LENDMN NBFI JSC
(incorporated in Mongolia)

Consolidated financial statements
31 December 2020

CONTENTS

GENERAL INFORMATION

Chairman:	Odmaa.Ts
Members of Board of Directors:	Tsevegmid.N Bayarsaikhan.V Boldbaatar.O Delgerjargal.B Enkh-Amgalan.S
Independent members of Board of Directors:	Borgil.S Jargalsuren.J Ulziibayar.B
Registered address:	Pearl tower, Tourist street 34, 3rd khoroo, Chingeltei Discrict, Ulaanbaatar, Mongolia
Principal bankers:	Khan Bank LLC State Bank LLC Golomt Bank LLC Xacbank LLC Trade and Development Bank LLC Credit Bank LLC
Auditors:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY EXECUTIVE MANAGEMENT

We, Boldbaatar Ochirsuren, being the Chief Executive Officer of LendMN NBFI JSC (the "Company") and its subsidiary (collectively, the "Group"), and Azjargal Sergelen, being the Chief Accountant primarily responsible for the consolidated financial management of the Group, do hereby state that, in our opinion, the accompanying consolidated financial statements set out between pages 1 and 47 give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB").

Boldbaatar Ochirsuren Chief Executive Officer	**Azjargal Sergelen** Chief Accountant

Date: 5 February 2021

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of LendMN NBFI JSC

Opinion

We have audited the consolidated financial statements of LendMN NBFI JSC (the "Company") and its subsidiary (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matters (Cont'd.)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment of loans and advances to customers</td></tr>
<tr><td>
The impairment of loans and advances to customers is estimated by the Group's management through the application of judgement and use of highly subjective assumptions.
Due to significance of loans and advances to customers, representing over 62% of the Group's total assets as at 31 December 2020, 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;
Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model; and
Reassessment of the ECL model taking into consideration impacts arising from the Covid-19 pandemic.

Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in notes 2 and 4 to the consolidated financial statements, respectively.
Other relevant disclosures of loans and advances to the customers and related credit risk management are included in notes 6, 12 and 21.3 to the consolidated financial statements, respectively.
</td><td>
For assessment of impairment allowance of loans and advances to customers as of 31 December 2020, our audit procedures included evaluating the methodologies, inputs and assumptions used by the Group in its ECL model in calculation of impairment of loans and advances to customers.
In evaluating the methodologies, we obtained an understanding of the Group's ECL model and management's basis for methodologies and assumptions applied. We involved our internal expertise in considering the reasonableness of the model and compared to industry practices. We also considered the reasonableness of the assumptions applied and our evaluation included 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 the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records. We also tested the adequacy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents.
We compared the key inputs to the ECL model to the Group'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 on a random selection basis;
Checked the parameters to external data sources where available, including the monthly average USD/MNT exchange rate used in multiple scenario analysis; and
Checked completeness of the EAD including the accuracy of the credit conversion factors to the historical data.

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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	
	• Obtained an understanding of management's considerations made in reassessing it's ECL model in relation to the Covid-19 pandemic impacts and tested the accuracy of the assessment performed by management. We also involved our internal expertise in assessing the reasonableness of considerations made and compared to industry practices, including: - Evaluated the Group's assessments on the need for segmentation. - Evaluated the reasonableness of the qualitative factors applied in management's reassessment of its multiple macroeconomic scenarios allocation. 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 consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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 Group, as a body, in accordance with the audit requested by the shareholder 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: 5 February 2021

	Notes	2020 MNT'000	2019 MNT'000
Interest and similar income	5	16,377,802	18,321,082
Interest expense	5	(4,723,510)	(4,654,241)
Net interest and similar income		**11,654,292**	**13,666,841**
Credit loss expense	6	(2,360,681)	(1,618,802)
Net interest and similar income after allowance for impairment		**9,293,611**	**12,048,039**
Administrative and operating expenses	7	(5,738,460)	(5,565,125)
Other income/(expense), net	8	(799,670)	(451,539)
Profit before income tax		**2,755,481**	**6,031,375**
Income tax expense	9	(323,288)	(1,121,186)
Net profit for the year, representing total comprehensive income attributable to equity holders of the Parent		**2,432,193**	**4,910,189**
Earnings per share		**MNT**	**MNT**
Equity holders of the parent			
Basic and diluted earnings per share	10	3.06	6.16

	Notes	31.12.2020 MNT'000	31.12.2019 MNT'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	10,348,101	2,382,196
Loans and advances to customers	12	25,430,960	49,457,676
Derivative financial instruments	13	-	130,642
Other assets	14	3,274,193	4,571,315
Prepayments		5,650	-
Income tax receivable	9.2	92,699	-
		39,151,603	**56,541,829**
NON-CURRENT ASSETS			
Intangible assets	15	403,145	342,002
Property and equipment	16	537,256	385,882
Right-of-use assets	17	573,727	776,219
Deferred tax assets	9.3	54,152	48,186
Prepayments		15,577	6,835
		1,583,857	**1,559,124**
TOTAL ASSETS		**40,735,460**	**58,100,953**
CURRENT LIABILITIES			
Borrowings	18	19,424,810	32,475,285
Lease liabilities	17	203,766	170,427
Other liabilities	19	1,082,163	1,297,090
Derivative financial instruments	13	124,549	-
Income tax payable	9.2	18,913	151,395
		20,854,201	**34,094,197**
NON-CURRENT LIABILITIES			
Borrowings	18	1,690,790	6,104,737
Deferred tax liabilities	9.3	-	23,124
Lease liabilities	17	476,651	680,417
		2,167,441	**6,808,278**
TOTAL LIABILITIES		**23,021,642**	**40,902,475**
EQUITY			
Share capital	20.1	10,756,859	10,756,859
Treasury shares	20.2	(988,939)	(266,086)
Other reserve	20.3	57,348	57,348
Retained earnings		7,888,550	6,650,357
TOTAL EQUITY		**17,713,818**	**17,198,478**
TOTAL LIABILITIES AND EQUITY		**40,735,460**	**58,100,953**

	Share capital MNT'000 (Note 20.1)	Treasury shares MNT'000 (Note 20.2)	Other reserve MNT'000 (Note 20.3)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2019	**10,756,859**	**-**	**57,348**	**2,540,168**	**13,354,375**
Net profit for the year and total comprehensive income for the year	-	-	-	4,910,189	4,910,189
Dividends (Note 20)	-	-	-	(800,000)	(800,000)
Treasury shares	-	(266,086)	-	-	(266,086)
At 31 December 2019	**10,756,859**	**(266,086)**	**57,348**	**6,650,357**	**17,198,478**
Net profit for the year and total comprehensive income for the year	-	-	-	2,432,193	2,432,193
Dividends (Note 20)	-	-	-	(1,194,000)	(1,194,000)
Treasury shares	-	(722,853)	-	-	(722,853)
At 31 December 2020	**10,756,859**	**(988,939)**	**57,348**	**7,888,550**	**17,713,818**

