LendMN NBFI LLC
(incorporated in Mongolia)

Audited financial statements
31 October 2017

CONTENTS

STATEMENT BY EXECUTIVE MANAGEMENT

We, **TUVSHINJARGAL MAKHVAL**, being the Chief Executive Officer of **LendMN NBFI LLC** (previously known as Duushashgui Undarga NBFI LLC) (the "Company"), and **Otgongerel Dembereldovd**, being the chief accountant primarily responsible for the financial management of the Company, do hereby state that, in our opinion, the accompanying financial statements set out between pages 1 and 30 present fairly, in all material respects, the financial position of the Company as at 31 October 2017 and its financial performance and its cash flows for the ten-month period then ended in accordance with International Financial Reporting Standards.

Tuvshinjargal Makhval Chief Executive Officer	**Otgongerel Dembereldovd** Chief Accountant

Date: 8 December 2017

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of LendMN NBFI LLC

Opinion

We have audited the financial statements of LendMN NBFI LLC (the "Company"), which comprise the statement of financial position as at 31 October 2017 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the ten-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 October 2017, and its financial performance and cash flows for the ten-month period then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholder of LendMN NBFI LLC

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholder of LendMN NBFI LLC

Other Matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on those statements on 14 June 2017.

We draw attention to the fact that the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the ten-month period ended 31 October 2016, and the relevant explanatory notes disclosed in these financial statements have not been audited.

This report is made solely to the shareholders of the Company, as a body, in accordance with the audit requested by shareholders in accordance with our agreed terms of engagement 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

PETER MARKEY
Director

Ulaanbaatar, Mongolia
Date: 8 December 2017

	Notes	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Interest and similar income	5	469,100	1,956
Interest expense	5	(34,078)	-
Net interest and similar income		**435,022**	**1,956**
Provision for loan impairment	10	(11,590)	-
Net interest and similar income after provision for loan impairment		**423,432**	**1,956**
Administrative and operating expenses	6	(486,558)	(1,109)
Other expense		(8,346)	(10)
Profit/(loss) before income tax		**(71,472)**	**837**
Income tax expense	7	(1,343)	(119)
Profit/(loss) for the period, representing total comprehensive income/(loss) attributable to equity holder of the Company		**(72,815)**	**718**
Earnings/(loss) per share (MNT)			
Basic and diluted earnings/(loss) per share (MNT)	8	(0.73)	0.02

LendMN NBFI LLC
Statements of Financial Position
As at 31 October 2017

	Notes	31.10.2017 MNT'000	31.12.2016 MNT'000 (Restated*)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	320,043	507,939
Loans and advances to customers	10	2,110,270	124,160
Current income tax prepayments		240	-
Other assets	13	44,521	14,700
		2,475,074	646,799
NON-CURRENT ASSETS			
Intangible assets	11	270,210	295,000
Property and equipment	12	64,337	23,073
		334,547	318,073
TOTAL ASSETS		**2,809,621**	**964,872**
CURRENT LIABILITIES			
Closed bonds	14	300,200	-
Other provision	15	15,805	-
Other liabilities	15	71,813	170,092
Current income tax liability		-	162
TOTAL LIABILITIES		**387,818**	**170,254**
EQUITY			
Share capital	16	2,500,000	800,000
Accumulated losses		(78,197)	(5,382)
TOTAL EQUITY		**2,421,803**	**794,618**
TOTAL LIABILITIES AND EQUITY		**2,809,621**	**964,872**

* Certain amounts shown here do not correspond to the financial statements for the period ended 31 October 2016 and reflect restatements made as detailed in Note 22.

