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NON-BANKING FINANCIAL INSTITUTION INFORMATION

NBFI's name: VISION FUND NBFI LLC

Members of Board of Directors: Philip Ewert
Chris Siefkas
Michael Spingler
Michael Kellogg
Odonjav Tsendjav
Otgonzaya Tsendeekhuu

Management team: Chief Executive Officer: Michael Kellogg
Chief Accountant: Odontungalag.B
Human Resource Manager: Altantuya.G

NBFI's address: 7th Floor, Peace Tower,
3rdKhoroo, Chingeltei District,
Ulaanbaatar, Mongolia
Tel: +976-11-70129771
Fax: +976-11-70129773
Website: www.visionfund.org
E-mail: Odontungalag_bayanbaatar@wvi.org

Company registration number: 2823624

Core activity according to Charter

- Loans
- Foreign currency trading

Auditor: KPMG Audit LLC

Auditors' address: #602, Blue Sky Tower, Peace Avenue 17,
1st khoroo, Sukhbaatar district,
Ulaanbaatar 14240, Mongolia

Vision Fund NBFI LLC
Financial statements for the year ended 31 December 2018

Statement of Responsibility

The Company's management is responsible for the preparation of the financial statements.

The financial statements of Vision Fund NBFI LLC ("the Company") have been prepared in accordance with the Guideline approved by the Financial Regulatory Commission Resolution #5 dated 31 January 2008 and presented in accordance with the Reporting Template approved by Financial Regulatory Commission Resolution #3 dated 31 January 2008 (together "the FRC Guidelines"). The management is responsible for ensuring that these financial statements present the state of affairs of the Company as at 31 December 2018 and the financial performance and cash flows for the year then ended in accordance with the FRC Guidelines.

The management has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the requirements set out in note 2 thereto.


The management also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The management considers that, in preparing the financial statements including explanatory notes, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The financial statements of Vision Fund NBFI LLC for the year ended 31 December 2018 were authorized for issuance by the Company's management.


Michael Kellogg
Chief Executive Officer




Odontungalag Bayanbaatar
Chief Accountant

6 March 2019
Ulaanbaatar, Mongolia



KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

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Independent Auditors' Report

To the Board of Directors and Shareholder of Vision Fund NBFI LLC

Opinion

We have audited the financial statements of Vision Fund NBFI LLC ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements have been prepared, in all material respects, in accordance with the Guideline approved by Financial Regulatory Commission Resolution #5 dated 31 January 2008 and presented in accordance with the Reporting Template approved by Financial Regulatory Commission Resolution #3 dated 31 January 2008 ("the FRC Guidelines").

Emphases of Matter – Basis of Accounting

Without qualifying our opinion, we draw attention to the fact that the accompanying financial statements have been prepared by management in accordance with the requirements of the FRC Guidelines, and therefore are not presented in accordance with and do not include all of the information required to be disclosed by International Financial Reporting Standards.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 of the financial statements in accordance with the FRC Guidelines 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.



Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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.

KPMG Audit LLC

KPMG Audit LLC
6 March 2019

Ulaanbaatar, Mongolia



This report is effective as at 6 March 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholder of the Company. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

STATEMENT OF FINANCIAL POSITION

Vision Fund NBFI LLC

Date: 31 December 2018
/in thousand MNT/

Line Number	Description	31 December 2017	31 December 2018
	ASSETS		
	CURRENT ASSETS		
1	CASH AND CASH EQUIVALENTS	1,914,701	4,490,096
1.1	Cash on hand	719	1,347
1.1	Current accounts at banks	1,913,982	4,488,749
3	LOANS (NET)	15,798,566	13,782,531
3.1	Total loans	16,064,710	14,193,759
3.1.1	Performing loans	15,654,545	13,582,661
3.1.2	Past due loans	164,400	136,291
3.1.3	Non-performing loans	245,765	474,807
3.1.3.1	Substandard loans	35,425	201,928
3.1.3.2	Doubtful loans	95,988	129,597
3.1.3.3	Bad loans	114,352	143,282
3.1.4	(Loan loss provision)	(266,144)	(411,228)
7	OTHER RECEIVABLES	428,183	548,328
7.1	Other receivables	117,981	98,983
7.2	(Allowance for bad debt)	(50,020)	(14,583)
7.3	Accrued loan interest receivables	360,222	463,928
8	OTHER ASSETS	36,541	74,957
8.1	Prepaid expenses	27,042	63,572
8.4	Inventory and supply materials	9,499	11,385
9	TOTAL CURRENT ASSETS	18,177,991	18,895,912
	NON-CURRENT ASSETS		
10	PROPERTY AND EQUIPMENT	213,796	161,404
10.3	Furniture and fixtures	156,781	159,928
10.4	Accumulated depreciation (furniture and fixtures)	(98,490)	(109,954)
10.5	Vehicles, computers and IT equipment	579,194	588,588
10.6	Accumulated depreciation (vehicles, computers and IT equipment)	(423,689)	(477,158)
12	TOTAL NON-CURRENT ASSETS	213,796	161,404
13	TOTAL ASSETS	18,391,787	19,057,316
	LIABILITIES		
14	SHORT-TERM LIABILITIES	9,037,338	5,827,986
14.1	Short-term borrowings	9,037,338	5,827,986
16	OTHER LIABILITIES	605,114	383,117
16.1	Accrued interest payables	337,699	189,401
16.1.1	Accrued borrowing interest payables	337,699	189,401
16.2	Other payables	267,415	193,716
16.2.3	Salaries payables	174	-