	Notes	2020 MNT'000	2019 MNT'000
Cash flows from operating activities			
Profit before tax		2,755,481	6,031,375
Adjustments for:			
Impairment on loans and advances to customers	6	2,393,273	1,592,096
Depreciation of property and equipment and right-of-use assets	7	360,981	321,072
Amortization of intangible assets	7	53,256	46,332
Impairment/(reversal) on undrawn commitments	6, 19	(32,592)	26,706
Gain on rent concessions	8, 17	(37,817)	-
Accretion interest on lease liability	5, 17	139,545	167,108
Interest expense on borrowings	5	4,583,965	4,487,133
Fair value (gain) loss of derivative financial instruments	8, 14	255,191	(130,642)
Unrealised foreign exchange loss	8	269,253	197,265
Operating profit before working capital changes		**10,740,536**	**12,738,445**
Changes in operating assets and liabilities:			
Net decrease (increase) in loans and advances to customers		21,633,443	(31,850,406)
Net decrease (increase) in other assets		1,443,049	(4,315,984)
Net (increase) decrease in prepayments		(14,392)	41,328
Net increase (decrease) in other liabilities		(58,689)	71,593
Cash flows generated from/(used in) operations		**33,743,947**	**(23,315,024)**
Income tax paid	9.2	(577,559)	(1,002,543)
Interest portion of the lease liability paid		(139,545)	(167,108)
Interest paid		(4,593,064)	(4,064,203)
Net cash flows generated from/(used in) operating activities		**28,433,779**	**(28,548,878)**
Cash flows from investing activities			
Purchase of property and equipment	16	(309,863)	(250,646)
Purchase of intangible assets	15	(114,399)	(550)
Net cash flows used in investing activities		**(424,262)**	**(251,196)**
Cash flows from financing activities			
Purchase of treasury shares		(722,853)	(266,086)
Proceeds from closed bonds issued		6,199,955	4,143,883
Proceeds from borrowings		19,099,777	30,050,429
Proceeds from trust financing		2,260,908	14,766,321
Repayment of closed bonds issued		(2,413,711)	(7,028,000)
Repayment of borrowings		(37,052,730)	(12,864,666)
Repayment of trust financing		(5,970,667)	(1,331,464)
Principle portion of the lease liability		(132,610)	(127,867)
Dividend paid		(1,194,000)	(660,000)
Net cash flows generated from/(used in) financing activities		**(19,925,931)**	**26,682,550**
Net increase/(decrease) in cash and cash equivalents		**8,083,586**	**(2,117,524)**
Cash and cash equivalents at the beginning of the year	11	1,417,931	3,535,455
Cash and cash equivalents at the end of the year	11	**9,501,517**	**1,417,931**

		2020 MNT'000	2019 MNT'000
Operational cash flows from interest			
Interest received		15,154,634	17,981,554
Interest income	5	15,813,659	18,118,680
Non-cash transaction:			
Transfer from prepayment to property and equipment		-	87,500
Disposal of property and equipment	16	-	91,735

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

	Interest bearing borrowings		Lease liability	
	2020 MNT'000	2019 MNT'000	2020 MNT'000	2019 MNT'000
As at 1 January	38,580,022	10,092,417	850,844	-
At recognition	-	-	-	978,711
Proceeds	27,560,640	48,960,633	-	-
Repayment	(45,437,108)	(21,224,130)	-	-
Interest expenses during the year	4,583,965	4,487,133	139,545	167,108
Interest paid/lease payments	(4,593,064)	(4,064,203)	(272,155)	(294,975)
Rent concessions	-	-	(37,817)	-
Unrealised foreign exchange loss	421,145	328,172	-	-
At 31 December	**21,115,600**	**38,580,022**	**680,417**	**850,844**

1 Corporate information

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

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

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

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

The consolidated financial statements of the Group were authorised for issuance in accordance with the resolution of the Board of Directors on 5 February 2021.

On 9 January 2020, the Company established a new subsidiary SuperUp Wallet LLC with a 100% ownership which provides the digital ecosystem platform and payment solutions through the LendMN mobile application. On 20 May 2020, SuperUp Wallet LLC obtained Emoney service license No.06 issued by the Bank of Mongolia to provide payment services in Mongolia.

Particulars of the Company's subsidiary as at 31 December 2020 are as follows:

Name	Place of incorporation /registration	Issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
SuperUp Wallet LLC	Mongolia	MNT 2,500,000 thousand	100%	Providing digital ecosystem platform and payment solutions

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

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which includes all IFRS, International Accounting Standards ("IAS") and Interpretations) as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention except derivative financial instruments which have been measured at fair value. The principal accounting policies applied in the preparation of these consolidated 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).

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

Basis of consolidation. The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2020. The Company consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control to support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Company can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Company is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests, and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Going concern. The Group's management has assessed its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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

Financial instruments – Date of 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 Group 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 marketplace. Loans and advances to customers and other receivables are recognised when funds are transferred to the customers' accounts.

Initial measurement of financial instruments. 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 fair value through profit or loss, transaction costs are added to, or subtracted from, this amount.

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

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

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

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

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

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

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

Financial instruments – Loans and advances to customers. the Group 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.

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

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

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

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

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

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 Group is required to provide a loan with pre-specified terms to the customer.

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

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

An analysis of the Group's debt issued and other borrowed funds are disclosed in Note 18.

Derivatives recorded at fair value through profit or loss. A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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

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 IFRS 9, 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 Group 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. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR.

Impairment of financial assets. The Group 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.

Definition of default. The Group 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 Group considers bank balances and other receivables defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreement.

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

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

The Calculation of ECLs. The Group 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:

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

Impairment of financial assets (Cont'd.).

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

When estimating the ECLs, the Group considers 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 21.3.

When estimating ECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. For outstanding loans and receivables as at 31 December 2020 and 2019, 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 Group relies on a broad range of forward-looking information as economic inputs, such as:

- 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;

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

Write-offs. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the period.

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

Property and equipment. The property and equipment owned by the Group 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:

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

Property and equipment (Cont'd.)

	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 Group 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.

Leases. The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

i) Right-of-use assets

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

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

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

ii) Lease liabilities

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

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

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

Intangible assets. The Group's intangible assets have definite useful lives and primarily include capitalised licenses and service license.

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 (Lending and wallet systems)	10 years
Emoney issuance service license	4 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 Group'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 Group 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 Group was not registered for VAT as at 31 December 2020 and 31 December 2019.

