	707,917	84,712
Interest expense on the closed bonds	(iv)	4,603	27,144

(i) Loans to related parties – LendMN system consist of outstanding loans to key management individuals of the Company and its immediate parent company disbursed via the LendMN system. During the year ended 31 December 2018, the Company disbursed MNT 50,676 thousand loans to key managements, out of which MNT 45,166 thousand were fully repaid and MNT 5,510 thousand are outstanding as at 31 December 2018 with accrued interest of MNT 180 thousand.

(ii) Receivables from a related companies, AND Systems LLC and And Systems Tech LLC, are unsecured, interest free and receivable on demand.

(iii) Effective from 1 July 2017, the Company signed a maintenance and service agreement with AND Systems Tech LLC for the LendMN system's on-going maintenance and credit scoring services. The monthly fee payable to AND Systems Tech LLC under this agreement is determined based on the number of lending transactions during a month and is payable on a monthly basis. In addition, on 1 November 2018 the Company signed an additional maintenance and service agreement with AND Systems Tech LLC for the wallet system's on-going maintenance and support services. The number of wallet transactions (excluding loan related transactions) will be the basis of the fee calculation and payable on a monthly basis.

23 Related Party Transactions (Cont'd.)

(iv) The Company issued unsecured closed bond to its parent company, AND Systems LLC on 1 March 2018, interest at 12% per annum and was repayable within 1 month. The accrued interest of the bond was MNT 4,603 thousand and was paid fully with the principal amount on March 16, 2018.

Transaction during the year
Upon the launch of e-wallet service, the Company entered into an agreement with its related company AND Systems Tech LLC on 1 November, 2018 to purchase the exclusive right of use of the wallet application for all wallet related transactions. The one-time license fee for the LendMN system's exclusive right of use was MNT 150,000 thousand and was fully paid by the Company on 28 December 2018. Please refer to Note 13 for details.

24 Events after the End of Reporting Period

No subsequent event has had occurred after the end of the reporting year and before the approval of these financial statements.

25 Mongolian Translation

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