	Note	Share capital MNT'000	Retained earnings /(accumulated losses) MNT'000	Total equity MNT'000
At 1 January 2016		**400,000**	**2,082**	**402,082**
Total comprehensive income for the period (unaudited)		-	718	718
At 31 October 2016 (unaudited)		**400,000**	**2,800**	**402,800**
At 1 January 2017		**800,000**	**(5,382)**	**794,618**
Total comprehensive loss for the period		-	(72,815)	(72,815)
Issuance of ordinary shares	16	1,700,000	-	1,700,000
At 31 October 2017		**2,500,000**	**(78,197)**	**2,421,803**

LendMN NBFI LLC
Statement of Cash Flow
For the ten-month period ended 31 October 2017

	Notes	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Cash flows from operating activities			
Profit/(loss) before tax		(71,472)	837
Adjustments for:			
Provision for loan impairment	10	11,590	-
Depreciation of property and equipment	6	8,317	403
Amortisation of intangible assets	6	24,790	-
Interest accrual		200	-
Other provision charges		15,805	-
Operating profit/(loss) before working capital changes		**(10,770)**	**1,240**
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers		(1,997,700)	(3,000)
Net increase in other assets		(29,821)	-
Net increase in other liabilities		54,721	-
Cash generated from/(used in) operations		**(1,983,570)**	**(3,000)**
Income taxes paid		(1,745)	-
Net cash generated from/(used in) operating activities		**(1,985,315)**	**(1,760)**
Cash flows from investing activities			
Purchase of property and equipment	12	(49,866)	(5,047)
Purchase of intangible assets		(153,000)	(147,000)
Proceeds from disposal of property and equipment		285	-
Net cash used in investing activities		**(202,581)**	**(152,047)**
Cash flows from financing activities			
Proceeds from issue of shares		1,700,000	-
Proceeds from bonds issued*		645,000	-
Proceeds from borrowing*		750,000	-
Repayment of bonds issued*		(345,000)	-
Repayment of borrowing*		(750,000)	-
Net cash from financing activities		**2,000,000**	**-**
Net decrease in cash and cash equivalents		**(187,896)**	**(153,807)**
Cash and cash equivalents at the beginning of the period	9	507,939	400,034
Cash and cash equivalents at the end of the period	**9**	**320,043**	**246,227**
Operational cash flows from interest			
Interest received		469,100	1,956
Interest paid		(33,878)	-

* There are no non-cash changes except interest accrual of MNT 200 thousands on closed bond to the movement arising from financing activities during the ten-month period ended 31 October 2017.

1 Corporate Information

LendMN NBFI LLC (the "Company") was incorporated in Mongolia as Duusashgui Undarga LLC in 2006 and changed its name to Duusashgui Undarga NBFI LLC in June 2015 when a lending license was granted by the Financial Regulatory Committee of Mongolia ("FRC"). Further, the name of the Company was changed to LendMN NBFI LLC in December 2016 in order to be more aligned with the name of the technology used by the Company. The Company is a limited liability company and was set up in accordance with Company Law of Mongolia. The Company operates under a non-banking financial institution ("NBFI") special license No. 1/493 issued by the FRC on 24 June 2015. The special license covers permission for lending activities in Mongolia.

Principal activity. The Company provides 24/7 mobile phone based financial services to issue instant loans for under/unserved people using LendMN technology developed by AND Systems LLC, the immediate parent company incorporated in Mongolia. The LendMN technology is a fintech solution developed by AND Systems LLC and licensed by AND Systems tech LLC, a fellow subsidiary company incorporated in Mongolia.

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

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

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

2 Summary of Significant Accounting Policies

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

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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.

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

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).

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The Company's financial assets as at 31 October 2017 and 31 December 2016 are all classified as loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. As at 31 October 2017 and 31 December 2016, the Company has the following financial assets classified as loans and receivables for IFRS measurement purposes: cash and cash equivalents and loans and advances to customers.

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

Classification of financial liabilities. All financial liabilities of the Company have measurement category of other financial liabilities and are carried at amortised cost.

Initial recognition of financial instruments. All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique for which inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Derecognition of financial liability. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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, and the difference in the respective carrying amounts is recognised in the profit or loss.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

As disclosed in Note 10, loans to customers have short-term maturity (up to one month) and are collected in the period subsequent to the reporting date but before approval of these financial statements with no delays or minimum delays. Thus, usually no impairment indicators are identified through specific assessment. As a result, impairment provision on loans and advances to customers is mostly determined based on collective assessment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the period.