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

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' in the ECL models, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. For purchased or originated credit-impaired (POCI) financial assets, the Group 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 and reserves. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

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

Monetary assets and liabilities are translated into the Group'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 Group'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 Group'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 Group 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 Group) granted equity settled share-based payments to key employee(s) of the Group. 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 Group 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 Group 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 Group'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 Group 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 Group (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 Group:

(a) A person or a close member of that person's family is related to a Group if that person:
   (i) has control or joint control of the Group;
   (ii) has significant influence over the Group; or
   (iii) is a member of the key management personnel of the Group.
(b) An entity is related to a Group 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 Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
   (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 Group or to the parent of the Group.

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 24.

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 2020:

New and amended standards and interpretations

• Amendments to IFRS 3	*Definition of a Business*
• Amendments to IFRS 7, IFRS 9 and IAS 39	*Interest Rate Benchmark Reform*
• Amendments to IAS 1 and IAS 8	*Definition of Material*
• Conceptual Framework for Financial Reporting	*Issued on 29 March 2018*
• Amendments to IFRS 16	*Covid-19 Related Rent Concessions*

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

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

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. The Group considered this amendment in calculation for the lease.

Standards issued but not yet effective

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

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

[1] *Effective for annual periods beginning on or after 1 January 2021*
[2] *Effective for annual periods beginning on or after 1 January 2022*
[3] *Effective for annual periods beginning on or after 1 January 2023.*

4 Critical accounting estimates, and judgments in applying accounting policies

The Group 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:

Covid-19

The Covid-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

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

Covid-19 (Cont'd.)

The Covid-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, the Group carefully considered whether additional disclosures are necessary in order to help users of consolidated financial statements understand the judgements applied in the financial statements.

Impairment losses on loans and advances to customers. The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group'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 Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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

The Group considered the Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic in order to support the consistent application of accounting standards on ECL and determination of significant increase in the credit risk (SICR). The Group considered the following in updating their ECL calculations due to the Covid-19 pandemic:

- The use of reasonable and supportable information.
- Significant changes to the economic outlook and the impact on macroeconomic scenarios and assumptions
- Re-segmentation of loan portfolios or groups of receivables
- Individual and collective assessment of loans, receivables and other financial assets.
- Extension of payment terms. There are several measures taken by the Financial Regulatory Committee in light of the current economic circumstances, the terms and conditions of the loan extensions have been assessed to determine their impacts on the ECL estimation, including SICR.

5 Net interest and similar income and segment information

During the years ended 31 December 2020 and 2019, the Group was engaged in a single business segment, which is issuing instant loans to the individual borrowers in Mongolia. Information reported to the Group's chief decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented. As the Group'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 Group's revenue during the years ended 31 December 2020 and 2019.

	2020 MNT'000	2019 MNT'000
Interest and similar income		
Interest income on bank accounts	332,619	202,402
Interest income on debt securities issues	231,524	-
LendMN fee income		
Loans and advances to customers – LendMN system	15,813,659	18,118,680
Total interest and similar income	**16,377,802**	**18,321,082**
Interest and similar expense		
Interest expenses on borrowings	(4,583,965)	(4,487,133)
Interest accretion on lease liability (Note 17)	(139,545)	(167,108)
Total interest and similar expenses	**(4,723,510)**	**(4,654,241)**

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.

6 Credit loss expense

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

	2020 MNT'000	2019 MNT'000
Impairment Loss		
Impairment on loans and advances to customers (Note 12)	2,393,273	1,592,096
Impairment/(reversal) on undrawn commitment (Note 19)	(32,592)	26,706
Total Impairment loss	**2,360,681**	**1,618,802**

7 Administrative and operating expenses

	2020 MNT'000	2019 MNT'000
Staff costs	2,070,104	1,882,989
LendMN system maintenance/service fee (Note 24)	1,144,809	1,362,523
Professional services	1,079,054	302,823
Depreciation of property and equipment and right-of-use assets (Note 16 and 17)	360,981	321,072
Advertising and marketing services	275,827	625,745
Bank charge	186,310	476,524
Social security contributions	122,852	229,566
Amortization of intangible assets (Note 15)	53,258	46,332
Maintenance expense	8,190	35,360
Rental expense	-	19,404
Other expenses	437,075	262,787
Total administrative and operating expenses	**5,738,460**	**5,565,125**

8 Other income/(expenses), net

	2020 MNT'000	2019 MNT'000
Gain on recovery of written-off loans	91,354	-
Gain on rent concessions	37,817	-
Other income	4,730	13,313
Other expense	(126,585)	(182,213)
Unrealised foreign exchange losses, net	(269,253)	(197,265)
Realised foreign exchange losses, net	(282,542)	(216,016)
Gains/(losses) from change in fair value of derivative financial instruments	(255,191)	130,642
Total other losses	**(799,670)**	**(451,539)**

9 Income tax

9.1 Income tax expenses

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

	2020 MNT'000	2019 MNT'000
Current tax:		
Current income tax (Note 9.2)	352,378	1,146,248
Deferred tax:		
Relating to origination of temporary differences (Note 9.3)	(29,090)	(25,062)
Income tax expense for the year	**323,288**	**1,121,186**

The Group 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 Group is 10% for the first MNT 6 billion (2019: MNT 3 billion) of taxable income in a financial year, and 25% (2019: 25%) on the excess of taxable income over MNT 6 billion (2019: MNT 3 billion) in accordance with Mongolian tax legislation.

9 Income tax (Cont'd.)

9.1 Income tax expenses (Cont'd.)

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 Group are as follows:

	2020 MNT'000	2019 MNT'000
Profit before tax	**2,755,481**	**6,031,375**
Tax at statutory rate of 10% (2019: 25%)	275,548	1,507,844
Tax effect of:		
- Non-deductible expenses	36,711	93,702
- Special tax rate	-	(30,360)
- Effect of where applicable tax rate is lower than 25%	-	(450,000)
- Other tax effects for reconciliation between accounting profit and tax expense (income)	11,029	-
Income tax expense for the year	**323,288**	**1,121,186**

The effective income tax rate for the Group for the year ended 31 December 2020 is 11.70% (2019: 18.60%).

