

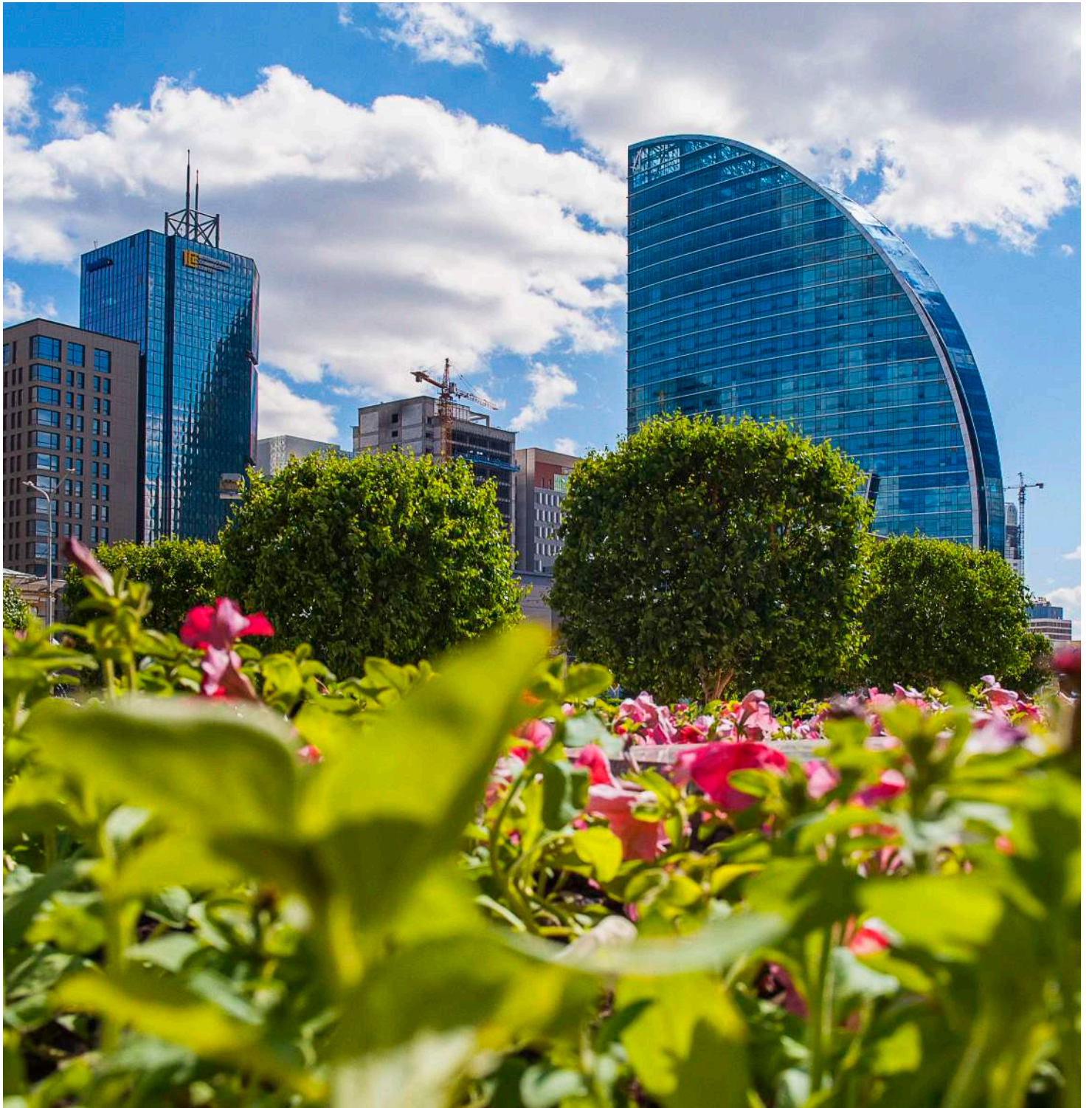
Mongolian Mortgage
Corporation Group
Annual Report
2017





Abbreviations

ABS	Asset-Backed Securities
ADB	Asian Development Bank
AML	Aggregate Mortgage Loan Portfolio
Board	Board of Directors
CRMU	Citizens' Representative Meeting of Ulaanbaatar
FAC	Finance and Audit Committee
HFC	Housing Finance Company
FM	Fiduciary Manager
FRC	Financial Regulatory Commission of Mongolia
HPI	Housing Price Index
IASB	International Accounting Standards Board
JSC	Joint-Stock Company
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KfW	German Development Bank
LLC	Limited Liability Company
MIK	MIK Group of Companies
MIK Holding	"MIK Holding" JSC
MIK HFC	"Mongolian Mortgage Corporation HFC" LLC
MSCHCD	Mongolian Securities Clearing House and Central Depository
MSE	Mongolian Stock Exchange
MNT	Mongolian Tugrug
NBFI	Non-Bank Financial Institution
RMBS	Residential Mortgage-Backed Securities
SPC	Special Purpose Company
TA	Transaction Administrator



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Message from the Management



Message from the Chairman of the Board of Directors

Dear Shareholders, Customers, and Partners, it is my pleasure to present you the Annual Report 2017 of MIK Group, founder of the secondary mortgage market in Mongolia.

As a public company, listed on the Mongolian Stock Exchange (classification I), we put significant effort to the enforcement of good governance principles on behalf of the shareholders, contributing to market development by adopting international best practices, promoting policies of the Bank of Mongolia and the Government on provision of affordable housing finance, and continuously increasing the shareholders' value.

The updated organizational structure was approved to better fit the objectives of introducing international standards and best practices and engaging international banking and financial institutions as shareholders.

As stated in the medium term Business Plan of the Group updated in 2017, we aim to increase the availability of housing financing through raising funds on international markets, diversifying the range of credit products to be acquired by MIK, and creating instruments to bridge maturity mismatch between loans and capital sources of commercial banks.

In the subsidy scheme framework under the Affordable Housing Finance Program implemented by the Bank of Mongolia and the Government of Mongolia, in 2017 the Group provided funding for subsidized mortgage loans for 62,000 people through the issuance of RMBS in the sum of MNT 605.6 billion. Thereby, the total outstanding balance of long-term bond payables of MIK reached MNT 2.6 trillion. Based on the Resolution of the Board of Directors, net profits for 2016 worth MNT 9.7 billion were distributed to MIK Holding shareholders as

dividend payout.

We bid farewell to 2017, the year full of successes and achievements, which was only made possible because of close cooperation and joint efforts on behalf of our shareholders, bondholders, partners, customers, and employees.

I would like to express my sincere gratitude to all of you for continuous support to MIK Group and extend best wishes for the successful development of the secondary housing finance market in Mongolia.

Together for financial development!

Yours sincerely,



M. Munkhbaatar
Chairman of the Board of Directors



Message from the Chief Executive Officer

Dear Shareholders, Customers, Partners,
and Colleagues,

In terms of the overall business environment, macroeconomic performance of Mongolia has improved and, in many ways, surpassed expectations compared to previous years. The Government of Mongolia, jointly with IMF, has been implementing a program aimed at stabilizing the economy, reducing fiscal deficit and debt levels, increasing foreign currency reserves and restraining boom-bust cycle through fiscal and monetary policies. Structural reforms were implemented in order to promote stable and inclusive economic growth, diversify the economy and improve its competitiveness in the medium term. Furthermore, international market prices for key export commodities have gone up leading to the recovery of the economy, as such GDP growth in 2017 reached 5.1% compared to 1.2% in 2016. Taking into consideration positive changes occurring in the Mongolian economy, major international credit rating agencies raised their credit rating of Mongolia to B-/B3.

Results of the detailed assessment of banking sector asset quality showed that credit risk management and portfolio quality of banks needed further improvement, while overall banking sector solvency was found stable.

For the reported year, the Group continued steady operations building on the success of previous years. In 2017, the Group newly established four SPCs, secured FRC license for the issuance of asset-backed securities, and acquired from banks and securitized mortgage pool of about 10 thousand individuals. In addition, mortgage pool with recourse was purchased from banks providing them liquidity of MNT 14 billion. The total volume of mortgage

pools purchased by MIK HFC LLC and its subsidiaries reached 60% of the total mortgage loans outstanding for the entire banking system, and total assets of the Group equaled MNT 2.8 trillion, constituting 10.2 % of GDP.

Under the fiduciary management process, the Group undertook activities to manage assets of RMBS, protect shareholders' interests and ensure securities payments in a timely manner. Starting from October 2016, funding for 8% interest rate mortgage lending was financed from repayments on bonds issued by MIK, and in 2017 the Group made repayment of MNT 320 billion, including principal and coupon payments, to investors, which served as an additional funding to increase the availability of mortgage loans.

With the view of enforcing effective risk management and internal control systems, and instilling "Three Lines of Defense" model, the Group made some changes to the organizational structure and established new Compliance Department. Also, the Group successfully introduced International Standard on Information Security Management System ISO/IEC 27001:2013 and was able to enhance its data security, information privacy, and accessibility.

MIK continued cooperation with banks and insurance companies in the process of implementation of the newly approved FRC Regulation on Mortgage Insurance. This regulation served as a crucial step in insuring long-term mortgage financing risks, thus contributing to the development of overall financial markets.

It is projected that the Mongolian economy would remain on solid growth trend and market intensity would improve further in the medium term. Hence, we are committed to active cooperation with public authorities,

international financial institutions and foreign investors towards further expansion of funding for housing finance and securing continued development of the secondary mortgage market in Mongolia.

We are confident that we will carry on mutually beneficial cooperation going forward and reinforce our commitment to the state housing policy.

Yours Sincerely,



B. Gantulga
Chief Executive Officer



Mission

Our mission is to promote development of primary and secondary mortgage markets by issuing and selling mortgage-backed securities on local and international capital markets, and to establish long-term financing scheme in Mongolia that would provide the population with affordable housing and support advanced urban development in the country.

*Together for
financial
development!*

Corporate Governance

About MIK Holding JSC




MIK Holding JSC floated 15% of its stakes worth of MNT 37.2 billion on the Mongolian Stock Exchange (MSE) in December 2015, which became the largest primary market trading in the history of the Mongolian capital markets, hence the company stock was listed in classification I of the MSE. Furthermore, with high trading volumes throughout 2017 and market capitalization reaching MNT 216 billion, MIK Holding JSC was included in the MSE TOP 20 index.

In order to ensure transparency and public disclosure of material information as well as information on operational policies, as required by the relevant Regulations, all essential information is regularly published on websites of the Group and MSE.

Shareholders Structure

Out of the total, 19.3% of MIK Holding JSC shares are held by state-owned entities, 80.6% by businesses and 0.1% by individuals. According to share distribution information released by Mongolian Securities Clearing House and Central Depository (MSCHCD), as of 31 December 2017, the total number of shareholders stood at 165 compared to 96 as of the same time period in 2016.

Shareholders Structure of MIK Holding JSC

State Ownership	Ownership of Business entities	Other Shareholding individuals
19.3%	80.6%	0.1%
		
Bank of Mongolia, State Bank and Development Bank of Mongolia	8 commercial banks and other private entities	

Source: Mongolian Securities Clearing House and Central Depository LLC /31 December 2017/

Shareholders' Meeting

The governing body of MIK Holding JSC is the Shareholders' Meeting. The Plenary Shareholders' Meeting of MIK Holding JSC convened on 28 April 2017 with 87.57% attendance rate, where shareholders reviewed the opinion of the Board of Directors (the Board) on the Group Financial Statements and Operational Report for 2017, approved the budget for the Board, and elected new board directors.

Dividend Distribution

Based on the Board decision, MIK Holding JSC resolved to distribute net profits of the company for 2016 of MNT 9.7 billion as dividend payout to its shareholders.