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

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

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

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

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

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

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

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

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

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

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

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

	Useful lives in years
LendMN technology license	10 years

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

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

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

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

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. As at 31 October 2017 and 31 December 2016, the Company's management is not aware of any need for recognising provision for uncertain tax positions.

Value added tax (VAT). Management has assessed that the Company has no VAT liabilities arising from non-financial services activities, while financial services activities (such as lending) are exempted from VAT based on Value Added Tax Law of Mongolia. Thus, the Company was not registered for VAT as at 31 October 2017 and 31 December 2016.

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

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

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

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

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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

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

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

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

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

Staff costs and related contributions. Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by the Company's employees. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

As required by law, companies in Mongolia make contributions to the government pension scheme - Social Security and Health Insurance Fund. Such contributions are recognised as an expense in the profit or loss as incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

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

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

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

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 20.

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 2017:

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

New and amended standards and interpretations

• Amendments to IAS 7	*Statement of Cash Flows: Disclosure Initiative*
• Amendments to IAS 12	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
• Amendments to IFRS 12	*Disclosure of Interest in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvement Cycle – 2014-2016*
• IFRS 14	*Regulatory Deferral Accounts*

The adoption of the above standards and interpretations did not have any significant impact on the financial performance or position of the Company.

Standards issued but not yet effectives

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

• Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions* [1]
• Amendments to IFRS 4	*Financial Instruments with IFRS 4 Insurance Contracts* [1]
• Amendments to IAS 40	*Transfers of investment property* [1]
• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
• IFRS 9	*Financial Instruments* [1]
• IFRS 15	*Revenue from Contracts with Customers* [1]
• IFRS 16	*Leases* [2]
• IFRS 17	*Insurance Contracts* [3]
• IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration* [1]
• IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment* [2]
• Annual Improvements (2014-2016 cycle)	*Amendments to a number of IFRSs issued in December 2016* [1]

1 *Effective for annual periods beginning on or after 1 January 2018*
2 *Effective for annual periods beginning on or after 1 January 2019*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *The effective date of this amendment is indefinitely postponed by IASB, but an entity that early adopts the amendments must apply them prospectively.*

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

(a) Financial instruments

In September 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company expects to adopt IFRS 9 from 1 January 2018. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(i) Classification and measurement

The Company does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have

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

(i) Classification and measurement (Cont'd.)

contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost upon adoption.

(ii) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The adoption of expected credit loss model will accelerate the recognition of the loss allowance as it requires a loss allowance equals to twelve-month expected credit losses at initial recognition of financial assets as compared with loss allowance recognised only when there exists observable evidence of impairment under IAS 39. The directors anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respect of the Company's financial performance and financial assets, resulting from early provision of credit losses using the expected credit loss model under IFRS 9. The Company will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its financial instruments upon the adoption.

(b) Revenue

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

(c) Date of the transaction for determining an exchange rate

IFRIC-Int 22 specifies the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency. The interpretation is effective for annual periods beginning on or after 1 January 2018. The interpretation is not expected to have any material impact on the financial position or performance of the Company upon adoption on 1 January 2018.

(d) Income taxes

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

A 20% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MNT 2,318 thousand (2016: Nil). Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments.

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

5 Net Interest and similar income and segment information

During the period ended 31 October 2017 and 2016 the Company was engaged in a single business segment, which is issuing instant loans to the individual borrowers in Mongolia. Information reported to the Company's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Company's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented. As the Company's major operations and customers are located in Mongolia, no further geographical segment information is provided. There has been no single external customer that has contributed revenue exceeding 10% or more of the Company's revenue during the period ended 31 October 2017 and 2016.