9.2 Income tax payable

	2020 MNT'000	2019 MNT'000
As at 1 January	**151,395**	**7,690**
Income tax expense for the year (Note 9.1)	352,378	1,146,248
Income tax paid during the year	(577,559)	(1,002,543)
As at 31 December	**(73,786)**	**151,395**

9.3 Deferred tax balance

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

2020	Opening balance MNT'000	Recognised in profit or (losses) MNT'000 (Note 9.1)	Closing balance MNT'000
Deferred tax assets in relation to:			
Unrealised foreign exchange losses	34,977	(16,694)	18,283
Lease asset depreciation and interest accretion	13,209	(2,540)	10,669
Loss on change in fair value of derivative financial instruments	-	12,455	12,455
Loss available for offsetting against future taxable income	-	12,745	12,745
	48,186	**5,966**	**54,152**
Deferred tax liabilities in relation to:			
Gain on change in fair value of derivative financial instruments	(23,124)	23,124	-
	(23,124)	**23,124**	**-**
Deferred tax assets, net	**25,062**	**29,090**	**54,152**

9 Income tax (Cont'd.)

9.3 Deferred tax balance (Cont'd.)

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

10 Earnings per share

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

	2020	**2019**
Profit or loss, representing total comprehensive income for the year (net of taxes) attributable to equity holders of the Group (MNT'000)	2,432,193	4,910,189
Weighted average number of ordinary shares for basic and diluted earnings per share*	795,712,773	797,458,537
Earnings per share (MNT)	**3.06**	**6.16**

Earnings per share	**2020 MNT**	**2019 MNT**
Equity holders of the Group:		
Basic earnings per share	3.06	6.16
Diluted earnings per share	3.06	6.16

*The weighted-average number of ordinary shares take into account the weighted-average effect of movement in treasury shares during the year, refer to Note 20.2.

11 Cash and cash equivalents

	31.12.2020 MNT'000	**31.12.2019 MNT'000**
Cash on hand	111	914
Cash at bank	10,347,990	2,381,282
Total cash and cash equivalents	**10,348,101**	**2,382,196**
(-) Funding for wallet balance (Note 19)	(846,584)	(964,265)
Total cash and cash equivalents for statement of cashflow	**9,501,517**	**1,417,931**

11 Cash and cash equivalents (Cont'd.)

Cash at bank balances are current accounts placed in commercial banks operating in Mongolia and are not collateralised. The carrying amount of cash and cash equivalents approximates fair value. Current accounts outstanding as at 31 December 2020 are placed at interest rates ranging between 0.0%-9.00% p.a. (31 December 2019: 0.0%-9.75%).

The Group estimated the expected credit loss on cash and cash equivalents in accordance with IFRS 9 as at 31 December 2020 and 31 December 2019. As most of the cash and cash equivalents are demand deposits, the estimated expected credit loss is assessed to be insignificant. Therefore, the Group did not recognize the expected credit losses on cash and cash equivalents in its financial statements for the years ended 31 December 2020 and 2019.

The cash balance of individual wallet is restricted and is accounted separately as it is not used as a funding source by the Group, making it available on demand. Cash and cash equivalents corresponding to the wallet balance as at 31 December 2020 is MNT 846,584 thousand (2019: MNT 964,265 thousand).

12 Loans and advances to customers

	31.12.2020 MNT'000	31.12.2019 MNT'000
Consumer loans issued through LendMN system, gross	28,774,338	51,009,394
Less: Allowances for ECL	(3,343,378)	(1,551,718)
Total loans and advances to customers	**25,430,960**	**49,457,676**

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

As at 31 December 2020, The Group pledged total of MNT 2,700,000 thousand of performing loan portfolio (2019: MNT 10,400,000 thousand) as collaterals for credit line and the loans received from other financial institutes. Please refer to Note 18.

Covid-19 impact

The Group has taken several measures for the management of its loan portfolio during pandemic period including:

- The Group has ceased its loan disbursements in April 2020, requested the customers to repay all outstanding loans and re-scored its customers' ratings based on the most recent financial records of customers. The credit rights of past due customers were refused. The Group started to disburse loans starting June 2020.
- The Group freezed the credit rights for the loans that are past due by 15 days.
- The Group offered an an option in extending the loans to customers by repayments of its full commission and 10% of the loan principal.

12.1 Impairment allowance for loans and advances to customers

The Group assesses impairment of loans in accordance with IFRS 9. Under the general approach, the Group 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 21.3.

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 2020 and 31 December 2019 at each stage are as follows:

Expected credit loss	Drawn exposure	Forward-looking PD	Forward-looking LGD	ECLs
At 31 December 2020				
Stage 1	24,129,938	1.46%	69.38%	244,828
Stage 2	1,423,467	87.47%	69.38%	863,863
Stage 3	3,220,933	100.00%	69.38%	2,234,687
	28,774,338			**3,343,378**
At 31 December 2019				
Stage 1	48,210,148	0.77%	56.22%	208,775
Stage 2	978,532	58.26%	56.22%	320,154
Stage 3	1,820,714	100.00%	56.22%	1,022,789
	51,009,394			**1,551,718**

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

31 December 2020	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Performing loan	24,129,938	-	-	24,129,938
Non-performing loan	-	1,423,467	3,220,933	4,644,400
Total	**24,129,938**	**1,423,467**	**3,220,933**	**28,774,338**
31 December 2019				
Performing loan	48,210,148	-	-	48,210,148
Non-performing loan	-	978,532	1,820,714	2,799,246
Total	**48,210,148**	**978,532**	**1,820,714**	**51,009,394**

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

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2020	**48,210,148**	**978,532**	**1,820,714**	**51,009,394**
New assets originated or purchased	213,964,654	-	-	213,964,654
Assets derecognized or repaid	(219,063,280)	(8,358,197)	(8,176,620)	(235,598,097)
Transfer to stage 2	(18,981,584)	18,981,584	-	-
Transfer to stage 3	-	(10,178,452)	10,178,452	-
Write-offs	-	-	(601,613)	(601,613)
At 31 December 2020	**24,129,938**	**1,423,467**	**3,220,933**	**28,774,338**

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	Total MNT'000
Gross carrying amount as at 1 January 2019	**19,019,885**	**259,329**	**363,708**	**19,642,922**
New assets originated or purchased	439,329,846	-	-	439,329,846
Assets derecognized or repaid	(407,194,307)	(151,800)	(133,333)	(407,479,440)
Transfer to stage 2	(2,945,276)	2,945,276	-	-
Transfer to stage 3	-	(2,074,273)	2,074,273	-
Write-offs	-	-	(483,934)	(483,934)
At 31 December 2019	**48,210,148**	**978,532**	**1,820,714**	**51,009,394**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2020	**208,775**	**320,154**	**1,022,789**	**1,551,718**
New assets originated or purchased	2,170,934	-	-	2,170,934
Assets derecognized or repaid	(2,222,666)	(5,072,363)	(5,672,950)	(12,967,979)
Transfer to stage 2	(192,591)	192,591	-	-
Transfer to stage 3	-	(6,177,027)	6,177,027	-
Impact on year end ECL of exposures transferred between stages and changes to inputs used for ECL calculations	280,376	11,600,508	1,309,434	13,190,318
Write offs	-	-	(601,613)	(601,613)
At 31 December 2020	**244,828**	**863,863**	**2,234,687**	**3,343,378**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2019	**100,125**	**106,021**	**237,410**	**443,556**
New assets originated or purchased	1,902,524	-	-	1,902,524
Assets derecognized or repaid	(1,763,360)	(49,666)	(74,901)	(1,887,927)
Transfer to stage 2	(12,755)	12,755	-	-
Transfer to stage 3	-	(678,656)	678,656	-
Impact on year end ECL of exposures transferred between stages during the year	(17,759)	929,700	665,558	1,577,499
Write offs	-	-	(483,934)	(483,934)
At 31 December 2019	**208,775**	**320,154**	**1,022,789**	**1,551,718**