Dividends

Date	2016	2017
Number of shares for dividend distribution	20,709,320	20,709,320
Dividends per share (MNT)	268.0	471.6
Total dividends (MNT billion)	5.5	9.7
Dividends per share after tax (MNT)	241.2	425.4

Board of Directors and Board Committees

As stipulated in the Charter of MIK HFC LLC, the Board of MIK Holding JSC exercises the authority of the Shareholders' Meeting and of the Board meeting of MIK HFC LLC.

There are four Board Committees, namely, Finance and Audit Committee, Risk Management Committee, Operational and Legal Committee and Nomination and Remuneration Committee, which play a significant role in instilling good corporate governance policies and principles.

Functions of the [Finance and Audit Committee](#) include supporting the Board in exercising effectively its role for financial planning and oversight; approving and ensuring the accuracy of financial statements, assuring internal control policy and procedures; facilitating relationship with independent auditors and internal controllers; supervising as well as appraising the financial management and accounting operations; and providing necessary information and guidance.

Functions of the [Risk Management Committee](#) include forecasting market and credit risks, assessing and preventing of various risks related with the implementation of the Business plan approved by Board; monitoring the implementation of risk management policies and procedures; and providing necessary information and guidance.

Functions of the [Operational and Legal Committee](#) include exercising oversight over corporate strategic planning and its implementation; providing recommendations on the formulation of business and operational procedures,

including internal rules and regulations; and supporting relevant organizations in improving overall legal and regulatory environment.

Functions of the [Nomination and Remuneration Committee](#) include providing opinion on nomination, election and termination of the authority of the Board directors; presenting these matters to the Shareholders' Meeting for approval; determining remuneration policy for the Board, CEO and management team; and providing information and guidance on human resource planning and employee retention.

Introduction of the Board Directors

The Board of MIK Holding JSC consists of 9 members, of which 3 are independent directors. The Board members were elected by the Plenary Shareholders' Meeting held on 28 April 2017 in accordance with the Charter and the Company Law of Mongolia as well as in line with international standards of corporate governance.



M. Munkhbaatar

Chairman of the Board of MIK Holding JSC and a Chair of the Nomination and Remuneration Committee. He is an Advisor of the Ulaanbaatar City Bank, Business Administration Ph.D. Candidate.



B. Ganbat

Director of the Board of MIK Holding JSC and a Chair of Risk Management Committee and a Member of the Operational and Legal Committee. He is a Director of the Legal Department at the Bank of Mongolia. Master of Law.



B. Chojiljalbuu

Director of the Board of MIK Holding JSC and a Chair of the Operational and Legal Committee. He is a Deputy CEO and Head of Asset, Liability and Treasury Management Department at the Development Bank of Mongolia. Bachelor of Economics.



D. Badamchuluun

Director of the Board of MIK Holding JSC and a Member of the Risk Management Committee and the Operation and Legal Committee. She is a Director of the Risk Management Department at Capital Bank. Bachelor of Business Administration.



Ch. Khashchuluun

Independent Director of the Board of MIK Holding JSC and a Member of the Finance and Audit Committee, the Operational and Legal Committee and the Nomination and Remuneration Committee. He is a Professor of the National University of Mongolia. Ph.D. in Economics.



Ch. Otgochuluu

Independent Director of the Board of MIK Holding JSC and a Member of the Finance and Audit Committee, the Risk Management Committee and the Nomination and Remuneration Committee. He is a Consultant of the Economic Policy and Competitiveness Research Center. Master of Economics.



E. Shijir

Independent Director of the Board of MIK Holding JSC, a Chair of the Finance and Audit Committee and a Member of the Nomination and Remuneration Committee. Bachelor of Informatics and Financial Management.



L. Gantumur

Director of the Board of MIK Holding JSC and Member of Finance and Audit Committee and Risk Management Committee. He is a Director of the Treasury Department at the Trade and Development Bank, Bachelor of Business Administration.



B. Enkhtuya

Director of the Board of MIK Holding JSC and a Member of the Finance and Audit Committee, the Operational and Legal Committee and the Risk Management Committee. She is a Director of the Business Development Division at Golomt Bank. Master of Economics and Software Engineering.

Board of SPCs

Independent directors, who meet the requirements specified in the Asset-Backed Securities Law, are elected annually as members of the Board of SPCs by the Shareholders' Meeting. The Board performs duties and responsibilities to ensure effective oversight over SPC operations, deal with potential conflict of interest, secure independence from shareholders, provide necessary recommendations and advice, and exercise other duties as specified in the relevant laws and regulations.

Introduction of Board Directors of SPCs

SPC	Name	Position
Board of MIK Asset One SPC LLC	B.Osorgarav	Chair
	B.Oyunbileg	Member
Board of MIK Asset Two SPC LLC	E.Tsolmon	Chair
	L.Ganchimeg	Member
Board of MIK Asset Three SPC LLC	B.Oyunbileg	Chair
	B.Osorgarav	Member
Board of MIK Asset Four SPC LLC	E.Tsolmon	Chair
	G.Oyungerel	Member
Board of MIK Asset Five SPC LLC	B.Osorgarav	Chair
	B.Oyunbileg	Member
Board of MIK Asset Six SPC LLC	L.Ganchimeg	Chair
	E.Tsolmon	Member
Board of MIK Asset Seven SPC LLC	G.Oyungerel	Chair
	E.Tsolmon	Member
Board of MIK Asset Eight SPC LLC	S.Bekhat	Chair
	E.Oyunbileg	Member
Board of MIK Asset Nine SPC LLC	B.Oyunbileg	Chair
	B.Osorgarav	Member
Board of MIK Asset Ten SPC LLC	E.Oyunbileg	Chair
	S.Bekhat	Member
Board of MIK Asset Eleven SPC LLC	S.Bekhat	Chair
	E.Oyunbileg	Member
Board of MIK Asset Twelve SPC LLC	E.Oyunbileg	Chair
	S.Bekhat	Member
Board of MIK Asset Thirteen SPC LLC	G.Oyungerel	Chair
	L.Ganchimeg	Member
Board of MIK Asset Fourteen SPC LLC	G.Oyungerel	Chair
	L.Ganchimeg	Member
Board of MIK Asset Fifteen SPC LLC	N.Batnasan	Chair
	B.Batdorj	Member
Board of MIK Asset Sixteen SPC LLC	N.Batnasan	Chair
	B.Batdorj	Member

Chairs of the Boards of SPCs

B.Osorgarav

Chair of MIK Asset One SPC LLC and MIK Asset Five SPC LLC. He is a General Director at Ulaanbaatar Audit Corporation LLC. Mr.Osorgarav is an Honored Economist of Mongolia, awarded with Sukhbaatar Medal.

B.Oyunbileg

Chair of MIK Asset Three SPC LLC and MIK Asset Nine SPC LLC. She is a Chief Executive Officer at Odon Consulting LLC. Master of Economics of Foreign Trade and International Marketing.

L.Ganchimeg

Chair of MIK Asset Six SPC LLC. She is a Lawyer at MIAT SOJSC. Master of Law.

E.Tsolmon

Chair of MIK Asset Two SPC LLC and MIK Asset Four SPC LLC. She is a Chief Executive Officer at ABTS NBFJ LLC. Master of Business Administration.

G.Oyungerel

Chair of MIK Asset Seven SPC LLC, MIK Asset Thirteen SPC LLC and MIK Asset Fourteen SPC LLC. She is a Chief Executive Officer at A Estate LLC. Master of Economics.

S.Bekhat

Chair of MIK Asset Eight SPC LLC and MIK Asset Eleven SPC LLC He is a Chief Executive Officer at Mongolian Public-Private Partnership Development Center. Master of Economics.

E.Oyunbileg

Chair of MIK Asset Ten SPC LLC and MIK Asset Twelve SPC LLC. She is a Consultant of the corporate governance project at the International Finance Corporation. Master of International Economics.

N.Batnasan

Chair of MIK Asset Fifteen SPC LLC and MIK Asset Sixteen SPC LLC. He is a Professor at the School of Business of the National University of Mongolia. Ph.D. in Economics.

Internal Audit

The Internal Audit Unit adopted the International Standards for Professional Practice of Internal Auditing, this means it exercises independent oversight over legal affairs, finances, risk management and governance of the Group and adheres to international best practices.

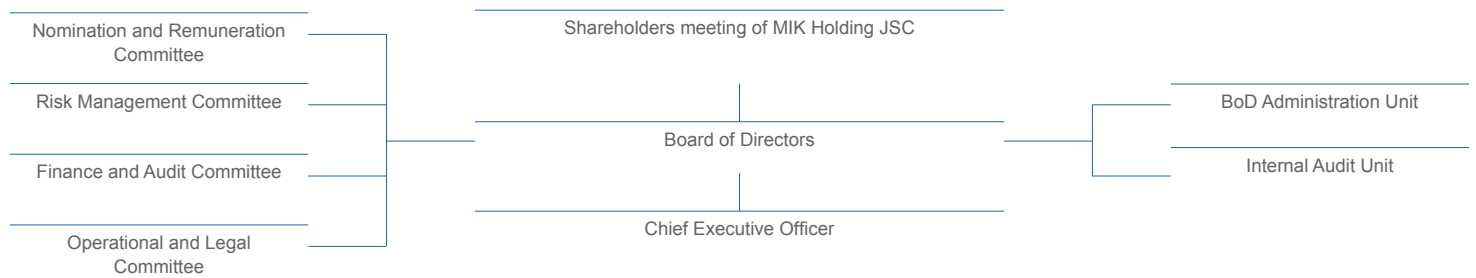
In 2017, the Internal Audit Unit conducted compliance and process review of company operations, provided timely and accurate information on risks and internal controls to the Board as well as Finance and Audit Committee, and supported the Chief Executive Officer and management team in their effort to maintain operational risks at acceptable levels.

Moreover, the Internal Audit Unit received professional briefs and information on the best practices from the International Institute of Internal Auditors, engaged its staff in relevant training on a regular basis, which enabled the company to deliver high-quality internal auditing.