STATEMENT OF FINANCIAL POSITION, CONTINUED

Vision Fund NBFI LLC

Date: 31 December 2018
/in thousand MNT/

Line Number	Description	31 December 2017	31 December 2018
16.2.4	Social and health insurance payables	41	18,860
16.2.5	Personal income tax payables	6	8,919
16.2.6	Corporate income tax payables	139,625	18,034
16.2.7	Others	127,569	147,903
17	TOTAL SHORT-TERM LIABILITIES	9,642,452	6,211,103
18	LONG-TERM LIABILITIES	2,398,500	5,803,728
18.1	Long-term borrowings	2,398,500	5,803,728
19	TOTAL LIABILITIES	12,040,952	12,014,831
	EQUITY		
20.1	Ordinary shares	8,157,020	8,157,020
20	SHARE CAPITAL	8,157,020	8,157,020
21	OTHER EQUITY	(1,806,185)	(1,114,535)
21.5	Accumulated losses	(1,806,185)	(1,114,535)
21.5.1	Profit for the year	309,897	691,650
21.5.2	Loss for the prior years	(2,116,082)	(1,806,185)
	TOTAL SHAREHOLDERS' EQUITY	6,350,835	7,042,485
	TOTAL LIABILITIES AND EQUITY	18,391,787	19,057,316

Chief Executive Officer

Michael Kellogg /

Chief Accountant

Odontungalag Bayanbaatar/



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Vision Fund NBFI LLC

Date: 31 December 2018

/in thousand MNT/

Line Number	Description	2017	2018
1	INTEREST INCOME	7,132,586	6,937,975
1.1	Interest on performing loans	6,976,834	6,770,702
1.2	Interest on past due loans	84,017	92,730
1.8	Interest income on current accounts	71,877	74,607
1.10	Interest income reversals	(142)	(64)
2	INTEREST EXPENSE	(3,174,214)	(3,129,020)
2.2	Interest expense on loans from financial institutions	(3,174,214)	(3,129,020)
3	NET INTEREST INCOME (1-2)	3,958,372	3,808,955
4	NON-INTEREST INCOME (4.1+4.2+4.3)	335,580	395,563
4.2	Foreign currency translation and valuation gain (4.2.1+4.2.2)	79,535	149,453
4.2.1	Foreign currency translation gain	79,535	149,453
4.3	Fees and commission income (4.3.1+...+4.3.6)	256,045	246,110
4.3.6	Service fee and commission income	226,500	224,215
4.3.7	Other services	29,545	21,895
5	NON-INTEREST EXPENSES (5.1+5.2+5.3)	(3,692,891)	(3,230,587)
5.1	Trading and foreign currency translation loss (5.1.1+...+5.1.4)	(317,773)	(134,181)
5.1.3	Foreign currency translation loss	(317,773)	(134,181)
5.2	Personnel expenses (5.2.1+...+5.2.10)	(1,918,200)	(1,790,608)
5.2.1	Salaries for employees	(1,243,012)	(1,207,464)
5.2.2	Additional wages, bonus for employees	(146,254)	(148,378)
5.2.3	Fringe benefits for employees	(57,976)	(39,325)
5.2.4	Social welfare and benefits for employees	(164,825)	(51,733)
5.2.5	Contracted worker's salary	(39,397)	(66,366)
5.2.6	Social and health insurance	(161,416)	(173,087)
5.2.7	Business trip expenses	(68,317)	(67,757)
5.2.8	Training cost	(37,003)	(36,243)
5.2.9	Others	-	(255)
5.3	Other expenses (5.3.1+...5.3.26)	(1,456,918)	(1,305,798)
5.3.2	Loan receivables collection expenses	(9,780)	(1,597)
5.3.6	Professional services and audit fee	(83,489)	(53,593)
5.3.7	Insurance	(26,140)	(28,532)
5.3.8	Rental	(360,762)	(371,088)
5.3.9	Utilities	(17,094)	(21,375)
5.3.10	Depreciation and amortization	(76,025)	(64,933)
5.3.11	Security expense	(2,268)	(2,532)
5.3.12	Communication expenses	(125,236)	(132,210)
5.3.13	Transportation and fuel expenses	(70,620)	(78,658)
5.3.14	Spare parts, maintenance expense	(22,405)	(18,096)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CONTINUED