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

	31.12.2020 MNT'000	31.12.2019 MNT'000
At 1 January	**1,551,718**	**443,556**
Charge for the year (Note 6)	2,393,273	1,592,096
Written off during the year	(601,613)	(483,934)
At 31 December	**3,343,378**	**1,551,718**

13 Derivative financial instruments

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

Derivatives	Fair value of assets MNT'000	Fair value of liabilities MNT'000	Notional amount MNT'000
31 December 2020			
Cross currency swaps	-	(124,549)	4,901,157
31 December 2019			
Cross currency swaps	130,642	-	9,621,990

The Group entered into two short-term cross currency swap contracts with a commercial bank in June 2020 and in December 2020 (2019: November 2019). The Group's short-term USD/MNT swaps are ranging in maturity of 6 months and 12 months (2019: 6 months or 8 months). The swap agreements are designed to manage the risk of variability of cash flows denominated in USD from the borrowings received from foreign financial institutions. As at 31 December 2020, the Group had short-term cross currency swap agreements with a commercial bank in place with notional amount of USD 1,720,000 or MNT 4,901,157 thousand (2019: USD 7,580,000 or MNT 9,621,990 thousand).

At the initiation, the Group pays USD funds and receives MNT funds at the adjusted spot rate with haircut from 2% to 3%, and subsequently upon maturity the Group receives USD funds and pays MNT funds at agreed forward rate of MNT 2,985.06 and MNT 3,048.72 (2019: MNT 2,623.19, MNT 2,623.92 and MNT 2,645.43 and MNT 2,649.32). Please refer to Note 23 for fair value disclosure of derivative financial instruments. Risk management strategy and how it is applied to manage risks disclosed in Note 21.

14 Other assets

	31.12.2020 MNT'000	31.12.2019 MNT'000
Time deposit	2,849,510	4,373,632
Other receivables	393,379	165,500
Supply materials	29,861	30,324
Taxes receivables other than on income	1,443	1,859
Total assets	**3,274,193**	**4,571,315**

Time deposit as at 31 December 2020 represents a short-term time deposit denominated in USD and amounted to USD 1,000,000 at Trade Development Bank (2019: USD 1,600,000) which bears interest rate of 5.4% p.a matures on 29 April 2021. The other receivables include accrued interest receivable of the time deposit for an amount of MNT 101,598 thousand (2019: MNT 127,479 thousand) and receivable from a third party for an amount of MNT 240,879 thousand (2019: Nil). The recoverability of other receivable from a third party was assessed with reference to the credit status of the debtor, and the expected credit loss as at 31 December 2020 is considered to be minimal.

The Group estimated the expected credit loss on time deposit in accordance with IFRS 9 as at 31 December 2020. The time deposit has been pledged on borrowings from commercial bank, refer to Note 18 (ii). As the Group considered that there is no exposure at default, the expected credit loss is assessed to be insignificant. Accordingly, the Group did not recognize the expected credit losses on time deposit in its financial statements for the year ended 31 December 2020.

15 Intangible assets

	2020 MNT'000	2019 MNT'000
At cost		
At 1 January	457,014	456,464
Additions	114,399	550
At 31 December	**571,413**	**457,014**
Accumulated amortization		
At 1 January	115,012	68,680
Charge for the year (Note 7)	53,256	46,332
At 31 December	**168,268**	**115,012**
Net carrying value	**403,145**	**342,002**

The intangible assets of the Group consist of licenses for the LendMN system's exclusive rights of use in the territory of Mongolia for lending activities and wallet transactions purchased from AND Systems Tech LLC, a fellow subsidiary. The lending application or the original platform was purchased in December 2016 from AND System Tech LLC, which has customer on-boarding, credit scoring, banking back-end, customer support and reporting modules and the LendMN Application. The one-time license fee for the LendMN system's exclusive right of use amounted to MNT 300,000 thousand. During the year, the Group has purchased the Emoney issuance service license from the Bank of Mongolia amounting to MNT 100,000 thousand.

Upon a launch of e-wallet service in 2018, the Group 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 amounted to MNT 150,000 thousand.

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

16 Property and equipment

	Furniture, office equipment and vehicle MNT'000	Computers and equipment MNT'000	Office renovation MNT'000	Total MNT'000
At 31 December 2020				
At cost				
At 1 January 2020	**106,438**	**258,194**	**180,448**	**545,080**
Additions	185,290	104,585	19,988	309,863
At 31 December 2020	**291,728**	**362,779**	**200,436**	**854,943**
Accumulated depreciation				
At 1 January 2020	**18,512**	**116,489**	**24,197**	**159,198**
Charge for the year (Note 7)	27,763	91,567	39,159	158,489
At 31 December 2020	**46,275**	**208,056**	**63,356**	**317,687**
Net carrying amount	**245,453**	**154,723**	**137,080**	**537,256**

16 Property and equipment (Cont'd.)

	Furniture, office equipment and vehicle MNT'000	Computers and equipment MNT'000	Office renovation MNT'000	Total MNT'000
At 31 December 2019				
At cost				
At 1 January 2019	60,695	146,239	123,310	330,244
Additions	45,743	111,955	180,448	338,146
Disposal	-	-	(123,310)	(123,310)
At 31 December 2019	**106,438**	**258,194**	**180,448**	**545,080**
Accumulated depreciation				
At 1 January 2019	8,643	44,199	19,351	72,193
Charge for the year (Note 7)	9,869	72,290	36,421	118,580
Disposal	-	-	(31,575)	(31,575)
At 31 December 2019	**18,512**	**116,489**	**24,197**	**159,198**
Net carrying amount	**87,926**	**141,705**	**156,251**	**385,882**

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

17 Lease

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

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

	2020 MNT'000	2019 MNT'000
As at 1 January	**776,219**	**978,711**
Depreciation expense (Note 7)	(202,492)	(202,492)
As at 31 December	**573,727**	**776,219**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 MNT'000	2019 MNT'000
As at 1 January	850,844	978,711
Accretion of interest (Note 5)	139,545	167,108
Payments	(272,155)	(294,975)
Rent concessions (Note 8)	(37,817)	-
As at 31 December	**680,417**	**850,844**
Current	203,766	170,427
Non-current	476,651	680,417

In 2020, the Group recognised the gain on rent concesssions amounting to MNT 37,817 thousand with respect to rent concessions from its office lessor.