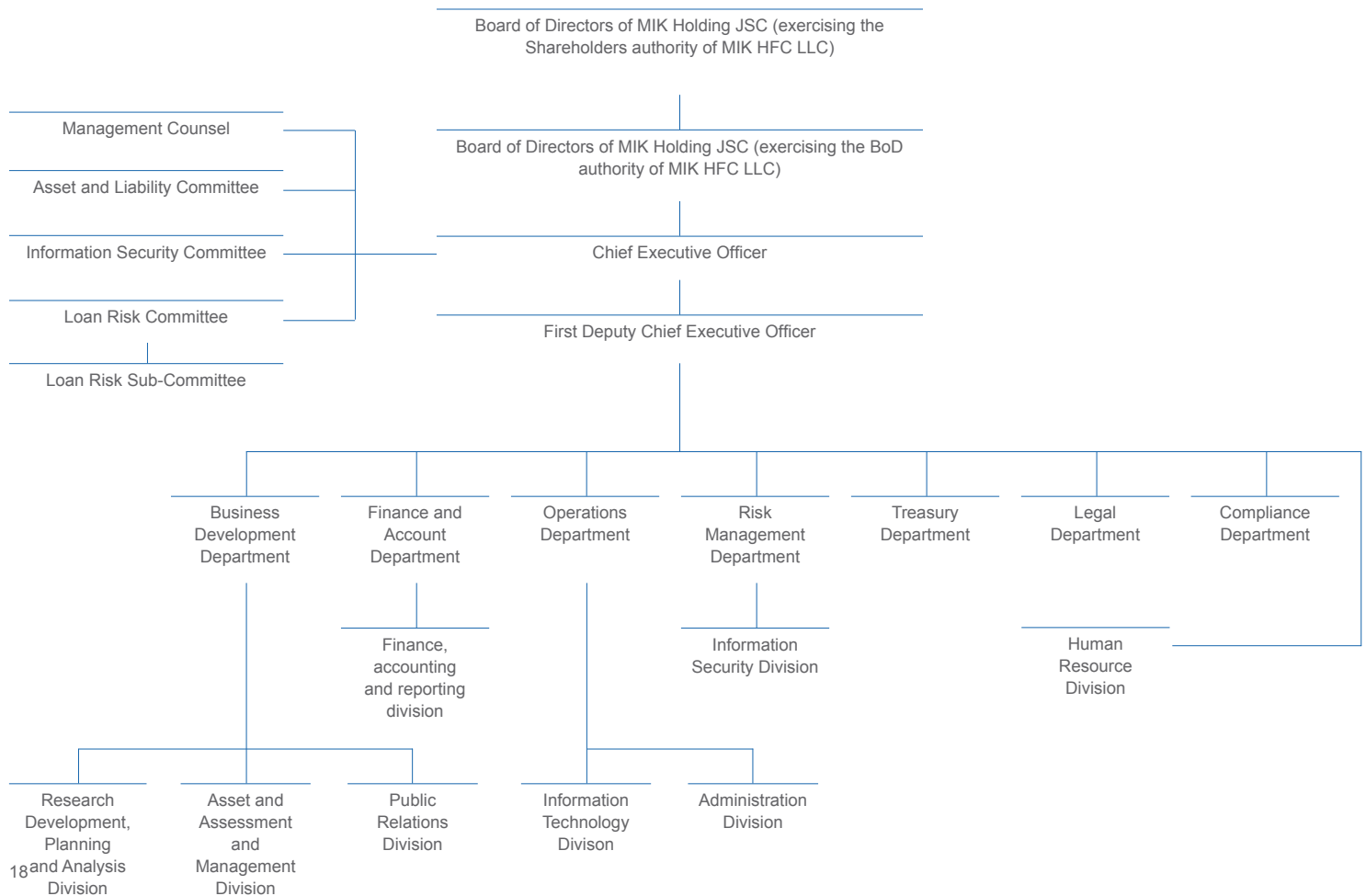
Organizational Structure

MIK HFC LLC operations proceeded under the following structure, after structural changes were made.

Organizational Structure of MIK Holding JSC



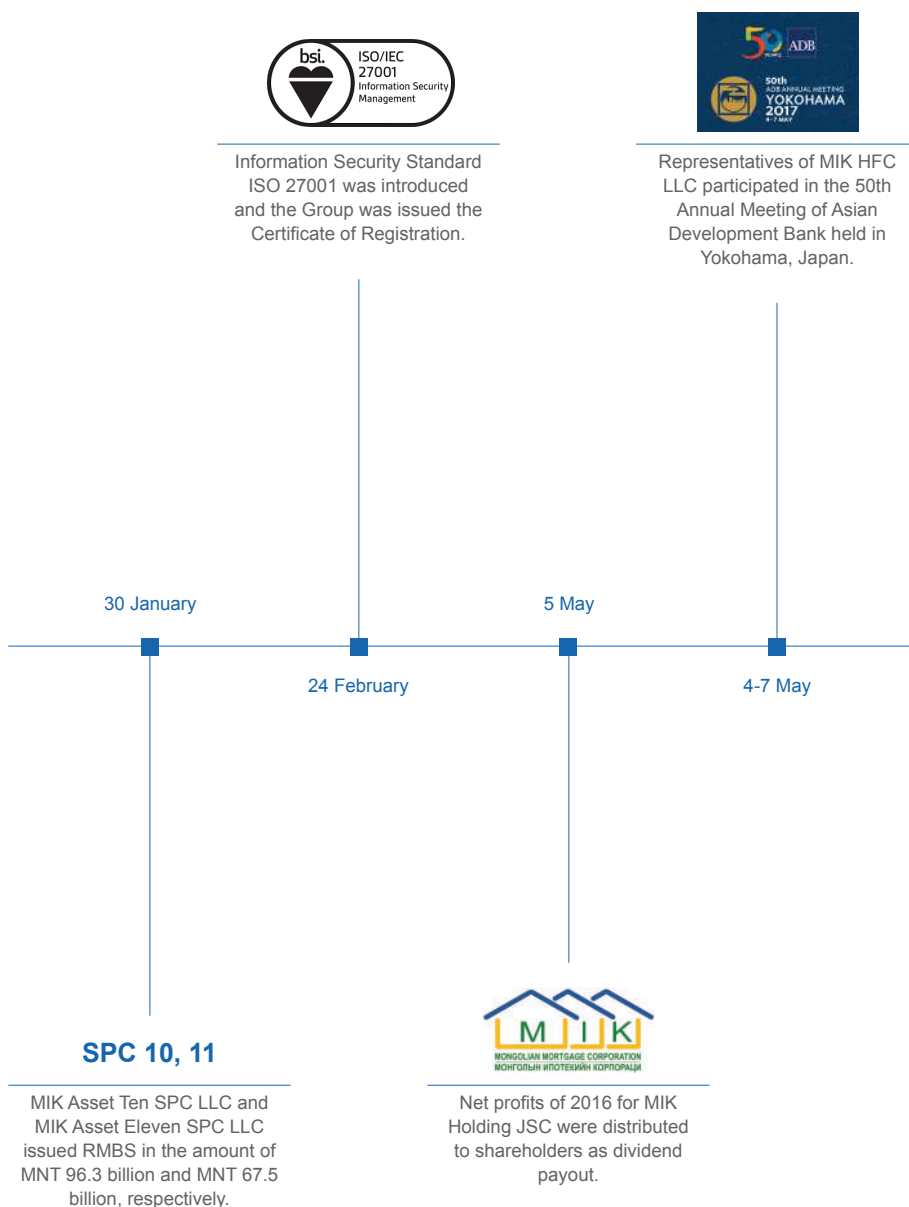
Organizational Structure of MIK HFC LLC

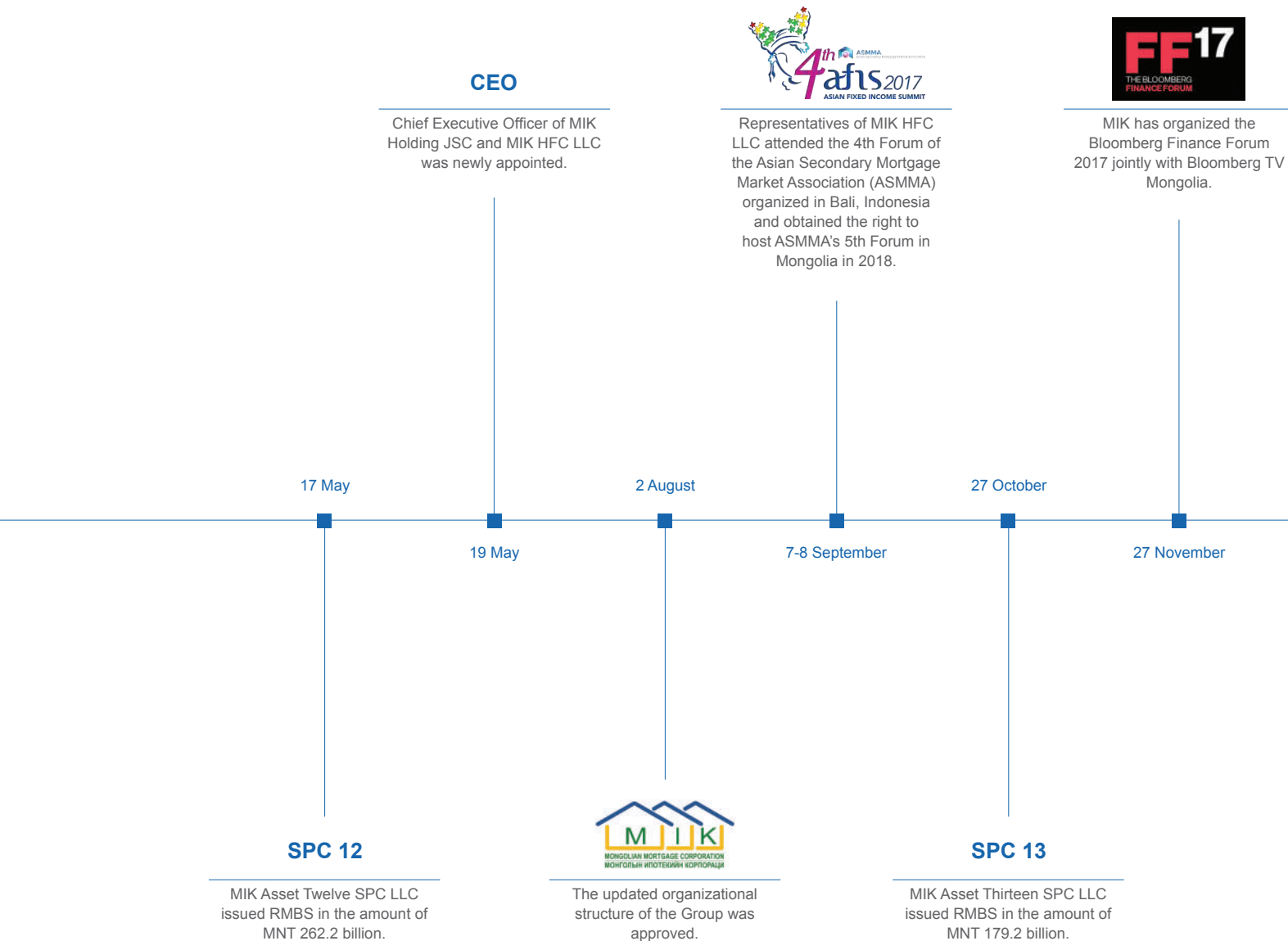


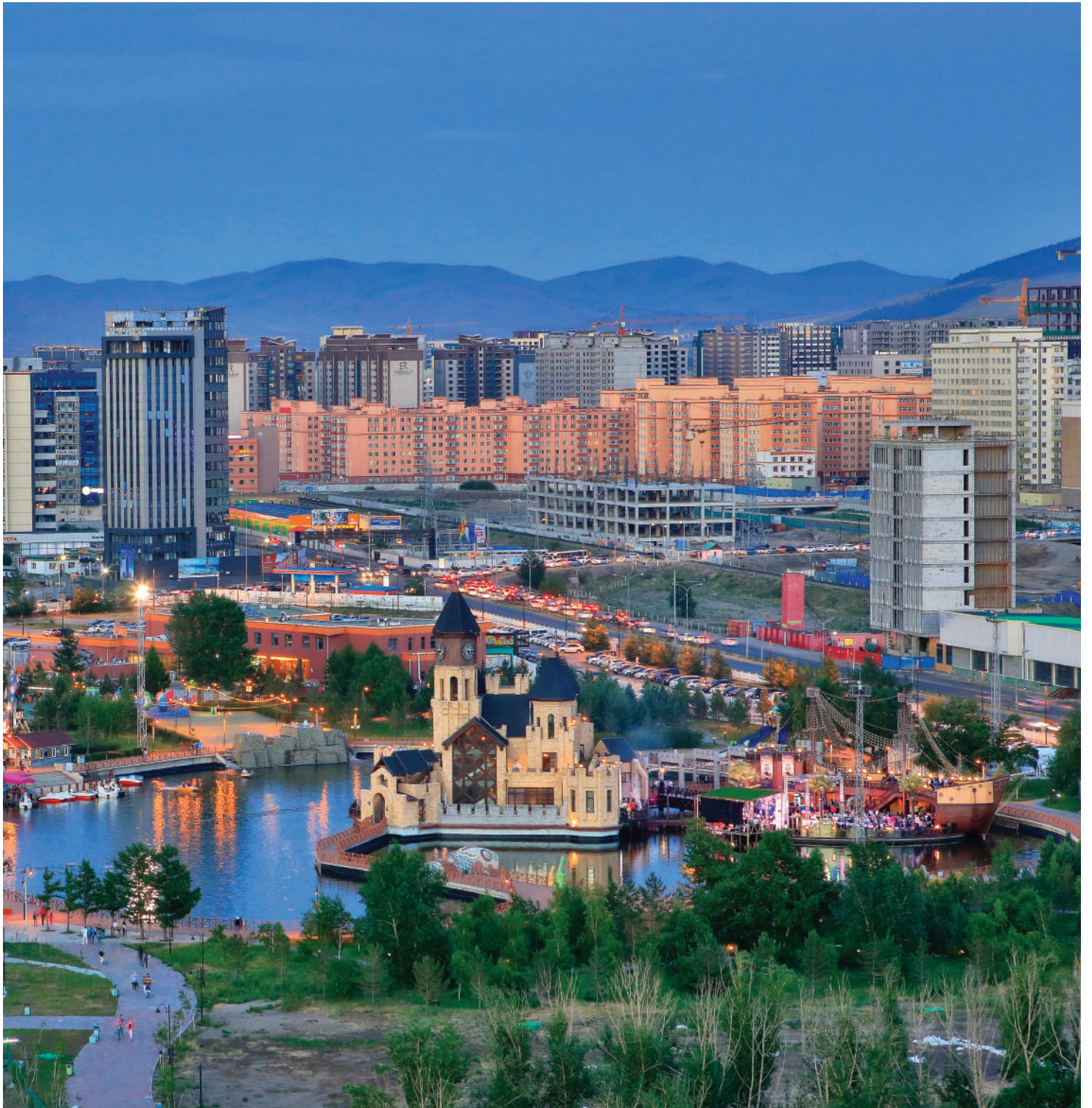
Key changes made to the organizational structure are defined below:

- Management Council and Committees under the Chief Executive Officer were newly established, and procedures regulating their activities were approved.
- Due to expansion of company operations, the Compliance Department was newly established for the purposes of implementing effective compliance risk management, maintaining potential compliance risks at minimum level and enhancing “Three Lines of Defense” model in company.
- The Securities Market Research Sub-Division and the Securities Division were integrated into the Research Development, Planning and Analysis Division to undertake preparation of business plans, development of projections and models and to carry out research and analysis needed for development and launch of new products.
- The Mortgage Asset Assessment Division was transformed into the Asset Assessment and Management Division in order to increase operational efficiency by aggregating all activities related to secondary analysis performed for pooling and acquisition of mortgage loans.
- The Marketing, Product Development and Management Sub-Division was transformed into the Public Relations Division in order to re-define public relations policy and expand external relations of the company.
- To comply with the international standards for information security management and to instill them in company operations the Information Security Division was newly established under the Risk Management Department.

Highlights of 2017







Business Environment

Economy

Improved macroeconomic performance is creating positive sentiment for 2018-2020. GDP growth of Mongolia was strong, rising from 1.2% in 2016 to 5.1% in 2017. IMF estimates that the economic growth will continue and reach 5.0% in 2018 and 6.3% in 2019.

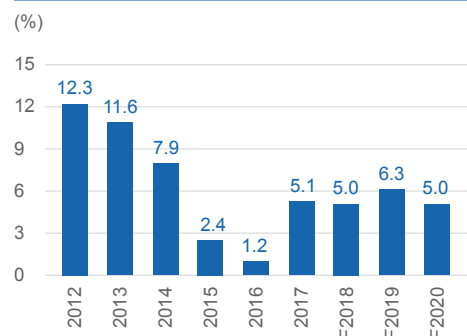
According to the State Monetary Policy Guidelines for 2018, the Bank of Mongolia aims to keep target inflation rate at 8% throughout the period of 2018-2020. Also, in December 2017 the Bank of Mongolia decreased the policy rate to 11% with the view of stimulating economic growth, intensifying business activities, and promoting employment and financial sustainability.

The cost of capital is likely to decrease, as such, interest rate on 3 months Government bond fell to 11.8% in September 2017, a decrease by 5.2 points compared to the previous year. In October 2017, the Government successfully issued a 5.5-year Geregé bond worth of USD 800 million at an interest rate of 5.625%, which was lower than the interest rate of Khuraldai bond issued earlier in the year by 3.125 points.

At the end of the reported year, total loan portfolio of the banking sector stood at MNT 13.5 trillion, of which 12.8% were mortgage loans. As of year-end 2017, total assets of the commercial banks reached MNT 28.8 trillion, whereas the total assets of MIK reached MNT 2.8 trillion, which effectively constitutes 9.7% of the banking sector.

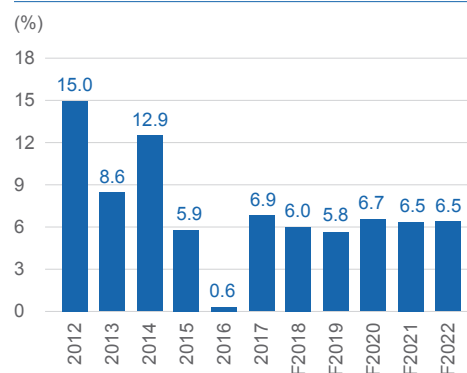
Upside factors driving demand for mortgage loans have been improving. At the end of 2017, the unemployment rate decreased by 1.3 points to 7.3%, and the monthly average income per household increased by 13.8% to MNT 1.04 million compared to the previous year.

Real GDP Growth



Source: IMF

Inflation Rate



Source: IMF

Interest Rate

Interest rate	2016-12	2017-12
Weighted average interest rate (%)		
Policy rate	15.00	11.00
Central bank notes	16.10	11.70
Government bond (12 weeks)	16.98	11.80
Deposits	13.28	12.90
Loans	20.60	18.80

Source: National Statistics Office

Statement of Financial Position of Banks

Indicators	2016/12	2017/12
Balance sheet (MNT billion)		
Total assets	25,338.4	28,772.9
- Bank reserves	2,924.8	3,385.9
- Central bank notes and Government bills	4,072.2	6,004.2
- Foreign assets	2,067.1	1,301.2
-Loans	12,337.5	13,506.5
Total liabilities	22,402.3	25,623.0
- Current accounts	2,965.2	4,095.6

Source: Bank of Mongolia

Housing Market Environment

Housing sales doubled in 2013-2017 following the implementation of the program on establishing long-term sustainable housing finance system. In the early years of the program, the Housing Price Index (HPI) started to climb and reached 1.26 in 2014 due to rise in housing prices, however, it has been stable in the range of 0.98-1.02 since the first half of 2016.

Housing Price Index

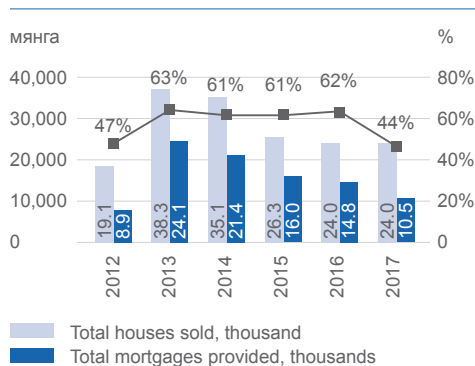


Source: Tenkhleg zuuch

According to housing market outlook indicators, it is expected that housing supply would be higher in the years to come. As of December 2017, there are 60.8 thousand housing units being built, of which 5 thousand apartment buildings were commissioned, 7.4 thousand units are to be commissioned in the coming two years and 48.4 thousand houses are to be commissioned in time period beyond two years. The statistics data show that in average 1,023 apartment units were sold each month in 2017.

The largest number of apartments were sold in the year the program started, 63% of which was financed by mortgage loans. Between 2013-2016, over 60% of apartments sold were financed by mortgage loans, while in 2017 this indicator declined to 44%.

Mortgage lending and housing sales



Эх сурвалж: Тэнхлэг зууч, Монголбанк

During winter, air pollution in Ulaanbaatar by far exceed the acceptable levels set by the World Health Organization. National Program on Reduction of Air and Environmental Pollution approved by the Government stipulates that ger area redevelopment is one of the key and optimal solutions to decrease the air pollution in Ulaanbaatar, and thus measures have been planned to create infrastructure in ger area and provide low and mid-income households with access to long-term, low-interest rate mortgage loans.

According to the Ulaanbaatar City Master Plan 2016-2020, the following projects are envisaged to provide housing for 100 thousand households, out of which 6,000 household apartments are commissioned as of now.

Projects Implemented in Ulaanbaatar

Projects	Target	Progress
Ger Area Redevelopment	Residential apartment	7%
	71,290 households	4,890 households
Land Reorganization	Single house	0%
	10,150 households	
Rental Housing Development	Rental apartment	11%
	7,000 households	787 households
Reconstructing old residential apartment	Residential apartment	28%
	1,117 households	316 households
ADB-Green Affordable Housing	Income restricted apartment	0%
	10,000 households	

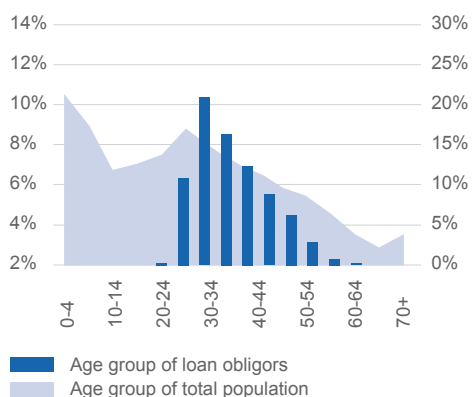
Source: Capital City Governor's Office, Ger Area Infrastructure Department and Citizen's representative's meeting

Mortgage Market Environment

The average share of mortgage loan portfolio in GDP for 103 countries stood at 25.1% in 2015, while this indicator for Mongolia as of year-end in 2017 was 15.7%. The mortgage lending share in GDP is lower than the global average, indicating potential for expansion of mortgage lending in the future.

Age classification of recipients of mortgage loans acquired by MIK shows that age group of 30-34-year-old take up the largest share, which can be explained by the fact that this age group has the most financial capability to accumulate down payments as well as loan repayment funds. Majority of the adult population of Mongolia falls under 25-29 age group, besides 216 thousand households live in ger area, which allows speculation that the housing demand is highly likely to increase in the future.

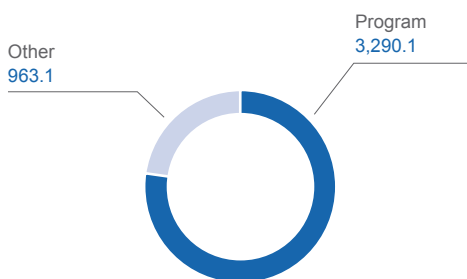
Population Age Group and Borrowers Age Group



Source: NSO and MIK

As of year-end of 2017, the total outstanding balance of mortgage loans reached MNT 4.2 trillion and the number of borrowers reached 93.1 thousand people, of which 77.4% or MNT 3.3 trillion were disbursed under the Housing Program and the 22.6% or MNT 963.1 billion were funded from other sources. At present, there are mortgage loans worth of MNT 772.0 billion under housing program and other mortgage loans worth of MNT 933.2 billion available on the market for MIK acquisition.