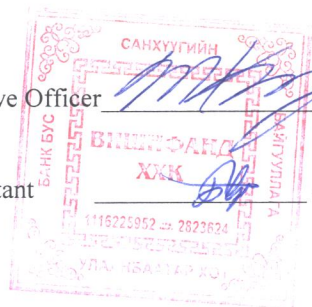
Vision Fund NBFILLC

Date: 31 December 2018
/in thousand MNT/

5.3.15	Regulatory subscription fee	(413,040)	(394,353)
5.3.16	Safety and fire protection expense	(291)	(2,777)
5.3.17	Publication expense	(901)	(1,087)
5.3.18	Automation maintenance expense	(8,275)	(550)
5.3.20	Advertisement and marketing expenses	(11,287)	(7,391)
5.3.21	Stationery	(30,853)	(34,311)
5.3.22	Sanitation	(9,770)	(8,224)
5.3.23	Immovable property tax	(1,863)	(1,394)
5.3.24	Clients survey and training expense	(200)	-
5.3.25	Other expenses	(186,619)	(83,097)
6	NET NON-INTEREST EXPENSES (4-5)	(3,357,311)	(2,835,024)
7	PROFIT BEFORE CREDIT RISK EXPENSE (3+6)	601,061	973,931
8	CREDIT RISK EXPENSE	(248,037)	(235,512)
8.2	Loan loss expense	(232,516)	(223,379)
8.5	Bad debt expense	(15,521)	(12,133)
9	PROFIT FROM OPERATING ACTIVITIES (7-8)	353,024	738,419
10	NON-OPERATING INCOME	126,593	92,635
10.4	Donation	32,472	-
10.5	Repayment from off-balance items	94,102	85,053
10.6	Others	19	7,582
11	NON-OPERATING EXPENSES	(44,447)	(29,763)
11.1	Guests and delegate expenses	(7,379)	(3,592)
11.3	Loss on disposal of property and equipment	(10,777)	-
11.4	Ceremony expenses	(25,532)	(24,997)
11.5	Others	(759)	(1,174)
12	PROFIT FROM ORDINARY OPERATING ACTIVITIES (9+10-11)	435,170	801,291
15	PROFIT BEFORE TAX (12+13-14)	435,170	801,291
16	Income tax expense	(125,273)	(109,641)
17	NET PROFIT FOR THE YEAR (15-16)	309,897	691,650

Chief Executive Officer  Michael Kellogg /

Chief Accountant  /Odontungalag Bayanbaatar/



STATEMENT OF CHANGES IN EQUITY

Vision Fund NBFI LLC

Date: 31 December 2018
/in thousand MNT/

Line Number	Description	Share capital	Accumulated losses	Total
	Balance as at 31 December 2016	7,291,671	(2,116,082)	5,175,589
1	Changes in accounting policy, adjustment amounts	-	-	-
2	Adjusted balance			
7	Net profit for the year	-	309,897	309,897
8	Dividend declared	-	-	-
9	Increase in share capital	865,349	-	865,349
	Balance as at 31 December 2017	8,157,020	(1,806,185)	6,350,835
1	Changes in accounting policy, adjustment amounts	-	-	-
2	Adjusted balance	8,157,020	(1,806,185)	6,350,835
7	Net profit for the year	-	691,650	691,650
8	Dividend declared	-	-	-
9	Increase in share capital	-	-	-
	Balance as at 31 December 2018	8,157,020	(1,114,535)	7,042,485

Chief Executive Officer  /Michael Kellogg /

Chief Accountant  /Odontungalag Bayanbaatar/



STATEMENT OF CASH FLOWS

Vision Fund NBFI LLC

Date: 31 December 2018
/in thousand MNT/

Line Number	Description	2017	2018
1	CASH FLOWS FROM OPERATING ACTIVITIES	1,613,569	2,501,683
1.1	Cash inflows from operating activities	27,999,236	28,742,063
1.1.1	Loan interest income	7,061,468	6,755,396
1.1.4	Bank account interest income	71,877	74,607
1.1.9	Foreign currency exchange difference	1,917	56,817
1.1.16	Income from service charges and fees	33,426	31,744
1.1.17	Interest income reversal	-	(64)
1.1.18	Other cash inflows	20,830,548	21,823,563
1.2	Cash outflows from operating activities	26,385,667	26,240,380
1.2.1	Loan interest expense from financial institutions	2,605,546	2,599,530
1.2.5	Cash paid to employees	1,428,663	1,422,208
1.2.6	Fringe benefits, compensation issued to employees	222,801	91,057
1.2.7	Health and social insurance expense	161,416	173,087
1.2.8	Business trip and training expense	105,320	104,000
1.2.9	Paid utility expenses	17,094	21,375
1.2.10	Cash paid for fuel, transportation, and spare parts	215,739	226,154
1.2.11	Cash paid for stationary, sanitary expenses	40,623	42,535
1.2.12	Cash paid for tax, insurance	767,955	972,432
1.2.13	Cash paid for advertising	11,287	7,391
1.2.15	Cash paid for expenses relating to loan collection and related receivables	9,781	1,597
1.2.19	Audit and other professional services	427,822	207,694
1.2.20	Cash paid for regulatory service fee	3,447	3,840
1.2.22	Cash paid to suppliers	56,948	11,094
1.2.23	Other cash outflows	20,311,225	20,356,386
2	CASH FLOWS FROM NON-OPERATING ACTIVITIES	117,000	5,162,802
2.1.1	Cash received from sold assets	20,000	-
2.1.4	Others	97,000	5,162,802
2.2	Cash outflows from non-operating activities	3,026,270	5,089,090
2.2.1	Ceremony, delegates expenses	32,911	28,590
2.2.3	Others	2,993,359	5,060,500
3	TOTAL NET CASH FLOWS	(1,295,701)	2,575,395
4.1	OPENING BALANCE OF CASH AND CASH EQUIVALENTS	3,210,402	1,914,701
4.2	CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	1,914,701	4,490,096