5 Net Interest and similar income and segment information (Cont'd.)

	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Interest income		
Due from other banks	13,431	1,941
Other interest income	1,645	-
LendMN fee income		
Loans and advances to customers – LendMN system	454,024	15
Total interest and similar income	**469,100**	**1,956**
Interest expense		
Closed bond and borrowing interest	(34,078)	-

LendMN fee income represents the one-time fee charged on loan disbursements made through 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 Administrative and Operating Expenses

	Notes	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Staff costs		145,666	-
Advertising and marketing services		127,860	-
Professional services		55,854	300
LendMN system maintenance/service fee (note 20)		35,153	-
Amortisation of intangible assets	11	24,790	-
Other provision charge	15	15,805	-
Rent expense		15,693	-
Social security contributions		15,687	-
Bank charge		10,697	20
Maintenance expense		8,359	-
Depreciation of property and equipment	12	8,317	403
Other expenses		22,677	386
Total administrative and operating expenses		**486,558**	**1,109**

7 Income Tax Expense

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

	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Current income tax	1,343	119
Income tax expense for the period	**1,343**	**119**

The Company provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Company is 10% for the first MNT 3 billion (2016: MNT 3 billion) of taxable income in a financial year, and 25% (2016: 25%) on the excess of taxable income over MNT 3 billion (2016: MNT 3 billion) in accordance with Mongolian tax legislation.

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

	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Profit/(loss) before tax	**(71,472)**	**837**
Tax at statutory rate of 10% (2016: 10%)	(7,147)	84
Tax effect of:		
- Interest income subject to special tax rate	1,343	119
- Non-deductible expenses	2,286	-
- Unrecognised deferred tax on tax losses	4,861	(84)
Income tax expense for the period	**1,343**	**119**

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The Company has tax losses of MNT 48,610 thousand (2016: 0) that are available to offset against future taxable profits for the next two financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year.

Deferred tax assets arising from tax losses are not recognised as the Company is uncertain whether there would be sufficient taxable profit in the next two years available against which the tax losses carried forward can be utilised.

The effective income tax rate for the Company for the year ended 31 October 2017 is (1.88%) (2016: 14.22%)

8 Earnings/(Loss) Per Share

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share as adjusted to reflect the subsequent share split are calculated as follows:

	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Earnings/(loss)		
Profit or loss for the period attributable to equity holder of the parent	(72,815)	718

	Number of shares	
	31.10.2017	31.10.2016 (unaudited)
Shares		
Weighted average number of ordinary shares for basic and diluted earnings per share	990,759	400,000
Effect of subsequent share split (Note 21)	98,085,149	39,600,000
	99,075,908	40,000,000
Earnings per share	**MNT**	**MNT**
Equity holder of the Company for the period:		
Basic earnings/(loss) per share (MNT)	(0.73)	0.02
Diluted earnings/(loss) per share (MNT)	(0.73)	0.02

9 Cash and Cash Equivalents

	31.10.2017 MNT'000	31.12.2016 MNT'000
Cash on hand	362	1,174
Cash at bank	319,681	506,765
Total cash and cash equivalents	**320,043**	**507,939**

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. All amounts are classified as neither past due nor impaired. Current accounts outstanding as at 31 October 2017 are placed at interest rates ranging between 0.0%-9.75% p.a. (31 December 2016: 0.0%-3.7%).

All cash and cash equivalents are denominated in Mongolian Tugriks.

10 Loans and Advances to Customers

	31.10.2017 MNT'000	31.12.2016 MNT'000
Consumer loans issued through LendMN system	2,118,260	20,919
Other loans - Loans to key management of the Company (note 20)	3,600	103,241
Total gross loans and advances to customers	**2,121,860**	**124,160**
Less: Provision for loan impairment	(11,590)	-
Total loans and advances to customers	**2,110,270**	**124,160**

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

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

The Company assesses impairment of loans, grouping the loan portfolio into specific and collective categories. The loans which are individually considered to have a significant amount or significant overdue status are included in the specific category and all the remaining loans are included in the collective category. The primary factor that the Company considers in determining whether a loan in the specific category is impaired or not is its overdue status. For the loans in the specific category, the Company considers specific impairment triggering events and their estimated impact on future cash flows. Based on the Company's assessment of loans in specific category, no provision was required and the provision for impairment as at 31 October 2017 is all based on collective assessment.