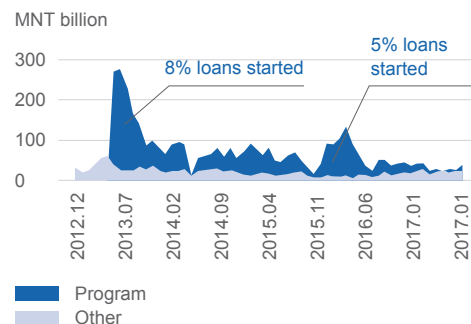
Outstanding Balance of Mortgage Loans as of December 2017 (MNT billion)



Source: Bank of Mongolia and MIK HFC LLC

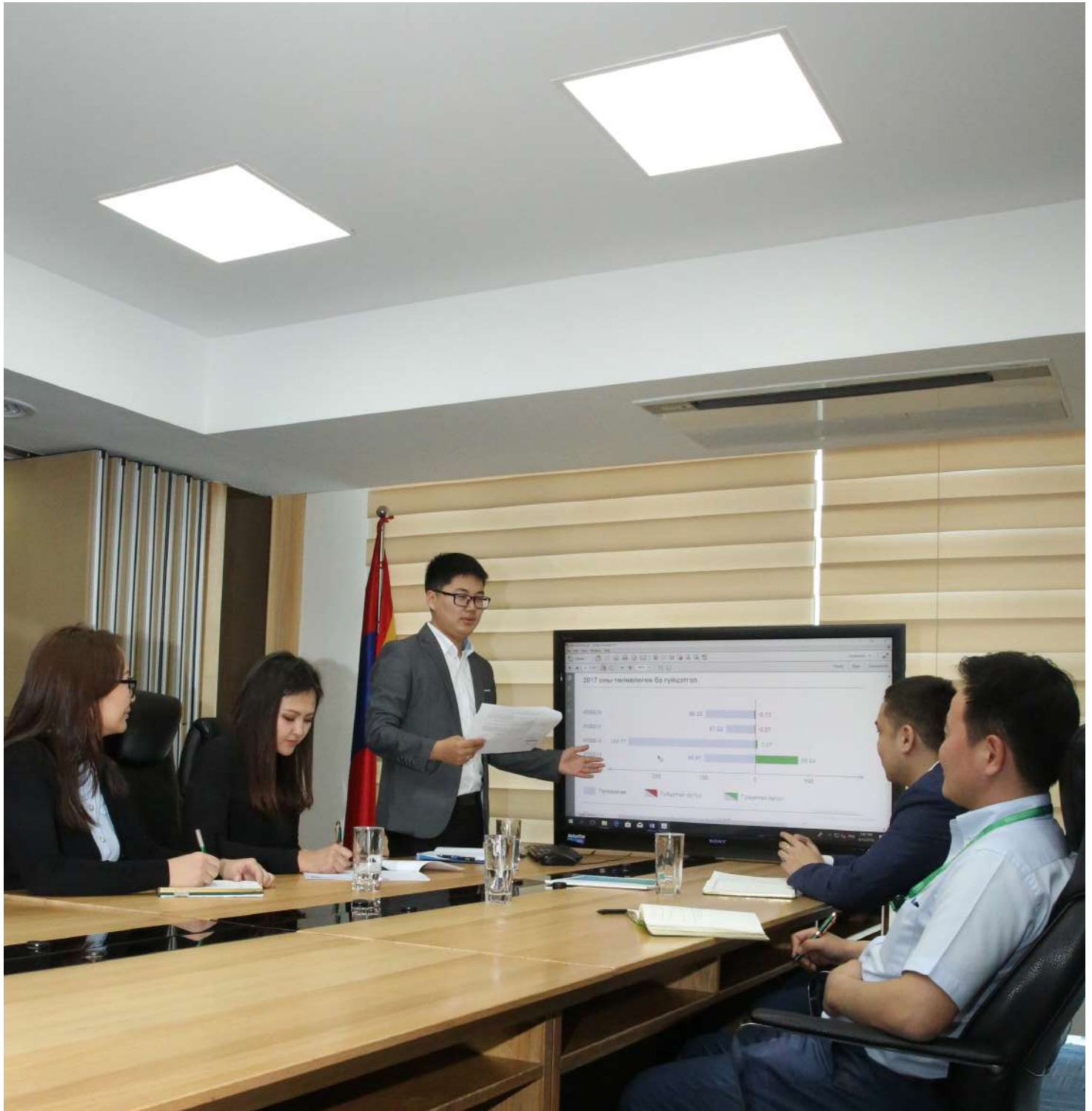
In accordance with amendments made to the Mortgage Financing Regulations in October 2016, mortgage loans under the program are to be financed only from repayments senior RMBS, which resulted in the decline of mortgage lending by 43.8%. However, the non-program loans with market rate lending have increased by 68.7% and total mortgage lending has decreased by 23.6% in 2017 compared to the previous year.

Mortgage Lending (2012-2017)



Source: Bank of Mongolia

The Government is committed to continuing housing finance program. In doing this, it aims to develop infrastructure of ger area, provide housing to the target group, promote green housing and reduce air pollution.



Operational Performance

Business Activities

Types of acquisition of mortgage loan portfolios

MIK is engaged in purchasing mortgage loan portfolio with cash and with use of other financial instruments in order to improve liquidity of mortgage originating banks. Mortgage loan portfolio purchase agreements are classified as follows based on how loan risk is transferred.

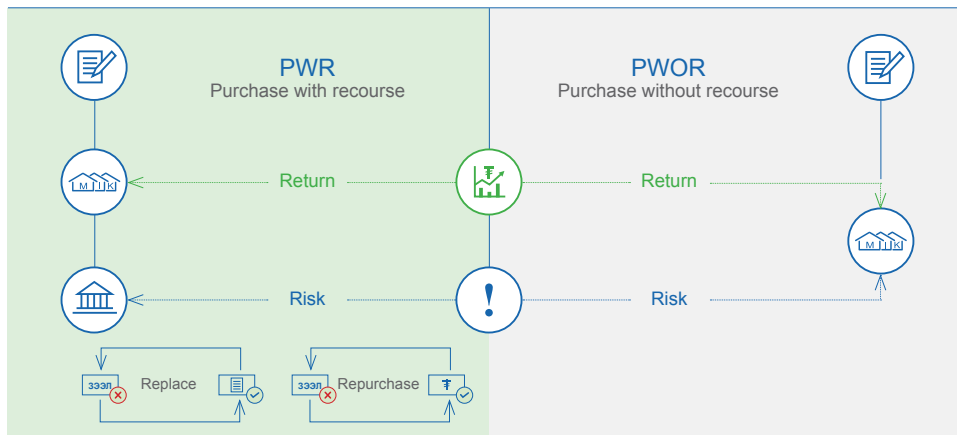
1. Purchase without recourse (PWOR)

The transaction which allows transfer of both mortgage returns and potential risks. This transaction is used for trading of subsidized interest rate mortgage loans under the housing program implemented by the Government of Mongolia and the Bank of Mongolia with RMBS.

2. Purchase with recourse (PWR)

The transaction which allows return or exchange of the purchased mortgage loans to a seller or an underwriting bank in case there is a risk of loan default.

Types of Purchases

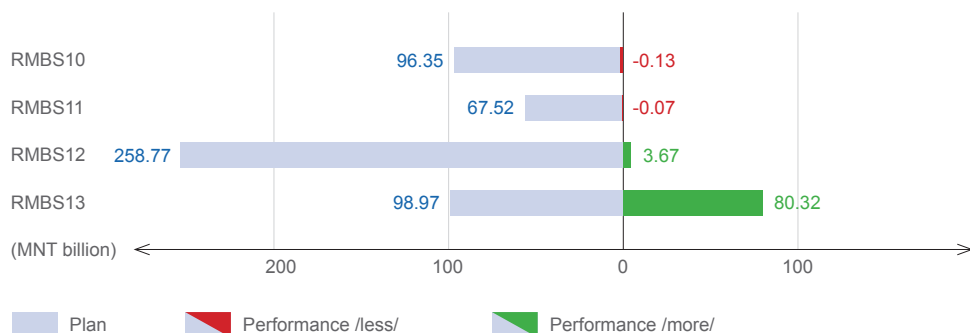


Purchase without recourse

In the scheme of subsidized interest rate mortgage loans implemented by the Government of Mongolia and the Bank of Mongolia, MIK participates as a secondary mortgage market professional institution. Since June 2013, MIK has acquired subsidized interest rate mortgage loans from commercial banks without recourse, securitized mortgage pools by issuing RMBS.

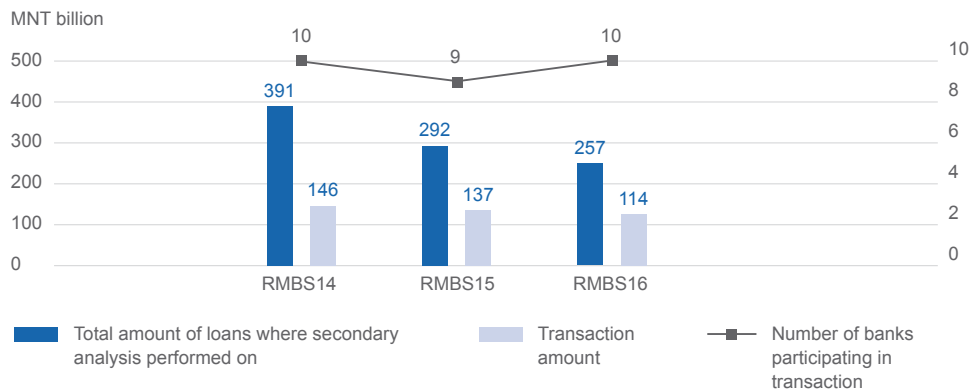
In 2017, MIK planned to purchase without recourse pool of 8% interest rate mortgage loans in the sum of MNT 521.6 billion for subsequent securitization, actual performance for the year stood at 116.1% of the planned performance equaling MNT 605.6 billion.

2017 plan versus Performance (MNT billion)



Moreover, mortgage pools totaling MNT 399.1 billion have been selected for purchase with 14-16th RMBS transactions.

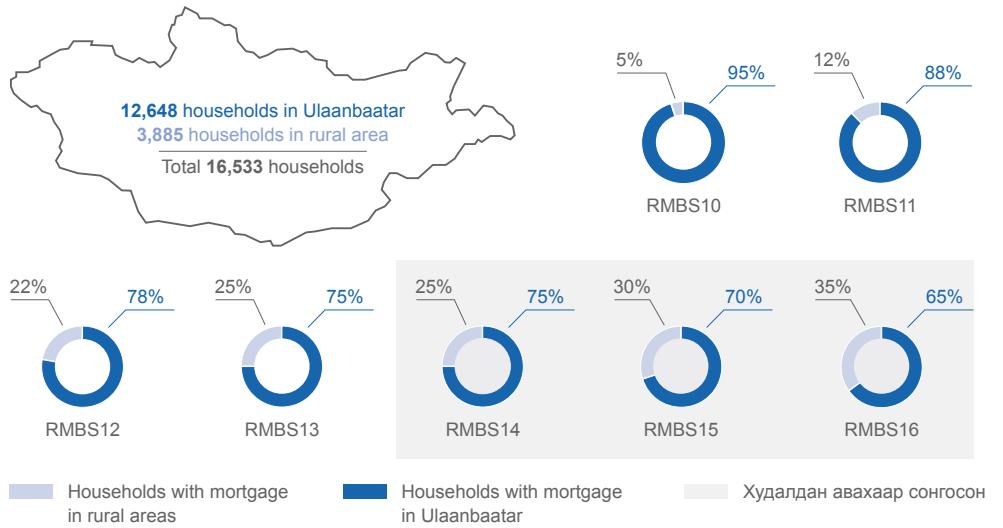
Pooling of Mortgage Loans in 2017



A total of 9,998 mortgage loans was purchased for 10-13th RMBS transactions in 2017 and the pooling of 6,535 mortgage loans was undertaken for 14-16th RMBS transactions in continuation of the housing finance scheme.