Chief Executive Officer  /Michael Kellogg /

Chief Accountant  /Odontungalag Bayanbaatar/



NOTES TO THE FINANCIAL STATEMENTS

Vision Fund NBFI LLC

Date: 31 December 2018

1. INTRODUCTION

The “Zun San Mongolia” Non-Banking Financial Institution was established on 18 November 2004 with a statutory fund of MNT 631 million and started its operation in accordance with the Company Law of Mongolia.

It was renamed as the Vision Fund Non-Banking Financial Institution (“the Company”) in accordance with the Ordinance # 99 of Chairman of Financial Regulatory Commission dated 22 November 2007.

The Company was permitted to disburse loans and carry out foreign currency trading activity as stated in Annex to its License #1/113 granted by the Financial Regulatory Commission in 2007 in accordance with the Law of Mongolia on Legal Status of Financial Regulatory Commission and other related laws and regulations of Mongolia.

The Company principally operates in financial lending activities by disbursing loans after assembling cash and cash equivalents through its own capital and allowable sources. In particular, the Company issues loan products to individuals who have limited opportunities to receive financial services from other banking or non-banking institutions. The Company operates from 14 branches.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company are prepared in accordance with the Guideline approved by Financial Regulatory Commission Resolution #5 dated 31 January 2008 and presented in accordance with the Reporting Template approved by Financial Regulatory Commission Resolution #3 dated 31 January 2008 (together “the FRC Guidelines”).

The Company records its accounting in Mongolian togrog (“MNT”) and its accounting activities are in compliance with Law of Mongolia on Accounting and other related laws and regulations.

2.2 Going concern principle

These financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the items described otherwise in the related notes. Figures in the financial statements are presented in thousands of MNT, rounded to the nearest thousands, except when otherwise indicated.

2.4 Significant accounting policies

The Company maintains its accounting procedures in compliance with the following accounting policies:

2.4.1 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, MNT and foreign currency current accounts placed at domestic financial institutions. The cash and cash equivalents are recognized at their nominal value. Cash balances in foreign currencies are converted to MNT at an official exchange rate established by the Bank of Mongolia for the Statement of Financial Position day.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2.4 Significant accounting policies, continued

2.4.2 Transactions in foreign currency

Transactions denominated in foreign currencies are converted to the reporting currency at official exchange rates set for the respective transaction days, and recorded as such upon initial recognition. Monetary assets and liabilities denominated in foreign currencies are converted at the official exchange rate established by the Bank of Mongolia on the Statement of Financial Position day. Exchange rate gains or losses are recognized in the Statement of Profit or Loss and Comprehensive Income. Foreign currency non-monetary assets and liabilities are recognized at their historical cost at official exchange rates on their respective transaction days.

The year-end exchange rates of the USD and EUR against the MNT are as follows:

As at 31 December 2018 - 2,642.92 MNT / 1 USD

As at 31 December 2017 - 2,427.13 MNT / 1 USD

As at 31 December 2018 - 3,028.65 MNT / 1 EUR

As at 31 December 2017 - 2,897.87 MNT / 1 EUR

2.4.3 Loans

Loans are reported in the financial statements at net amounts calculated as loans extended to business entities and individuals less loan loss provision.

Loans extended in foreign currencies are converted to MNT at official exchange rates established by the Bank of Mongolia. Exchange rate gains or losses are recognized in profit or loss.