The maturity analysis of lease liability is disclosed in Note 21.4

18 Borrowings

31 December 2020			MNT'000		
		Interest rate p.a	Current	Non-current	Total
Bonds	(i)	17%	5,311,870	-	5,311,870
Closed bonds	(ii)	9%-20%	2,424,487	20,000	2,444,487
Loans	(iii)	15.6%-24.4%	2,873,336	-	2,873,336
Trust financing	(iv)	9%-20%	8,815,117	1,670,790	10,485,907
Total borrowings			**19,424,810**	**1,690,790**	**21,115,600**

31 December 2019			MNT'000		
		Interest rate p.a	Current	Non-current	Total
Closed bonds	(ii)	11.24%-18.5%	2,507,756	1,093,408	3,601,164
Loans	(iii)	11.1%-19.2%	18,333,646	2,800,000	21,133,646
Trust financing	(iv)	10%-19%	11,633,883	2,211,329	13,845,212
Total borrowings			**32,475,285**	**6,104,737**	**38,580,022**

(i) On 10 June 2020, the Group publicly issued 50,000 units of bonds on the Mongolian Stock Exchange amounting to MNT 5,000,000 thousand, each instrument with MNT 100 thousand nominal value, 17% annual coupon rate and collateralized by its shares. The bond matures on 19 June 2021.

(ii) As at 31 December 2020, the Group issued 686 units (2019: 2,435 units) of closed bonds with par value of MNT 1,000,000 (2019: MNT 1,000,000), with quarterly and/or bi-annual coupon interest payment at a range of 17-20% per annum (2019: 17-18.5% per annum) and matures between 11 December 2020 and 8 April 2021 with 11 repayments. The Group has also issued 595 units (2019: 4 units) of closed bonds with par value of USD 1,000 (2019: USD 100,000) with quarterly and/or bi-annual coupon interest payment at a range of 9-11.8% per annum (2019: 11.24% per annum) and matures between 18 February 2021 and 5 December 2021 with 5 repayments. And Systems LLC, the parent company has issued a guarantee letter with amount of USD 400,000 for some closed bond buyers.

(iii) On 2 November 2018, the Group obtained MNT 1,200,000 thousand overdraft loan from Trade and Development Bank of Mongolia, whereby the Group pledged MNT 1,200,000 thousand of performing loans and advances to customers and MNT 1,450,000 thousand of future cash inflow to be collected through its current accounts at commercial banks against the facility. On 17 September 2020, the overdraft was increased by MNT 200 million to MNT 1,400,000 thousand and extended for one year. The loan matures on 2 November 2021. As at 31 December 2020, the Group has not utilized (2019: MNT 1,118,324 thousand) from this overdraft.

As at 31 December 2020, the Group has loans amounting to MNT 2,860,000 thousand (2019: MNT 6,409,000) from commercial banks whereby the Group pledged USD 1,000,000 term deposit. The loan matures on 29 April 2021.

On 31 October 2019, the Group obtained MNT 5,000,000 thousand credit line from And Systems LLC, with monthly coupon interest payment calculated at 24.44% per annum, and maturity of 2 year and facility matures on 31 October 2021. As at 31 December 2020, the Group has not utilized (2019: MNT 2,800,000 thousand) from this credit line.

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

(iv) As at 31 December 2020, the Group has MNT 3,495,835 thousand (2019: MNT 4,748,000 thousand) trust financing from third parties with monthly, quarterly and/or bi-annual coupon interest payment at a range of 17-20% per annum (2019: 16.5-19% per annum), and matures between 29 April 2021 and 28 April 2022 with 13 repayments. The Group also has USD 2,308,688 (2019: USD 3,287,470) trust financing from third parties, with monthly, quarterly and/or bi-annual coupon interest payment at a range of 9-13.8% per annum (2019: 10-18.57% per annum), and maturity in between 23 April 2021 and 15 April 2022 with 15 repayments.

19 Other liabilities

	31.12.2020 MNT'000	31.12.2019 MNT'000
Other financial liabilities:		
Payables to other companies and individuals	1,067,723	1,076,324
Other payables	1,081	168,627
Total other financial liabilities	**1,068,804**	**1,244,951**
Other non-financial liabilities:		
Taxes payable other than income tax	241	-
Provision for future possible tax liabilities	-	6,429
Provision for undrawn commitment (Note 21.3)	13,118	45,710
Total other non-financial liabilities	**13,359**	**52,139**
Total other liabilities	**1,082,163**	**1,297,090**

Payables to other companies and individuals include payables or cash balance of individual e-wallet account holders as well as merchant wallet balances, totalling MNT 846,584 thousand (2019: MNT 964,265 thousand). The remaining balance accounts for payables due to partnering merchants and other parties.

As at 31 December 2019, other payables include dividend payable of MNT 140,000 thousand to AND Systems LLC, the parent company. Please refer to Note 20.1 for dividend declaration information.

In compliance with IFRS 9 standards, the Group 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:

	2020 MNT'000	2019 MNT'000
At 1 January	**45,710**	**19,004**
Reversals of ECL charges on undrawn commitment (Note 6)	(32,592)	26,706
At 31 December	**13,118**	**45,710**

20 Share capital and reserves

20.1 Share Capital

The Company is a listed company established under the Company Law of Mongolia. The total authorised and issued share capital of the Company represents 800,000,000 ordinary shares (2019: 800,000,000) with par value of MNT 10 (2019: MNT 10). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

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

The immediate parent company of the Group 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:

	31.12.2020	31.12.2019
AND Systems LLC	75%	75%
Public	21.5%	24.5%
Treasury shares	3.5%	0.5%
	100%	**100%**

20 Share capital and reserves (Cont'd.)

20.1 Share Capital (Cont'd.)

In February 2020, the Group declared dividend of MNT 1,194,000 thousand to the shareholders (2019: MNT 800,000 thousand).

20.2 Treasury shares

In 2020, the Group repurchased 23,856,526 shares (2019: 4,000,000 shares) at average of MNT 30.30 per share (2019: MNT 66.52 per share), representing the market price, for a total amount of MNT 722,853 thousand (2019: MNT 266,086 thousand) between 25 December 2020 and 31 December 2020 (2019: between 19 April 2019 and 21 June 2019).