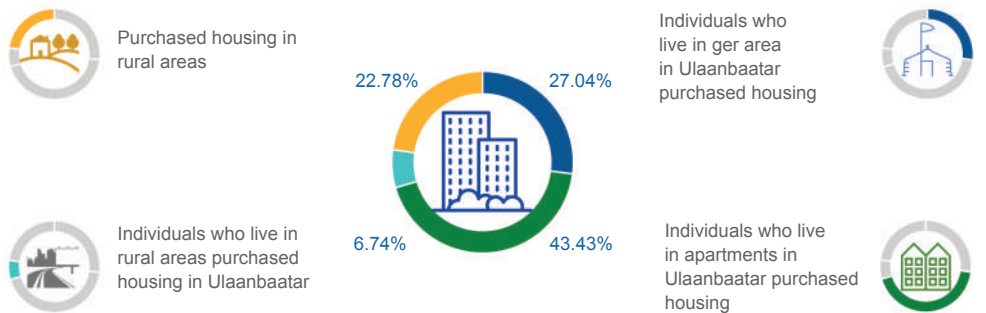
Out of a total of 16,533 mortgage loans pertaining to 10-16th RMBS transactions, 12,648 were originated in Ulaanbaatar and 3,885 in rural areas.

Geographical Distribution of Mortgage Loans Purchased in 2017 and of Mortgage Loans Selected for Purchase



As of the year end of 2017, 27% of borrowers, who have outstanding balances in RMBS pool, were able to move from ger area to comfortable apartments in Ulaanbaatar through the use of mortgage financing.

Impact on Borrower Living Conditions

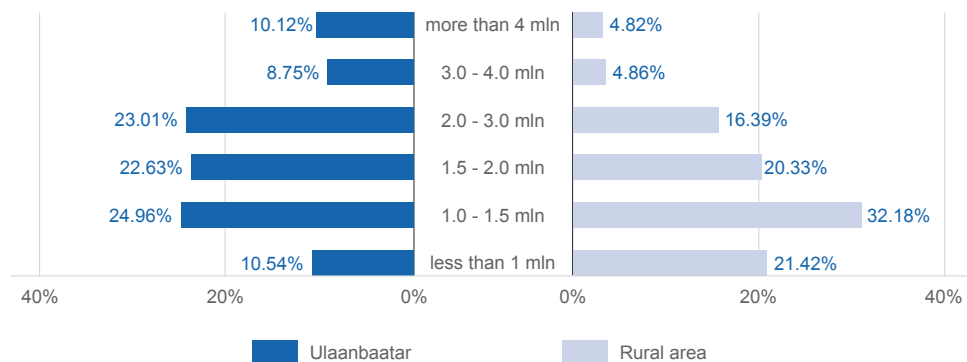


Research on borrowers' income

Since a mortgage is a long-term loan stability and sustainability of household income is an important factor. Since January 2017, a dedicated software module was developed for the purpose of investigating the stability of borrower's income and related individuals participating in mortgage loans, and the concerned records have been accumulated. Based on the results of this research, a database of income of all borrowers under 1-13th RMBS transaction, including entries on household income level, location of collateral property on mortgages purchased, was created.

Most of the borrowers living in rural areas work in the “Public Administration and Defense Sector”, whereas in Ulaanbaatar those employed in “Wholesale and Retail Trade Sector” constitute the majority of mortgage holders.

Classification of borrowers’ household income under RMBS 1-13 transactions



Employment of Borrowers in Ulaanbaatar, by sector



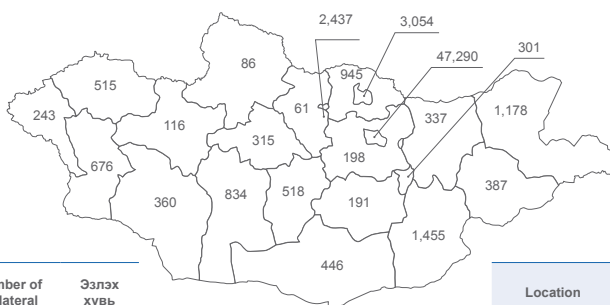
Employment of borrowers in rural areas, by sector



Distribution of loan collateral assets under RMBS transactions

A total of 55,397 mortgage loans with 61,943 collateral properties was securitized through RMBS transactions. Geographical distribution of collateral properties is shown below:

Geographical distribution of collateral properties under RMBS 1-13



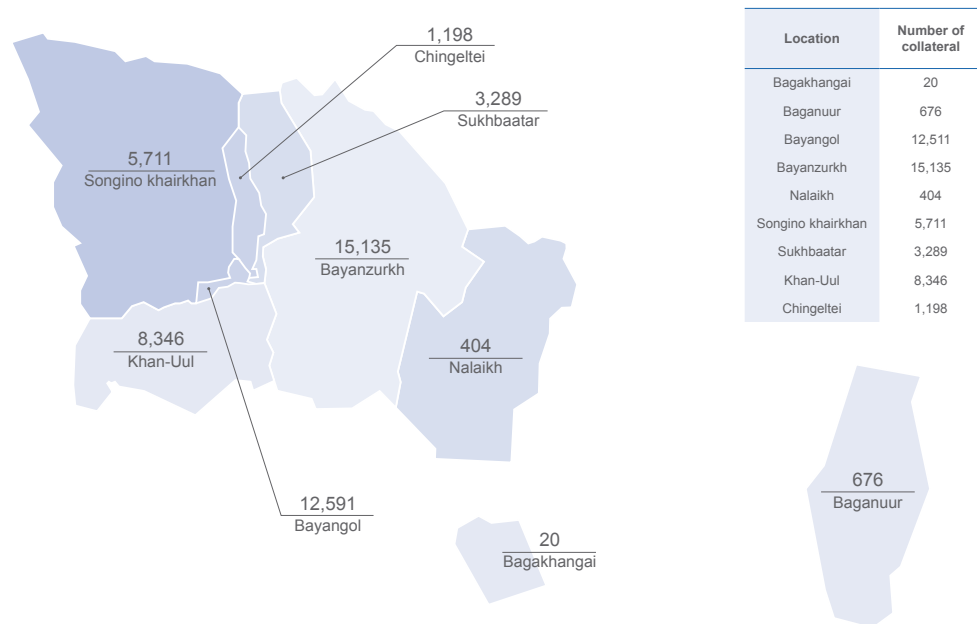
Location	Number of collateral	Эзлэх хувь
Ulaanbaatar	47,290	76.34%
Arkhangai	315	0.51%
Bayan-Ulgii	243	0.39%
Bayankhongor	834	1.35%
Bulgan	61	0.10%
Gobi-Altai	360	0.58%
Gobisumber	301	0.49%
Darkhan-Uul	3,054	4.93%
Dornogobi	1,455	2.35%
Dornod	1,178	1.90%
Dundgobi	191	0.31%

Location	Number of collateral	Эзлэх хувь
Zavkhan	116	0.19%
Orkhon	2,437	3.93%
Uvurkhangai	518	0.84%
Umnugobi	446	0.72%
Sukhbaatar	387	0.62%
Selenge	945	1.53%
Tuv	198	0.32%
Uvs	515	0.83%
Khovd	676	1.09%
Khuvsgul	86	0.14%
Khentii	337	0.54%

Байршил	Number of collateral	Эзлэх хувь
Ulaanbaatar	47,290	76.34%
Rural area	14,653	23.66%
Total	61,943	100%

Location of collateral properties in Ulaanbaatar is shown below by 9 districts:

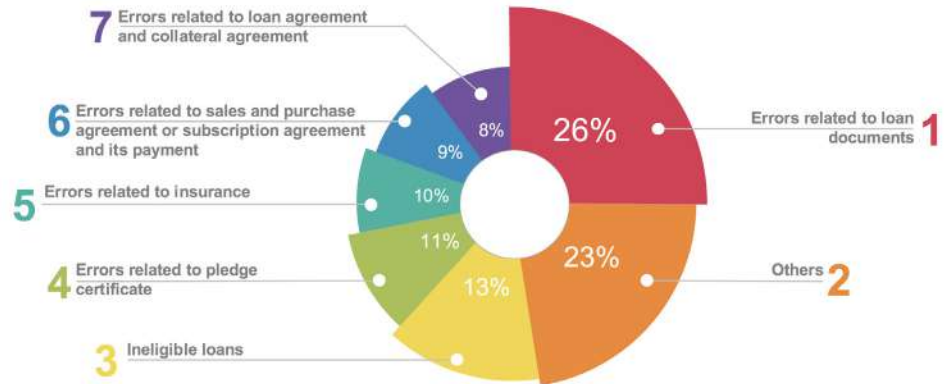
Geographical distribution of collateral properties located in Ulaanbaatar, by district



Results of the secondary analysis performed for pooling of mortgage loans

Secondary analysis is conducted prior to acquisition of mortgage pools from banks in order to verify compliance with legal requirements and eligibility criteria. During the reported period, secondary analysis of mortgages was performed for 13-16th RMBS transactions, which revealed that 43.75% of loans were compliant, and remaining 56.25% of loans did not comply due to following 7 main reasons:

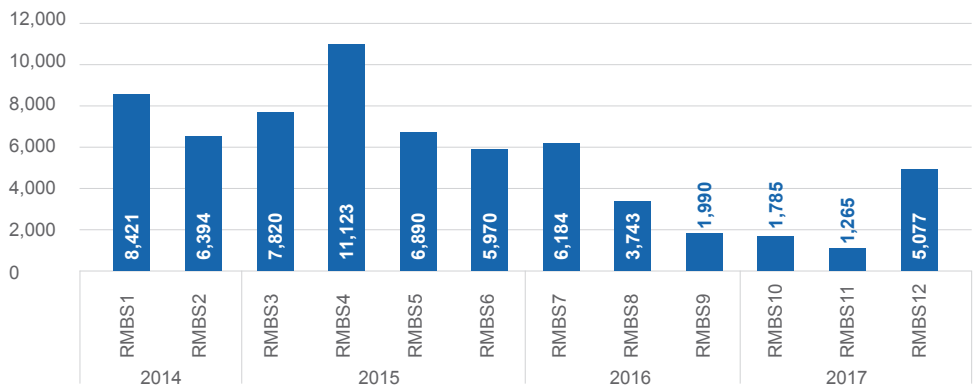
Non-compliance reasons revealed by the secondary analysis performed in 2017



Registration of loan on collateral assets for mortgage loans acquired

In accordance with the license issued by the Financial Regulatory Commission (FRC) of Mongolia, a request to transfer loans for 8,127 collateral properties of RMBS 10-12 were issued, and the special registrations were made at the General Authority for Intellectual Property and State Registration in 2017.

Number of collateral loan registered between 2014-2017, by each RMBS



Securitization - RMBS

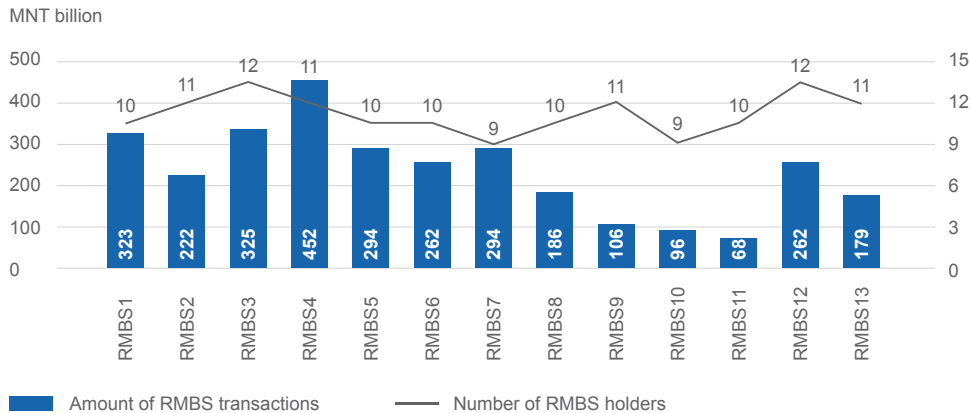
Securitization is the process of attracting necessary financial resources through the issuance of securities to investors by aggregating cash flows from pooled long-term mortgage loans and other financial receivables on the balance of banks and financial institutions.