The past due gross loan portfolio is classified into categories based on the number of days payments are past due. The Company's classification of its loan portfolio is in accordance with joint resolution of Ministry of Finance and Chairman of Financial Regulatory Committee No.144/125 dated 13 May 2015 "Assets classifying, provisioning and its allocation regulation". The minimum standard percentages for impairment loss allowance calculations according to the Financial Regulatory Commission of Mongolia ("FRC") and the Microfinance Finance Policy of Vision Fund International ("VFI") are as follows:

Loan Portfolio Classification	FRC	VFI	Company policy (*)
Current (not past due)	0%	0%	1%
1-30 days past due	5%	10%	5%
31-90 days past due	5%	25%	5%
91-180 days past due	25%	50%	25%
180-360 days past due	50%	100%	50%
Over 361 days past due	100%	100%	100%
Restructured Loans: Up to 30 days past due		50%	
Restructured Loans: Over 30 days past due		100%	

(*) Past due payments on interest only or maturity loans must be included in the reserve calculations even if no principal payments are past due. The Company seeks to comply with the requirements of both the FRC and VFI. In order to achieve this, the Company applies the FRC's standard classifications and percentages, but with an additional loss allowance for the loans not past due, sufficient to bring the total allowance to the level required to meet the VFI requirement. As shown in the table above, this equates to approximately 1% (rounded to the nearest whole unit).

If the calculated value of Impairment Loss Allowance for the current period exceeds the value of Impairment Loss Allowance for the previous period, a provision expense is recorded to increase the Impairment Loss Allowance. If it is less than the value of Impairment Loss Allowance for the previous period, no reversal is booked.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2.4 Significant accounting policies, continued

2.4.3 Loans, continued

If a loan reaches 90 days past due, it is designated as non-performing. When a loan is designated as non-performing, interest is no longer accrued. All unpaid interest and penalties accrued to date on such loans are reversed out of interest income in the income statement. Further accruals for unpaid interest and penalties are not reported in the income statement for such loans. Cash payments received on non-performing loans are reported as a reduction of penalty, interest and principal as with all other loans.

2.4.4 Other assets

Other assets include accrued loan interest receivable, advances, and inventory and supply materials.

2.4.5 Property and equipment

Tangible assets used and useful for more than one year, with limited useful lives, not for sale under normal business conditions and procured for administrative use and rendering services are recognized and recorded as property and equipment.

Property and equipment consist of computers and equipment, furniture and fixtures, and vehicles.

The cost of property and equipment includes purchase price, import tax, and incidental costs incurred until the fixed assets are ready for use and operation.

Property and equipment are reported in the financial statements at costs less accumulated depreciation and impairment.

The Company makes a decision whether to capitalize expenses incurred after acquisition of property and equipment or reflect them in operating expenses based on the impact of such incurred expenses on useful life or productivity of assets.

Depreciation

Property and equipment are depreciated under the straight-line method over their useful lives. Useful lives of property and equipment are established as follows:

<u>Category of property and equipment</u>	<u>Useful lives</u>
Vehicles, furniture and fixtures	10 years
Computers and computer equipment	3 years

2.4.6 Borrowings

Borrowings are represented by loans obtained from banks and other financial institutions and companies. The balances as at the reporting date are calculated based on the contractual terms and are recorded as a part of liabilities of the Company. Payables to banks and other financial institutions and companies are recorded at the repayment amount under the contractual terms.

2.4.7 Other liabilities

Other liabilities consist of inter-branches settlements, health and social insurance payables, corporate income tax, personal income tax, salary payable, accrued interest payable and other payables. Other liabilities are stated at their nominal values.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2.4 Significant accounting policies, continued

2.4.8 Owners' equity

Common stock and accumulated losses are recognized as equity. Dividends are recognized as changes in equity at a day of official declaration of dividends. Equity is recognized at its nominal value.

2.4.9 Income

Income of the Company consists of operating and non-operating income. Operating income includes standard and overdue loan interest income, current account interest income, exchange rate gains and other service fees and charges. Operating income is classified into 2 main categories (1) interest income, and (2) non-interest income.

1. Interest income includes interest income earned from loan to borrowers based on respective agreements, and interest income paid by other banks and financial institutions to banking accounts of the Company. Interest income is recognized on the accrual basis of accounting.
2. Non-interest income consists of service fees and charges collected from borrowers and exchange rate gains. Service income is recognized when the service is rendered.

The Company charges loan origination fees to borrowers upon the disbursement of a loan.

Non-operating income includes incidental income which is not directly related to the main activities of the Company.

2.4.10 Expenses

If operating activities reduce asset values or increase liabilities, expenses incurred for conducting the operating activities are recognized. Operating expenses consist of interest paid on loans received from other banks and financial institutions, interest payment for project funding, trust service, exchange rate losses, and reversal of interest expense. Operating expenses are classified into two main categories: (1) interest expense, (2) non-interest expense.

1. Interest expense is the cost of sources mobilized from others in order to support the Company's operation. Interest expense is categorized based on each type of borrowed sources.
2. Non-interest expenses include operational expenses of the Company excluding interest expenses such as services, marketing and overheads.

Non-operating expenses include incidental costs such as internal Company events.

2.4.11 Corporate income tax

Income tax expense comprises current income tax expense. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

2.4.12 Employee salaries and benefits

Short-term employee benefits:

The Company recognizes salaries, wages, and other equivalent items for employees as salary expenses of the fiscal year. It also provides allowances for annual and sick leave to its employees in compliance with related laws and regulations.