Movements in the provision for impairment for consumer loans issued through LendMN system are as follows:

	31.10.2017 MNT'000	31.12.2016 MNT'000
At 1 January	-	-
Net change for the period/year	11,590	-
At 31 October/31 December	11,590	-

11 Intangible assets

	31.10.2017 MNT'000	31.12.2016 MNT'000
At cost		
At 1 January	300,000	-
Additions	-	300,000
Total	**300,000**	**300,000**
Accumulated amortisation		
At 1 January	5,000	-
Charge for the period/year (Note 6)	24,790	5,000
Total	**29,790**	**5,000**
Net carrying value	**270,210**	**295,000**

The intangible assets of the Company consist of license for LendMN System's exclusive right of use in the territory of Mongolia for lending activities, purchased from AND Systems LLC, the immediate parent company, in December 2016. The LendMN System has customer on-boarding, credit scoring, banking back-end, customer support and reporting modules and the LendMN Application. The one-time license fee for the LendMN system's exclusive right of use was MNT 300,000 thousand and is fully paid by the Company.

The license was initially granted for 5 years starting from December 2016 during the initial trial period and upon the completion of the trial period effective from 1 July 2017 the license term is extended to 50 years effective from December 2016 without additional fee and the license agreement is not cancellable unless such is mutually agreed or the Company no longer holds their lending licenses. Although the license period is for 50 years, it is amortised over 10 years based on the management's best estimate of the useful life of the license.

12 Property and equipment

	Furniture and Fittings MNT'000	Computers and Accessories MNT'000	Total MNT'000
At 31 October 2017			
Cost			
At 1 January 2017	19,312	4,764	24,076
Additions	18,312	31,554	49,866
Disposals	-	(330)	(330)
At 31 October 2017	37,624	35,988	73,612
Accumulated depreciation			
At 1 January 2017	274	729	1,003
Charge for the period (Note 6)	2,377	5,940	8,317
Disposals	-	(45)	(45)
At 31 October 2017	2,651	6,624	9,275
Net carrying amount	34,973	29,364	64,337
At 31 December 2016			
Cost			
At 1 January 2016	940	1,329	2,269
Additions	18,372	3,435	21,807
Disposals	-	-	-
At 31 December 2016	19,312	4,764	24,076
Accumulated depreciation			
At 1 January 2016	71	332	403
Charge for the year	203	397	600
At 31 December 2016	274	729	1,003
Net carrying amount	19,038	4,035	23,073

There is no borrowing cost capitalised and properties and equipment are not pledged for any of the liabilities.

13 Other Assets

	31.10.2017 MNT'000	31.12.2016 MNT'000 (Restated)
Other receivables	851	-
Receivables from a related company (note 20)	30,000	14,700
Prepayments	13,670	-
	44,521	**14,700**

14 Closed bonds

On 30 October 2017, the shareholder of the Company resolved that the Company issue 1,000,000 units of closed bond with par value of 1,000 MNT, annual interest rate of 18% and term of 1 year. As at 31 October 2017, 300,000 units of the closed bonds were purchased by its immediate parent company, AND Systems LLC. The closed bonds are collateral free. The closed bonds are neither offered to general public nor traded or registered with any regulated stock exchanges and thus named closed bonds. Interest on the closed bonds are payable at the end of the term. Included in the carrying amount of the closed bond as at 31 October 2017 is accrued interest of MNT 200 thousands.