As part of the housing finance ecosystem, MIK operates to increase availability of mortgage loans by improving the liquidity of banks through securitization of long-term mortgage loans.

In accordance with Asset-Backed Securities Law, MIK HFC LLC establishes special purpose companies and obtains relevant licenses from the FRC, which allows it to issue and trade RMBS on capital markets.

Within the framework of the housing program on providing subsidized rate mortgage loans implemented jointly by the Government of Mongolia and the Bank of Mongolia, MIK HFC LLC has performed 13 RMBS transactions and issued RMBS in the total sum of MNT 3.1 trillion. In 2017, RMBS of MNT 605.6 billion were issued backed by mortgage loans through 10th, 11th, 12th and 13th securitization processes.

Information on RMBS



Fiduciary Management and Transaction Administration

As of the end of 2017, MIK HFC LLC established 16 subsidiaries and concluded Fiduciary Management and Transaction Administration Agreements with each SPC for managing RMBS assets, protecting interests of their investors and executing their securities payment transactions.

In line with the Fiduciary Management Agreement established with each SPC following activities are undertaken:

- Preparation of financial statements and bookkeeping related to collateral assets of each SPC
- Preparation of the Fiduciary Management Report on a quarterly basis
- Transfer of principal and coupon payments from RMBS issued by each SPC in a timely manner every quarter
- Implementation of measures required by FRC regulations on asset management and protection of investor interests.

The Fiduciary Management Report includes information on the outstanding balance of RMBS, payments, trust accounts, payment collection accounts and permitted investments, and is delivered to investors and FRC every quarter.

In addition, MIK HFC LLC participates in RMBS transactions as a Transaction Administrator and fulfills following activities on a regular basis:

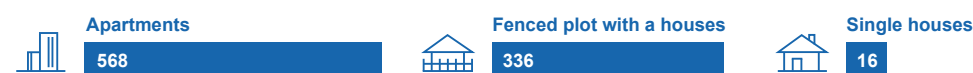
- Provides secretarial support to RMBS issuers, as such prepares all documentation and legal papers, keeps records of Shareholders Meetings and Board meeting notices, prepares draft meeting resolutions and meeting minutes.
- Prepares tax filing, makes calculations and compiles relevant documentation on behalf of RMBS issuers, pays taxes as required.
- In cooperation with audit organizations, gets auditing of annual financial statements of RMBS issuers done.
- Based on the information received from service providers, prepares the Transaction Administration Report on payment collection accounts.
- Provides advice on permitted investments to Fiduciary Manager.
- Provides other services as agreed with RMBS issuers or SPCs.

The Transaction Administration Report includes aggregate mortgage loan portfolio (AML) profile, their repayment and quality data, financial information of SPCs, and is delivered quarterly to the investors and the FRC. In addition, other activities include handling the settlement process of past due or non-performing loans in AML, including interest and other related payables, taking action on getting loans paid, getting repayments through selling collateral assets in cases when rulings were made by judicial organizations.

Purchase with recourse

Under 29 mortgage pools with recourse condition, an outstanding balance of 920 mortgage loans amounted to MNT 29.8 billion at the end of 2017. Of these, 336 mortgage loans were originated for purchase of fenced land plot with houses, 568 mortgage loans for apartments and 16 mortgage loans for single houses.

Information on collateral properties under purchase with recourse



77.6% of mortgage loans purchased with recourse were financed from MIK internal sources and the remaining 22.4% were funded by long-term loan financing obtained from KfW.

During the reported period, repayments of MNT 4.4 billion were made on mortgage loans purchased using both funding sources. Also, 7 mortgage pools in the amount of MNT 3.4 billion were repurchased to banks.

Loan Portfolio Management

All requests received from borrowers regarding implementation of loan portfolio management were resolved in accordance with the relevant laws and regulations.

From the start of RMBS trading in 2013 until the end of 2017, a total of 1,630 requests was received and corresponding changes were reported to the FRC. The requests received from borrowers are classified as follows:

Information on Requests from Borrowers under 1-13 th RMBS Transactions

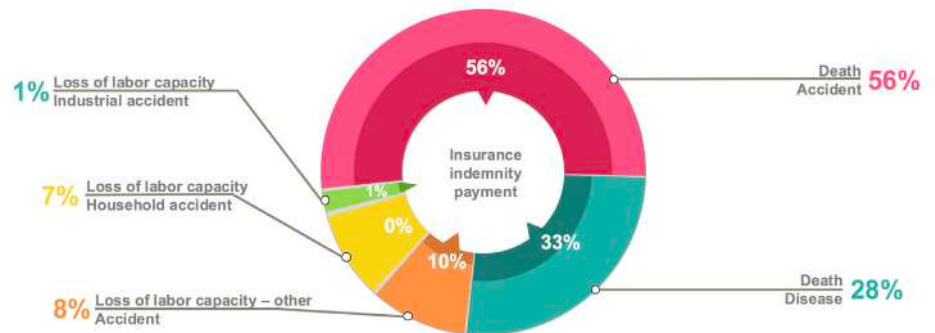


Mortgage Insurance

In order to increase RMBS insurance coverage, the FRC approved the Regulation on Mortgage Insurance on 17 May 2017, and the Group ensure compliance with this regulation. In the framework for improving compliance with this regulation, a special software was developed to keep a record of insurance coverage and insurance cases related to mortgage loans purchased by MIK.

The insurance coverage and claims provided to insured parties as recorded in our software are shown below:

Insurance Cases





Financial Performance

Financial Management

MIK Holding manages the daily financial activities of MIK Holding, MIK HFC LLC and SPCs in accordance with Accounting Policies that comply with the International Financial Reporting Standards and Mongolian legislation, in the following four main areas:

- Bookkeeping and accounting related to operations of the parent company and its subsidiaries;
- Transaction settlement and bookkeeping in accordance with agreements established with service provider banks;
- Preparing and reporting consolidated financial statements in compliance with international standards and Mongolian legislation;
- Supporting management decision-making, preparing financial analysis, forecasts and projections to meet company goals and objectives.

Key Financial Indicators

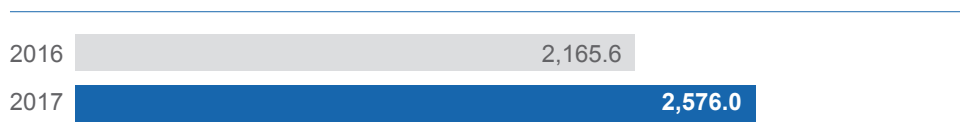
As of the end of the reported period, total assets of the Group increased to MNT 2.8 trillion by MNT 453.8 billion or by 19.7% compared to the previous year. The mortgage pools constitute 92% of total assets.

Total Asset /MNT billion/



The outstanding balance of RMBS payables was MNT 2.6 trillion at the end of the reported period.

RMBS Payables /MNT billion/



The net interest income increased by 13.3% to MNT 89.7 billion compared to the previous year, as interest income grew by 11.6%, while interest expenses grew by 10.4%.

Net Interest Income /MNT billion/



The equity increased by 20% to MNT 162.5 billion compared to the previous year, which exceeded the financial plan by 6%.

Equity /MNT billion/



During the reported period, the company earned net profits of MNT 59.2 billion as total operating expenses were driven down by 38%. This constituted 16.8% increase over the prior year and exceeded the financial plan by 18%.

Net Income /MNT billion/



Financial Ratios

Key financial ratios	2016	2017	Change
Total liabilities / Total assets	94.18%	94.15%	-0.03%
Total liabilities / Total equity	16.19	16.08	-0.68%
Financial leverage	18.06	17.13	-5.15%
Net interest margin	3.55%	3.54%	-0.28%
Return on assets (ROA)	2.26%	2.32%	2.65%
Return on equity (ROE)	40.82%	39.76%	-2.60%
Book value per share, MNT (BVPS)	7,248.47	9,805.58	35.28%
Earnings per share, MNT (EPS)	2,530.97	3,180.32	25.66%

Total liabilities / Total assets

2014	94.82%
2015	94.77%
2016	94.18%
2017	94.15%

Total liabilities / Total equity

2014	18.32
2015	18.10
2016	16.19
2017	16.08

Financial leverage

2014	17.75
2015	19.17
2016	18.06
2017	17.13

Net interest margin

2014	2.81%
2015	3.25%
2016	3.55%
2017	3.54%

Return on assets (ROA)

2014	1.94%
2015	1.98%
2016	2.26%
2017	2.32%

Return on equity (ROE)

2014	34.36%
2015	38.03%
2016	40.82%
2017	39.76%

Book value per share MNT (BVPS)

2014	2,754.92
2015	5,477.94
2016	7,248.47
2017	9,805.58

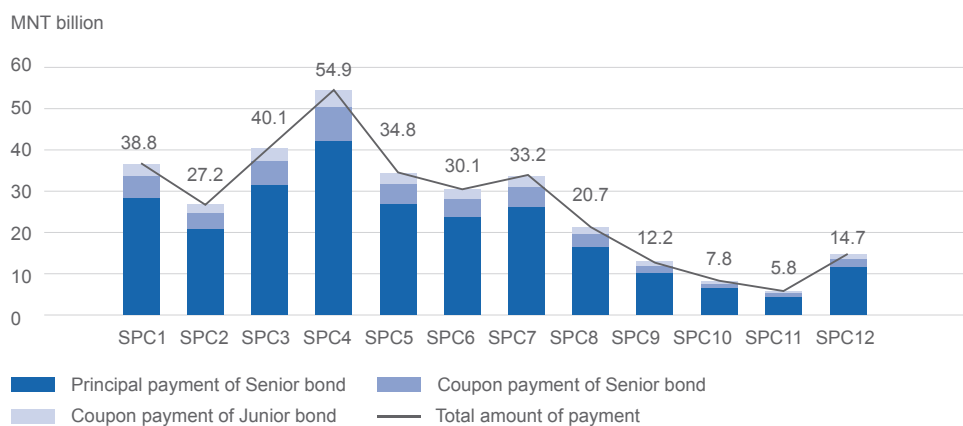
Earnings per share MNT (EPS)

2014	746.49
2015	1,744.32
2016	2,530.97
2017	3,180.32

Payment Performance of RMBS

MIK kept the payments accounts and accounting of each corresponding party throughout the reported period.

Payments in 2017



During 2017, MIK made principal payments and coupon payments of MNT 199.4 billion and MNT 92.2 billion, respectively, to the senior bondholders; and coupon payments of MNT 28.6 billion to the junior bondholders through Mongolian Securities Clearing House and Central Depository (MSCHCD), amounting in total to MNT 320.3 billion.