3. CASH AND CASH EQUIVALENTS

3.1 Cash on hand

Line	Description	Opening Balance		Closing Balance	
		Currency	MNT'000	Currency	MNT'000
1	Cash	-	719	-	500
2	Cash in transit	-	-	-	847
	Total	-	719	-	1,347

3.2 Cash at Bank

Line	Description	Accounts	Opening Balance		Closing Balance	
			Currency	MNT'000	Currency	MNT'000
1	Golomt bank	1102728586	-	105,245	-	12,302
2	Khanbank	5038008783	-	41,317	-	18,305
3	Golomt bank	1102000517	-	667	-	655
4	Khanbank	5025153678	-	98,356	-	159,954
5	Khanbank	5005081092	-	102,604	-	75,707
6	Khanbank	5027206596	-	122,048	-	83,318
7	Khanbank	5749125570	-	98,982	-	56,649
8	Khanbank	5753079397	-	221,324	-	274,498
9	Khanbank	5094021446	-	152,403	-	67,902
10	Khanbank	5055058972	-	88,000	-	46,972
11	Khanbank	5935191508	-	2,386	-	876
12	Khanbank	5935191519	-	112,059	-	52,467
13	Khanbank	5675297430	-	18,402	-	19,909
14	Khanbank	5675297429	-	859	-	880
15	Khanbank	5001587206	-	164,166	-	29,502
16	Khanbank	5176021706	-	-	-	94,772
17	Khanbank	5176021728	-	-	-	55,634
18	Golomt bank	4001073719	-	259	-	247
19	Golomt bank	4301059779	-	6	-	-
20	Golomt bank	1102759158	56	135,804	736	1,945,017
21	Statebank	106000026497	-	20,246	-	1,059,490
22	Statebank	106000026512	-	905	-	74
23	Statebank	106000026520	-	3,044	-	374
24	Statebank	106000026548	-	2,249	-	1,443
25	Statebank	106000026504	-	62,819	-	45
26	Statebank	106000035038	-	68,523	-	897
27	Statebank	106000026536	36	88,076	1	2,345
28	Statebank	106000048138	1	2,476	-	28
29	Statebank	106000030374	69	200,757	141	428,487
	Total		162	1,913,982	878	4,488,749

4. SHORT-TERM INVESTMENTS

Not applicable

5. LOANS

Outstanding loan balances as at 31 December 2018 and 2017 by classification are shown below:

Line	Description	Opening Balance		Closing Balance	
		Currency	MNT'000	Currency	MNT'000
1	Total loans	-	16,064,710	-	14,193,759
2	Performing loans	-	15,654,545	-	13,582,661
3	Past due loans	-	164,400	-	136,291
4	Non-performing loans	-	245,765	-	474,807
5	- Substandard	-	35,425	-	201,928
6	- Doubtful	-	95,988	-	129,597
7	- Bad	-	114,352	-	143,282
8	Loan provision	-	(266,144)	-	(411,228)

As at 31 December 2018 and 2017, the details of the loan loss provision are as follows:

Line	Description	Opening Balance		Closing Balance	
		Loan	Loss provision	Loan	Loss provision
1	Performing loans	15,654,545	(86,722)	13,582,661	(145,851)
2	Past due loans	164,400	(8,220)	136,291	(6,814)
3	Non-performing loans	245,765	(171,202)	474,807	(258,563)
4	- Substandard	35,425	(8,856)	201,928	(50,482)
5	- Doubtful	95,988	(47,994)	129,597	(64,799)
6	- Bad	114,352	(114,352)	143,282	(143,282)
7	Total loans	16,064,710	(266,144)	14,193,759	(411,228)

6. FINANCE LEASE RECEIVABLES

Not applicable.

7. FACTORING RECEIVABLES

Not applicable.

8. FINANCIAL DERIVATIVES

Not applicable.

9. OTHER RECEIVABLES

Line	Description	Opening Balance	Closing Balance
1	Receivables from entities	75,989	16,108
2	Receivables from individuals	39,496	80,515
3	Receivables from employees	2,496	2,359
	Total	117,981	98,983

10. PREPAID EXPENSES

Line	Description	Opening Balance	Closing Balance
1	Prepaid expenses	8,136	41,363
2	Prepaid advance salary	12,532	10,079
3	Prepaid rental fees	-	8,787
4	Prepaid insurance fees	5,449	2,143
5	Others	925	1,201
	Total	27,042	63,573

11. ACCRUED LOAN INTEREST RECEIVABLES

Line	Description	Opening Balance	Closing Balance
1	Performing loan interest receivables	349,478	450,941
2	Past due loan interest receivables	10,745	12,987
	Total	360,222	463,928

12. INVENTORY AND SUPPLY MATERIALS

Line	Description	Opening Balance	Closing Balance
1	Stationary materials	4,832	5,605
2	Cleaning materials	1,442	1,300
3	Petrol	3,225	4,480
	Total	9,499	11,385

13. FORECLOSED PROPERTY

Not applicable.

14. CONSTRUCTION IN PROGRESS

Not applicable.