15 Other Liabilities

	31.10.2017 MNT'000	31.12.2016 MNT'000 (Restated)
Other financial liabilities:		
Payables to immediate parent (Note 20)	-	153,000
Payables to other companies	41,813	1,600
Total other financial liabilities	**41,813**	**154,600**
Other non-financial liabilities:		
Taxes payable other than on income	30,000	15,492
Provision for future possible tax liabilities	15,805	-
Total other non-financial liabilities:	**45,805**	**15,492**
Total other liabilities	**87,618**	**170,092**

Amount due to immediate parent as at 31 December 2016 represents residual payment to And Systems LLC, for the license purchased in 2016. The payment was fully made in 2017.

The maturity analysis of the other liabilities are presented in Notes 17.

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

	31.10.2017 MNT'000	31.12.2016 MNT'000
At 1 January	-	-
Estimated provision for the period/year (Note 6)	15,805	-
At 31 October/31 December	15,805	-

16 Share Capital

The Company is a limited liability company established under the Company Law of Mongolia. The total authorised and issued share capital of the Company represents 2,500,000 ordinary shares (2016: 800,000) with nominal value of MNT 1,000 (2016: MNT 1,000). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

	Number of outstanding shares	Share capital MNT'000
At 1 January 2016	**400,000**	**400,000**
New shares issued	400,000	400,000
At 31 December 2016	**800,000**	**800,000**
New shares issued	1,700,000	1,700,000
At 31 October 2017	**2,500,000**	**2,500,000**

On 28 July 2017, Mrs. Idermaa Garavsuren transferred her 800,000 ordinary shares of the Company to AND Systems LLC and subsequently on 27 September 2017, the Company issued 1,700,000 new ordinary shares with a nominal amount of MNT 1,000 per share and the new shares were subscribed and paid in cash by AND Systems LLC. The immediate parent company for the Company is AND Systems LLC and the ultimate parent company is AND Global Pte.Ltd, a fintech start-up company registered in Singapore. Refer to the subsequent event note for the changes in the share capital after the reporting period end.

The shareholders and their percentages of ownership are as follows:

	31.10.2017	31.12.2016
AND Systems LLC	100.0%	-
Mrs. Idermaa Garavsuren	-	100.0%
	100.0%	**100.0%**

17 Risk Management Disclosures

1. Introduction

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

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

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

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

2. Risk management structure

The Chief Executive Officer is currently responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances. The Company is in the process of appointing Board of Directors who in return will appoint a chief risk officer whose main objective will be setting up overall risk management structure of the Company. The new board of directors will also appoint an internal auditor.

3. Credit risk

The main credit risk of the Company is loan loss from its current lending operation. The credit risk can arise in two areas 1) in the credit limit approval process and 2) handling of loan lifecycle after the loan disbursement. The credit risk from the credit approval process can be either of approving a credit limit or approving of an inappropriate credit amount with inappropriate fee level to a customer due to inaccurate credit scoring of the LendMN System's credit scoring module. The credit scoring of the Company is based on machine learning algorithms that are constantly improving its credit assessment accuracy based on its own historical credit data including late repayment and overdue status of the 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.
The management of the Company only sets the credit amount intervals and fee levels and the LendMN system makes the credit decision automatically and constantly updates its credit scoring algorithm. The management only monitors the overdue loans based on the targeted percentage for each interval of overdue loans as to overdue more than 1 day, 30 days, 60 days or 90 days.

The credit risk for the Company can also arise after the LendMN System's credit decision and the subsequent loan disbursements. The account receivables department together with the call center monitors the overdue loans on a daily basis by identifying any trends in the repayment behaviour of the 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 the customers. The call center supports the account receivables department by providing timely and accurate repayment guidance to the customers under the direct supervision of account receivables department.

17 Risk Management Disclosures (Cont'd.)

3. Credit risk (Cont'd.)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross:

	Gross maximum exposure	
	31.10.2017 MNT'000	**31.12.2016 MNT'000**
Cash at banks	319,681	506,765
Loans and advances to customers	2,110,270	124,160
Other financial assets	30,851	14,700
Undrawn commitment	1,229,305	8,877
	3,690,107	**654,502**

Collateral and other credit enhancements

Cash at banks and loans and advances to customers are not collateralised.