20.3 Other reserve

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

21 Risk management disclosures

21.1 Introduction

The main risks inherent in the Group's operations are credit risk, liquidity risk and operational risk, all of which are controlled by the Group'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 Group'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 Group's continuing profitability and each individual within the Group 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 Group's strategic planning process.

The Group 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 Group's performance objectives are aligned with the risk appetite and tolerance.

21.2 Risk management structure

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

21 Risk management disclosures (Cont'd)

21.3 Credit risk

Impact of Covid-19

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the Covid-19 pandemic may materially and adversely affect the Group's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Group's consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

The Group has considered the Government of Mongolia, Financial Regulatory Committee and Bank of Mongolia's interventions in their ECL model based on the available information. Further, the Group had adjusted its forward looking factor with the latest available data as of reporting date and for macroeconomic scenarios has considered severe scenarios when estimating.

The Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

Impairment assessment

The main credit risk of the Group 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 Group is based on a machine learning algorithm that constantly improves its credit assessment accuracy based on its own historical credit data including late repayments and overdue status of past loans. The machine learning system based on deep learning technology instantly updates its credit scoring algorithm as more credit information is gathered by the system itself and adjusts the credit scoring algorithm prospectively.

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

21 Risk management disclosures (Cont'd)

21.3 Credit risk (Cont'd.)

Impairment assessment (Cont'd.)

Definition of default

The Group 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 Group's PD estimation process

PD is estimated based on historical loss experience, as adjusted for other factors described below.

Short term loans and advances to customers impairment assessment

The Group 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 Group's loan product, the Group has run a linear regression analysis on the monthly PD for the last 46 months against those macro-economic variables and the final model consisted of the monthly average exchange rate of USD/MNT as an independent variable which is considered as the best predictor.

Exposure at default

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

Loss given default

The Group calculated historical LGDs on a monthly basis on its historical loan data between March 2017 and December 2020 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 46 monthly LGDs and the final model consisted of the monthly USD/MNT exchange rate as an independent variable. The model passed both the quantitative and qualitative thresholds statistically significant coefficient at confidence level of 95%.

21 Risk management disclosures (Cont'd)

21.3 Credit risk (Cont'd.)

Impairment assessment (Cont'd.)

Loss given default (Cont'd.)

The Group calculated the final LGD rate by taking the weighted average of the three LGDs while the probabilities of each scenario are 0%, 60%, and 40% (2019: 25%, 45%, and 30%) for the best, the base and the worst case respectively. This resulted in a probability-weighted forward-looking LGD of 69.38%.

As the average loan term is 27 days, the time value of money is ignored for the expected credit loss calculation.

Credit conversion factor

The credit conversion factor is estimated at 37% (2019: 43%) based on the average factor during the last 46-month historical data.

Significant increase in credit risk

The Group 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 Group assesses whether there has been significant increase in credit risk since initial recognition. The Group 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 Group considers a default has occurred and the loan will be classified to Stage 3.

Analysis of inputs to the ECL model

An overview of the approach to estimating ECLs is set out in Note 2, *Summary of Significant Accounting Policies* and in Note 4, *Critical Accounting Estimates, and Judgements in Applying Accounting Policies.* To ensure completeness and accuracy, the Group obtains the data used from third party sources (Mongol Bank, National Statistics Office etc.) and verifies the accuracy of inputs to the Group' 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 46 months)	Base case (average of past 46 months)	Worst case (max of past 46 months)
Monthly average exchange rate of USD/MNT (absolute value)	0.00%	5.83%	13.11%
Estimated PDs	0.00%	3.50%	5.24%

Collateral and other credit enhancements

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

21 Risk management disclosures (Cont'd)

21.3 Credit risk (Cont'd.)

Covid-19 impacts on ECL model

Segmentation

The Group has considered segmenting its customers based on their working sectors to determine the group on the basis of shared credit risk characteristics which might have become affected by the pandemic. Based on the segmentation analysis performed by the Group there is no significant indication of credit risk indicator in the working sectors. Due to short term microloan nature, the Group's ECL model can detect changes in risk default indicators on a timely basis. Therefore, management assessed that there is no risk of not detecting the changes in credit quality at an individual level.

Extension of payment terms

Due to Covid-19 outbreak the Government of Mongolia has passed several resolutions to defer the loan principal payments until 1 July 2021 and to increase the overdue days period of performing loans. In order to align with the Government and FRC's decisions, the Group has provided an option to extend loan repayment period to all of its customers under certain requirements. As an extension of payment terms is offered to the entire class of customers irrespective of individual circumstances, this will not result in a stage movement in accordance with IFRS 9.

Macroeconomic scenarios

As the Group uses the multiple macroeconomic scenarios in its model it has updated its best, base and worst scenarios to reflect Covid-19 impacts. The Group calculated the final PD rate by taking the weighted average of the three PDs while the probabilities of each scenario are 0%, 60%, and 40% (2019: 25%, 45% and 30%) for the best, the base and the worst case respectively. In order to determine the probabilities of each scenario to reflect Covid-19 impacts management has taken into consideration various economic factors including the foreign currency exchange reserves, the exchange rate of the MNT against US dollar, the Covid-19 vaccinization plan, current economic and political events, the performance of the mining sector of Mongolia and the State budget of 2021.

21 Risk management disclosures (Cont'd)

21.4 Liquidity risk

The Group 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 Group. The funding required to meet the demand for loan disbursements is obtained from related parties either in the form of equity or debt, or debt from third parties.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 based on contractual undiscounted repayment obligations.

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
31 December 2020							
Undrawn commitment	1,292,893	-	-	-	-	-	1,292,893
Borrowings	367,618	1,428,132	16,052,450	3,099,803	1,817,509	-	22,765,512
Lease liabilities	-	77,493	77,493	154,986	562,255	-	872,227
Other liabilities	1,067,804	1,000	-	-	-	-	1,068,804
	2,728,315	**1,506,625**	**16,129,943**	**3,254,789**	**2,379,764**	**-**	**25,999,436**
31 December 2019							
Undrawn commitment	7,517,004	-	-	-	-	-	7,517,004
Borrowings	-	3,708,973	22,310,219	10,102,508	7,761,870	-	43,883,570
Lease liabilities	-	77,493	77,493	154,986	872,227		1,182,199
Other liabilities	964,265	253,364	-	-	-	-	1,217,629
	8,481,269	**4,039,830**	**22,387,712**	**10,257,494**	**8,634,097**	**-**	**53,800,402**

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

21 Risk management disclosures (Cont'd)

21.5 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 Group manages and monitors this risk element using sensitivity analyses.