15. PROPERTY AND EQUIPMENT

Line	Description	Furniture and fixtures	Computers and IT equipment	Vehicles	Total
1	Opening balance	156,781	237,056	342,138	735,975
2	Additions				
3	Purchased	3,147	9,394	-	12,541
4	Transferred	-	-	-	-
5	Disposals				
6	Disposed	-	-	-	-
7	Written-off	-	-	-	-
8	Transferred	-	-	-	-
9	Closing balance	159,928	246,450	342,138	748,156
10	Accumulated depreciation				
11	Opening balance	(98,490)	(181,518)	(242,171)	(522,179)
12	Charge for the year	(11,464)	(33,423)	(20,046)	(64,933)
13	Disposed	-	-	-	-
14	Closing balance	(109,954)	(214,941)	(262,217)	(587,112)
15	Net book value	49,974	31,509	79,921	161,404

16. INTANGIBLE ASSET

Not applicable.

17. SHORT-TERM LIABILITIES

Line	Description	Opening Balance		Closing Balance	
		Currency'000	MNT'000	Currency'000	MNT'000
1	Short-term borrowings				
2	- Within due date – MNT	8,003,325	8,003,325	5,518,718	5,518,718
3	- Within due date – EUR	356.82	1,034,013	102.11	309,268
4	- Overdue	-	-	-	-
5	Promissory notes	-	-	-	-
6	Financial derivative payable	-	-	-	-
7	Short-term project financing liability	-	-	-	-
8	Other liabilities	-	-	-	-
	Total	-	9,037,338	-	5,827,986

17. SHORT-TERM LIABILITIES , CONTINUED

(1) Short-term loans as at 31 December 2018 are summarized as follows:

Lender	Original currency ("OC")	Maturity date	Nominal interest rate	Currency '000	MNT'000
Lendahand	EUR	2019.11.01	7.0%	1.10	3,332
Lendahand	EUR	2019.02.01	7.0%	10.87	32,911
ResponAbility	MNT	2019.03.18	26.4%	1,533,615.00	1,533,615
Lendahand	EUR	2019.04.01	7.0%	1.83	5,553
Lendahand	EUR	2019.12.01	7.0%	1.93	5,855
VFI	MNT	2018.12.31	25.0%	3,888,103.00	3,888,103
Swiss federation	MNT	2018.12.31	0.0%	97,000.00	97,000
Current portion of long-term borrowings:					
Lendahand	EUR	2020.03.01	7.0%	6.38	19,333
Lendahand	EUR	2020.05.01	7.0%	5.28	16,001
Lendahand	EUR	2020.06.01	7.0%	9.05	27,402
Lendahand	EUR	2020.07.01	7.0%	9.33	28,267
Lendahand	EUR	2020.08.01	7.0%	14.62	44,269
Lendahand	EUR	2020.09.01	7.0%	14.12	42,754
Lendahand	EUR	2020.10.01	7.0%	7.40	22,412
Lendahand	EUR	2020.11.01	7.0%	20.20	61,179
Total					5,827,986

(2) Short-term loans as at 31 December 2017 are summarized as follows:

Lender	Original currency ("OC")	Maturity date	Nominal interest rate	Currency '000	MNT'000
Lendahand	EUR	2018.10.01	7.0 %	11.07	32,070
Lendahand	EUR	2018.01.01	7.0 %	15.40	44,627
VFI	MNT	2018.12.31	25.0 %	5,872,875.00	5,872,875
Symbiotic	MNT	2018.06.15	21.0%	2,033,450.00	2,033,450
Swiss federation	MNT	2018.05.04	0.0%	97,000.00	97,000
Current portion of long-term borrowings:					
Lendahand	EUR	2020.07.01	7.0 %	21.03	60,952
Lendahand	EUR	2020.08.01	7.0 %	43.62	126,395
Lendahand	EUR	2020.09.01	7.0 %	43.42	125,816
Lendahand	EUR	2019.10.01	7.0 %	27.50	79,691
Lendahand	EUR	2020.11.01	7.0 %	45.10	130,694
Lendahand	EUR	2019.12.01	7.0 %	14.13	40,957
Lendahand	EUR	2019.11.01	7.0 %	5.50	15,938
Lendahand	EUR	2019.11.01	7.0 %	9.40	27,240
Lendahand	EUR	2019.02.01	7.0 %	36.33	105,289
Lendahand	EUR	2020.03.01	7.0 %	27.24	78,943
Lendahand	EUR	2019.04.01	7.0 %	15.22	44,096
Lendahand	EUR	2020.05.01	7.0 %	20.12	58,295
Lendahand	EUR	2020.06.01	7.0 %	21.74	63,010
Total					9,037,338

18. OTHER FINANCING LIABILITIES

Not applicable.