17 Risk Management Disclosures (Cont'd.)

3. Credit risk (Cont'd)

Credit quality per class of financial assets

	Neither Past Due nor Impaired	Past due but not individually impaired				Collectively impaired	Total
		Less than 30 days	31-60 days	61-90 days	More than 90 days		
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
31 October 2017							
Cash and cash equivalents	320,043	-	-	-	-	-	320,043
Loans and advances to customers							
LendMN*	2,036,308	57,446	14,233	3,365	6,908	(11,590)	2,106,670
Loan to others	3,600	-	-	-	-	-	3,600
Receivable from a related company	30,000						30,000
Total	**2,389,951**	**57,446**	**14,233**	**3,365**	**6,908**	**(11,590)**	**2,460,313**
31 December 2016							
Cash and cash equivalents	507,939	-	-	-	-	-	507,939
Loans and advances to customers							
LendMN	20,919	-	-	-	-	-	20,919
Loan to others	103,241	-	-	-	-	-	103,241
Receivable from a related company	14,700						14,700
Total	**646,799**	**-**	**-**	**-**	**-**	**-**	**646,799**

17 Risk Management Disclosures (Cont'd.)

4. Liquidity risk

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 October 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. The table does not reflect the expected cash flows indicated by the Company's deposit retention history.

	On demand MNT'000	Less than 3months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
31 October 2017							
Undrawn commitment	1,229,305	-	-	-	-	-	1,229,305
Bond	-	-	-	354,000	-	-	354,000
Other liabilities	453	41,360	-	-	-	-	41,813
	1,229,758	**41,360**	**-**	**354,000**	**-**	**-**	**1,625,118**
31 December 2016							
Undrawn commitment	8,877						8,877
Other liabilities	154,600	-	-	-	-	-	154,600
	163,477	**-**	**-**	**-**	**-**	**-**	**163,477**

The Management expects that not all the undrawn commitments will be drawn in a short period of time. Please refer to Note 21 to the financial statements for additional funding in terms of debt and equity in order to meet this commitment.

17 Risk Management Disclosures (Cont'd.)

5. Market risk

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

Prepayment risk

The Company receives full interest income from any early prepayments of loans, therefore there is no prepayment risk.

Operational risk

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

18 Contingencies and Commitments

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

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

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

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

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present. As at 31 October 2017 and 31 December 2016, management has assessed that recognition of a provision for uncertain tax position is not necessary.

18 Contingencies and Commitments (Cont'd.)

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. With respect to credit risk on commitments to extend credit, the Company can be exposed to loss in an amount equal to the total unused credit commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The undrawn credit lines of the Company as of 31 October 2017 was MNT 1,229,305 thousand (31 December 2016: MNT 8,877 thousand).

19 Fair Value of Financial Instruments

The methods and assumptions applied in determining fair values.

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

Due to the short term nature of all financial instruments, the fair values of financial instruments approximate their carrying amount.

20 Related Party Transactions

Balances and transactions with related parties are disclosed below.

The key management compensation is presented below:

	31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Salaries	28,531	-
Social and health insurance	3,138	-
	31,669	**-**

20 Related Party Transactions (Cont'd.)

At 31 October 2017 and 31 December 2016, the outstanding balances with related parties were as follows:

	Notes	31.10.2017 MNT'000	31.12.2016 MNT'000 (Restated)
Loans to key management of the Company (Note 10)	(i)	3,600	4,172
Loans to key management of the Company-LendMN system	(ii)	2,155	1,540
Payable to a related company (Note 15)	(iii)	-	153,000
Receivables from a related company (Note 13)	(v)	30,000	14,700
Closed bonds purchased by a related party (Note 14)	(iv)	300,200	-
		335,955	**173,412**

The income statement items with related parties for the ten-month period then ended 31 October 2017 and 2016 were as follows:

		31.10.2017 MNT'000	31.10.2016 MNT'000 (unaudited)
Interest income from loans issued	(i), (ii)	1,434	-
Interest expense on the closed bond	(iv)	3,286	-
LendMN system maintenance fee (Note 6)	(vi)	35,153	-
		39,873	**-**

(i) Loans to key management consist of a loan to a key management individual of MNT 3,600 thousand. The loan is unsecured, bear interest rate of 12% per annum, and are repayable within a period of 11 months.