21.6 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 Group's interest rate risk arises primarily from loans and advances to customers, and borrowings. The Group does not use hedge instruments to manage interest rate risk. The Group's exposures to interest rate risk for changes in interest rates primarily relates to the Group 's fixed rate current accounts in the bank, loans and advances to customers and borrowings. As of the reporting date, the Group has not adopted sensitivity analysis to measure interest rate risk due principally to the fact that the Group has no floating interest rate financial assets and financial liabilities on financial reporting date.

21.7 Foreign currency exchange rate risk

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

	31.12.2020		31.12.2019	
	Assets MNT'000	**Liabilities MNT'000**	**Assets MNT'000**	**Liabilities MNT'000**
Foreign exchange dominated	3,521,392	8,336,314	14,126,197	15,029,435

Foreign exchange sensitivity analysis

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

	Changes	**2020 MNT'000**	**2019 MNT'000**
Effect on profit /(loss) before tax	+/-10%	(481,492)/ 481,492	541,069/ (1,202,682)

21.8 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 Group 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 Group seeks to manage operational risk and reduce it.

22 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group 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 Group may be challenged by the relevant authorities.

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

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

Management believes that its interpretation of the relevant legislation is appropriate, and the Group'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 Group. The Group 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 Group as of 31 December 2020 was MNT 1,292,893 thousand (31 December 2019: MNT 7,517,004 thousand).

23 Fair value of financial instruments

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the financial statements.

Financial instruments for which fair value approximates carrying value
The Group's financial instruments, except for long-term borrowings, are all short-term in nature with maturities of less than one year. Based on fair value assessments, the estimated fair values of financial assets and financial liabilities as at the consolidated statement of financial position date approximate their carrying amounts as shows in the consolidated financial position.

The carrying amounts of long-term interest-bearing borrowings approximate to their fair value because the interest rates approximate the interest rates of comparable instruments in the market.

23 Fair value of financial instruments (Cont'd)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2020				
Financial instrument measured at FVPL				
Derivative financial liability	–	–	(124,549)	(124,549)
	–	–	(124,549)	(124,549)
At 31 December 2019				
Financial instrument measured at FVPL				
Derivative financial asset	–	–	130,642	130,642
	–	–	130,642	130,642

The Group's derivative financial instrument is carried at fair value and categorised within Level 3. The valuation methodology and inputs were applied consistently for the fair value assessment at 31 December 2020. A net loss of MNT 255,191 thousand was recognised in the statement of profit or loss for the period ended 31 December 2020 (see Note 8).

The following table shows the valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020 and 31 December 2019:

Financial assets	Valuation technique	Inputs
Derivative financial instruments	Discounted cash flow model	USD discount rate, MNT discount rate, Forward MNT/USD exchange rate estimated using interest rate parity

The following table demonstrates the sensitivity of the derivative financial instrument to a reasonably possible change in the unobservable input, with all other variables held constant.

	Significant unobservable inputs	Range	Sensitivity of the input to fair value 2020 MNT'000	2019 MNT'000
Derivative financial instrument	MNT discount rate	+100bps	27,509	40,625
		-100bps	(27,856)	(41,002)

Transfers between levels
There were no transfers between levels 1 to 3 of the fair value hierarchy for the assets and liabilities which are recorded at fair value during 2020 and 2019.

24 Related party transactions

Balances and transactions with related parties are disclosed below.

The key management compensation for 2020 and 2019 are presented below:

	2020 MNT'000	2019 MNT'000
Salaries and bonus	537,103	344,506
Social and health insurance	26,092	43,715
	563,195	**388,221**

24 Related party transactions (Cont'd.)

At 31 December 2020 and 31 December 2019, the outstanding balances with related parties were as follows:

	Notes	31.12.2020 MNT'000	31.12.2019 MNT'000
Loans to related parties-LendMN system	(i)	4,074	1,726
Loans from parent company	(ii)	-	12,238,420
Payable to related parties	(iii)	120,599	360,307

The income statement items with related parties for the year then ended 31 December 2020 and 2019 were as follows:

		2020 MNT'000	2019 MNT'000
Interest income from loans issued-LendMN system	(i)	1,628	1,818
Fee income from loans issued	(vii)	13,370	-
LendMN system maintenance fee (Note 7)	(iv)	1,144,809	1,362,523
Consulting service fee	(vi)	440,000	43,573
Interest income on the closed bonds	(v)	231,524	-
Interest expense on the loan	(ii)	749,719	910,491

(i) Loans to related parties – LendMN system consist of outstanding loans to key management individuals of the Group and its immediate parent company disbursed via the LendMN system. During the year ended 31 December 2020, the Group disbursed MNT 38,242 thousand (2019: MNT 53,470 thousand) loans to key managements, out of which MNT 34,169 thousand (2019: MNT 51,745 thousand) were fully repaid and MNT 4,074 thousand (2019: MNT 1,726 thousand) are outstanding as at 31 December 2020 with accrued interest of MNT 111 thousand (2019: MNT 189 thousand).

(ii) In 2019, The Group received loans from its parent company, AND Systems LLC for an amount of MNT 22,780,741 thousand, out of which MNT 9,196,614 were fully repaid and 11,384,127 are outstanding as at 31 December 2019 with accrued interest of MNT 201,279 thousand. Loans were fully paid with the principal amount between 14 February 2020 and 4 May 2020.

As at 31 December 2019, the Group also has trust funding of USD 320,000 from a Board member which was fully paid on 16 June 2020.

(iii) As at 31 December 2020, payable to related parties include SupPay loan and payable to Digital Mall LLC for an amount of MNT 115,309 thousand and wallet payable to related parties for an amount of MNT 5,290 thousand.

As at 31 December 2019, payable to related parties include an accrued interest payable on received loan for an amount of MNT 204,924 thousand which were fully paid between February 2020 and May 2020, dividend payable to AND Systems LLC for an amount of MNT 140,000 thousand and MNT 15,383 thousand unsecured and interest fee payable which were fully paid in April 2020.

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

(v) The Group issued unsecured closed bond to its parent company, AND Systems LLC on 11 February 2020, interest at 17% per annum and was repayable within 1 month. The accrued interest of the bond was MNT 231,524 thousand and was paid fully with the principal amount on 9 July 2020.

24 Related party transactions (Cont'd.)

(vi) In 2020, the Group received management consulting services from, the parent company, AND Systems LLC amounting to MNT 40 million per month.

(vii) In 2020, the Group received fee income of 4.75% from the SupPay loans disbursed through Banana Mall.

25 Events after the end of reporting period

Management is not aware of any event occurred after the end of the reporting period which would have any impact on these consolidated financial statements.

26 Mongolian translation

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