19. ACCRUED INTEREST PAYABLES

Line	Description	Opening Balance	Closing Balance
1	Accrued borrowings interest payables	337,699	189,401
2	Securities interest payables	-	-
3	Other accrued interest payables	-	-
	Total	337,699	189,401

20. LONG-TERM LIABILITIES

Line	Description	Opening Balance		Closing Balance	
		Currency'000	MNT'000	Currency'000	MNT'000
1	Long-term borrowings				
2	- Within due date – MNT	2,080,563	2,080,563	5,780,712	5,780,712
3	- Within due date – EUR	109.71	317,937	7.60	23,018
4	- Overdue	-	-	-	-
5	Long-term project financing liability	-	-	-	-
	Total	-	2,398,500	-	5,803,728

(1) Long-term loans as at 31 December 2018 are summarized as follows:

Lender	Original currency ("OC")	Maturity date	Nominal interest rate	Currency'000	MNT'000
Whole planet	MNT	2020.06.25	0.0%	165,992.00	165,992
Whole planet	MNT	2021.10.01	0.0%	184,448.00	184,448
Whole planet	MNT	2022.02.15	0.0%	196,508.00	196,508
Lendahand	EUR	2020.03.01	7.0%	0.43	1,287
Lendahand	EUR	2020.05.01	7.0%	1.43	4,316
Lendahand	EUR	2020.06.01	7.0%	0.95	2,877
Lendahand	EUR	2020.07.01	7.0%	0.80	2,423
Lendahand	EUR	2020.08.01	7.0%	1.15	3,483
Lendahand	EUR	2020.09.01	7.0%	0.85	2,574
Lendahand	EUR	2020.10.01	7.0%	1.00	3,029
Lendahand	EUR	2020.11.01	7.0%	1.00	3,029
VFI	MNT	2020.04.30	14.5%	1,200,730.00	1,200,730
VFI	MNT	2020.06.30	18.0%	2,052,283.00	2,052,282
BlueOrchard	MNT	2020.12.28	17.0%	1,980,750.00	1,980,750
Total					5,803,728

20. LONG-TERM LIABILITIES, CONTINUED

(2) Long-term loans as at 31 December 2017 are summarized as follows:

Lender	Original currency ("OC")	Maturity date	Nominal interest rate	Currency'000	MNT'000
ResponAbility	MNT	2019.03.18	26.4 %	1,533,615.00	1,533,615
Whole planet	MNT	2020.06.25	0.0 %	165,992.00	165,992
Whole planet	MNT	2021.10.01	0.0 %	184,448.00	184,448
Whole planet	MNT	2022.10.15	0.0 %	196,508.00	196,508
Lendahand	EUR	2019.11.01	7.0 %	1.10	3,187
Lendahand	EUR	2019.02.01	7.0 %	10.87	31,490
Lendahand	EUR	2020.03.01	7.0 %	6.81	19,729
Lendahand	EUR	2019.04.01	7.0 %	1.83	5,313
Lendahand	EUR	2020.05.01	7.0 %	6.71	19,440
Lendahand	EUR	2020.06.01	7.0 %	10.00	28,972
Lendahand	EUR	2020.07.01	7.0 %	10.13	29,365
Lendahand	EUR	2020.08.01	7.0 %	15.77	45,690
Lendahand	EUR	2020.09.01	7.0 %	14.97	43,371
Lendahand	EUR	2020.10.01	7.0 %	10.40	30,138
Lendahand	EUR	2020.11.01	7.0 %	19.20	55,639
Lendahand	EUR	2019.12.01	7.0 %	1.93	5,603
Total					2,398,500

21. EQUITY

The Company's share capital comprises common shares of 815,702 with a par value of MNT 10,000 per share. There were no changes in the amount of outstanding capital during the year ended 31 December 2018. The number of issued common shares as follows:

Line	Description	2017		2018	
		Number of shares	MNT'000	Number of shares	MNT'000
1	At 1 January	729,167	7,291,670	815,702	8,157,020
2	Issued during the prior year	86,535	865,350	-	-
	At 31 December	815,702	8,157,020	815,702	8,157,020

In accordance with a resolution of the shareholder's meeting, the Company converted a portion of borrowings to share capital, and issued 86,535 additional new shares with a par value of MNT 10,000 per share. As a result, the Company's share capital increased by MNT 865,350 thousand and this equity change was approved by FRC Decree #474, issued by the FRC Chairman dated 6 November 2017.

22. INCOME

Line	Description	Opening Balance	Closing Balance
1	Interest income	7,132,586	6,937,975
2	Commission income	226,500	224,215
3	Others	235,673	263,983
	Total	7,594,759	7,426,173

23. CONTINGENCY AND COMMITMENTS

As at 31 December 2018, the Company does not have any contingent liabilities and associated payment obligations to third parties that would require disclosure as contingent liabilities.

24. POST BALANCE SHEET EVENTS

There are no other subsequent events after the reporting period ended 31 December 2018 that require adjustment or disclosure in the financial statements.

25. TRANSLATION INTO MONGOLIAN LANGUAGE

These financial statements have been prepared in both English and Mongolian. In the case of misunderstanding between versions, the report in English will prevail.