(ii) Loans to key management – LendMN System consist of outstanding loans to key management individuals disbursed via the LendMN System. During the ten-month period ended 31 October 2017, the Company disbursed MNT 24,556 thousands LendMN System loan to the key managements, out of which MNT 22,401 thousands loans are fully repaid and MNT 2,155 thousand are outstanding as at 31 October 2017. The LendMN system loans are repayable within a month and do not bear interest but incudes a LendMN System fee of MNT 662 thousands.

(iii) In December 2016, the Company purchased from AND Systems LLC the license for LendMN System's exclusive use right in the territory of Mongolia for lending activities. The LendMN System 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 use right was MNT 300,000 thousand. The license was initially granted for 5 years starting from December 2016 during the initial trial period and upon the completion of the trial period effective from 1 July 2017 the license term was extended to 50 years effective from December 2016 with no additional fee and the license agreement is not cancellable unless such is mutually agreed or the Company no longer holds their lending licenses. As at 31 December 2016, the Company paid MNT 147,000 thousand and the remaining balance of MNT 153,000 thousand was payable within 1 year.

(iv) As detailed in note 14 to the financial statements, the outstanding closed bond issued to a related company, AND Systems LLC, is unsecured, bears interest at 18% per annum and is repayable within 1 year. Also, on 22 August 2017 the Company issued another closed bond to the same related company, AND Systems LLC for MNT 345,000 thousands. This closed bond was 345,000 units with carrying value of MNT 1 thousand with interest rate of 18% per annum and repayable in 3 months. This closed bond was fully repaid on 27 September 2017.

20 Related Party Transactions (Cont'd.)

(v) Receivable from a related company, AND Systems LLC, is unsecured, interest free and receivable on demand.

(vi) Effective from 1 July 2017, the Company signed a maintenance and service agreement with AND Systems LLC for the LendMN system's on-going maintenance and credit scoring services. The monthly fee payable to AND Systems LLC under this agreement is determined based on the number of lending transactions during a month and is payable on a monthly basis.

21 Events after the End of Reporting Period

The following subsequent events have occurred after the end of the reporting period and before the approval of these financial statements:

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

2. On 10 November 2017, the Company issued 1,000,000 units of closed bonds with par value of 1,000 MNT, with quarterly coupon interest payment calculated at 16 % per annum, and maturity of 1 year. All of the closed bonds were fully sold on the same day to one of the shareholder of the ultimate parent company. The Company also purchased back its outstanding 300,000 closed bonds from AND Systems LLC on the same day.

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

4. On 30 November 2017, the Company issued additional 150,000,000 ordinary shares with par value of 10 MNT for 1,500,000 thousand MNT and it was fully subscribed by its immediate parent company, AND Systems LLC. The request for approval of this share capital increase from Financial Regulatory Committee was submitted on the same day and the approval was pending as of these financial statements approval date.

5. On 1 December 2017, the shareholder appointed a board of directors with 5 members.

Except for item 3, management believes that these subsequent events would not require any adjustments in the financial statements.

22 Restatements of Prior Period Balances

Certain comparative figures were restated as explained to adjust an understatement of receivables from related party and withholding tax payables.

The effect of the adjustment on the Company's statement of financial position at 31 December 2016 is as follows:

	31 December 2016, as previously stated MNT'000	**To adjust understated receivables from related party and withholding tax payables**	**31 December 2016, as restated MNT'000**
Other assets	-	14,700	14,700
Other liabilities	155,392	14,700	170,092

The adjustment does not affect the opening balances as at 1 January 2016.

23 Mongolian Translation

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