Principal and Coupon Payments

Subsidiaries	Total		Senior bondholders				Junior bondholders	
	Payment		Principal payment		Coupon payment		Coupon payment	
	2016	2017	2016	2017	2016	2017	2016	2017
MIK ASSET ONE SPC LLC	38.5	38.8	25.2	26.6	9.9	8.7	3.4	3.4
MIK ASSET TWO SPC LLC	27.2	27.2	17.4	18.0	7.5	6.8	2.3	2.3
MIK ASSET THREE SPC LLC	39.7	40.1	24.7	26.3	11.6	10.4	3.4	3.4
MIK ASSET FOUR SPC LLC	53.9	54.9	32.6	35.0	16.6	15.2	4.7	4.7
MIK ASSET FIVE SPC LLC	33.7	34.8	19.5	21.6	11.1	10.2	3.1	3.1
MIK ASSET SIX SPC LLC	29.4	30.1	16.6	18.1	10.1	9.3	2.7	2.7
MIK ASSET SEVEN SPC LLC	33.6	33.2	19.0	19.5	11.5	10.6	3.1	3.1
MIK ASSET EIGHT SPC LLC	15.6	20.7	8.6	11.9	5.5	6.9	1.5	2.0
MIK ASSET NINE SPC LLC	5.7	12.2	3.0	7.1	2.1	4.0	0.6	1.1
MIK ASSET TEN SPC LLC	-	7.8	-	4.1	-	2.9	-	0.8
MIK ASSET ELEVEN SPC LLC	-	5.8	-	3.3	-	2.0	-	0.5
MIK ASSET TWELVE SPC LLC	-	14.7	-	8.0	-	5.3	-	1.4
Total	277.2	320.3	166.6	199.4	85.9	92.2	24.6	28.6



Internal Operations

Information Security Management System

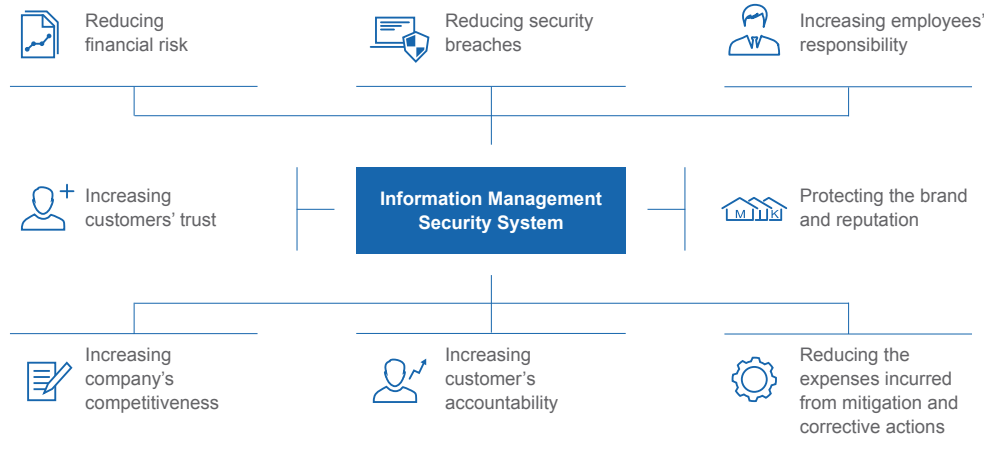
The international standard ISO/IEC 27001:2013 on “Information Security Management System” was implemented to ensure appropriate handling of borrowers’ information, protection against unauthorized access and improvement of information security reflecting on the nature of business activities.

We received the Certificate of Registration, meeting standard requirements, on 24 February 2017 following auditing performed by the British Standards Institution.

The implementation of this system led to improvement in information security management by ensuring the confidentiality, completeness and accessibility of information, and managing information security risks.



Advantages of Information Security Management System



Information Technology

MIK has been continuously investing in information technology in order to maintain business continuity and information security. Investment budget allocated for information technology has been increased by 80% in 2017, which was used to carry out infrastructure expansion and system upgrades.

Infrastructure expansion

- The data storage capacity was increased by increasing capacity of core and backup servers.
- “Next-Generation Firewall” protection device was installed to prevent from network attacks and to defend against data leakage through unauthorized channels.
- Internal surveillance camcorder was expanded, and key management system was introduced to improve workplace safety.

System upgrades

- In “Banks” system designed for communicating with banks following modules were developed and introduced: “Insurance Surveillance” module, to exercise monitoring of insurance related to mortgage assets; “Delinquent mortgages monitoring” module, to receive comments from banks and prepare reports on delinquent mortgages; and a module on registration of borrowers employment .
- In “Internal” system designed for company’s internal operations following modules were developed and introduced: workplace snapshot program for distributing workload and monitoring time management of employees, “Asset Registration” program for keeping records of various departments and divisions, and a reporting program for preparing various reports meeting requirements of departments and divisions.
- The company entered into a service agreement with Microsoft Corporation and their latest software is used in company’s operations.
- Continuous running of key systems crucial for business operations was ensured, and concurrently “redundant”, “load balancing” and backup” systems were introduced.

Human Resources Management

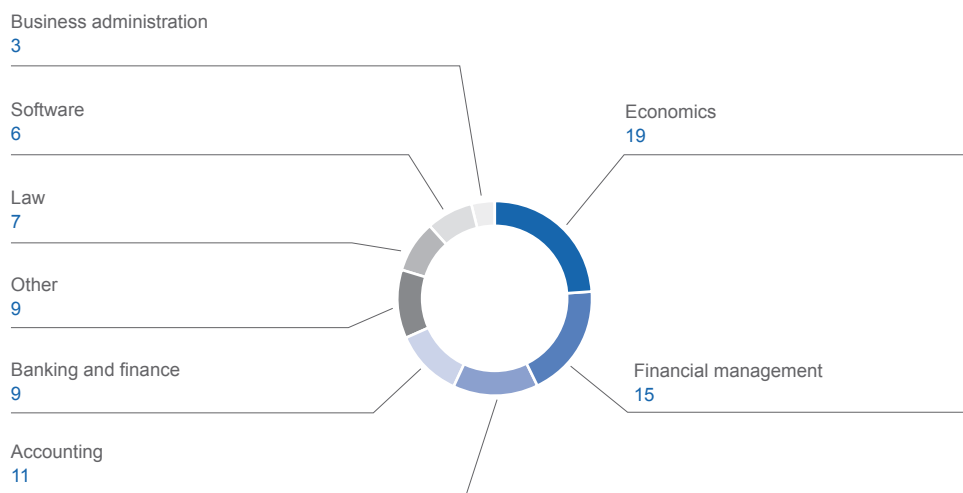
MIK's human resources policy is aimed at providing professional, skilled and productive human resources necessary to achieve company's mission and objectives; training of employees, ensuring succession planning and creating an enabling environment for employees' long-term retention and productivity.

At the end of 2017, the company had 89 employees, including permanent and contract employees, and approximately 60% of which were under the age of 35.

16% of total employees have master's degree and 79% hold bachelor's degree in economics, financial management, accounting, banking and finance, law, software development and business administration from Mongolian and globally renowned universities.

In the reported year, one employee passed level 2 and one employee passed level 1 of the Certified Financial Analyst (CFA) program.

Occupation of employees



Employee training and development:

In an effort to support employee training and development, 4 employees were given grants equal to 100% of tuition fees for their Master of Business Administration studies, and 3 employees were given grants equal to 40% of tuition fees for Master of Asset Valuation studies. In addition, 188 employees participated in professional training programs organized by foreign and domestic training institutions.



Risk Management System

Effective risk management evolves from effective risk management governance. Thus, the MIK's risk management governance is implemented using the "Three Lines of Defense" model whereas duties and responsibilities and management norms at all levels are clearly defined. These include:

Board of Directors (Board): Board is the highest level of management which oversees risk management policy, determines risk acceptance levels and limits, and ensures that risks are commensurate with core business operations, strategic plans, goals, and objectives. Board exercises control of risk management in respective areas through Finance and Audit Committee, Operational and Legal Committee, and Nomination and Remuneration Committee.

Risk Management Committee of the Board: The Risk Management Committee is responsible for risk policy of the company, limits on risk tolerance levels, control and assessment of potential risks in business operations, and reporting to the Board on the implementation of resolutions.

Internal Audit Unit: The Internal Audit Unit was established to implement risk-based internal auditing throughout the company, performs the risk-based evaluation, identifies relevant risks in a timely manner through audit reviews, measures potential impact of risks identified on the company; and reports to the Board and the Finance and Audit Committee.

Executive Management Committees: In order to improve the effectiveness of risk management framework, MIK has divided duties under Assets and Liabilities Management Committee into Credit Risk Committee, Credit Risk Sub-Committee, and in line with efforts taken on information

security management, Information Security Committee was newly established.

Risk and Compliance Units: These units are responsible for managing and keeping potential credit risks, market risks, operational risks and compliance risks at minimum levels, supporting implementation of risk management activities and improving their efficiency.

Credit Risk Management

There is a risk that the Group may face financial losses due to failure of borrowers of purchased mortgage loans or participating banks to fulfill their financial or contractual obligations. Thus, the Group implements continuous and rigorous credit risk management.

In 2017, MIK conducted secondary analysis of 17,278 mortgages offered by banks as a result of which 9,630 non-complying mortgages were identified, and necessary steps were taken to ensure that all eligibility criteria were met and concerned risks were mitigated. Also, the Group has been constantly monitoring non-performing loans or 30 days overdue loans by establishing an internal credit risk classification and cooperating with banks towards controlling service providers' activities and notifying them loan service statuses. Moreover, the Group established provisioning for loss impairment by evaluating the credit risk of mortgage portfolio twice a year. This allowed identification of potential risks and risk reduction for each non-performing or overdue loan.

The credit assessment was performed for each bank based on the rating provided by international rating agencies, their financial indicators, and compliance with prudential ratios required by regulating authorities. In addition, counterparty risk assessment

was made for each transaction with recourse. Additionally, in order to improve counterparty risk assessment, a research on methodologies used by international organizations was carried out. By doing so, we equipped the management with information necessary for decision-making and maintained counterparty risks at adequate levels.

Market Risk Management

Market risks refer to risk of fluctuations in the company's earnings and value of financial assets due to changes in interest rates, foreign exchange rates, and market prices. The primary objective of market risk management is to maintain market risks within acceptable parameters through risk-return optimization.

MIK did not have large foreign currency position in the reported year. Main assets and liabilities positions were related to acquired mortgage pools and RMBS issued. Therefore, in acquiring mortgage pools with recourse and making permitted investments, the responsible department makes an assessment of interest rates and maturities of bonds and reports accordingly to management. This way, it was possible to match risk and return in line with market interest rates and asset and liability maturity profiles.

In addition, to exercise property risk management, MIK controls the collateral loan and makes a regular valuation of collateral assets. As such, we were able to provide the management with information on fluctuation of collateral value due to market conditions and on updated loan-to-value ratio.

Compliance Risk Management

The Company established the Compliance Department in August 2017 with the aim to implement effective compliance risk management framework and maintain potential compliance risk at minimum level.

The Company aims to comply its Compliance risk management with the Compliance recommendations of International Basel Committee and ISO 19600: 2014 standards for the Compliance Management System and examining the best practices of Compliance risk management in international and domestic banking and financial institutions. Moreover, we promote efforts towards meeting the requirements from regulatory bodies in Mongolia, international best practices, company's internal rules and procedures, code of ethics on satisfactory level and supporting the strengthening of "Three lines of Defense" model in the Company, and implement phased compliance management in order to prevent from potential risks arising from non-compliance.

In 2017, MIK became a member of Compliance Council of the Mongolian Banking Association and cooperating with the council to implement effective compliance activities within the banking and financial institutions.



Independent Auditor's Report

MIK Holding JSC and its Subsidiaries

Statement by Chairman and Executives

We, Munkhbaatar Myagmar, being the Chairman of the Board of Directors of MIK Holding JSC, Gantulga Badamkhatan, being the Chief Executive Officer, and Bat-Ulzii Molomjams, being the Chief Financial Officer, primarily responsible for the consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").



Munkhbaatar Myagmar
Chairman of the Board
of Directors

A handwritten signature in black ink, appearing to read "Gantulga".

Gantulga Badamkhatan
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Bat-Ulzii".

Bat-Ulzii Molomjams
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: March 7, 2018

Independent Auditor's Report

To the Shareholders of MIK Holding JSC

Opinion

We have audited the consolidated financial statements of MIK Holding JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Independent Auditor's Report

To the Shareholders of MIK Holding JSC

Other Matter

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


Ernst & Young Mongolia Audit LLC
ЕРНСТ & ЯУНГ МОНГОЛИЯ
АУДИТ
ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants



PETER MARKEY
Director

Ulaanbaatar, Mongolia
Date: March 7, 2018

MIK Holding JSC and its Subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017

/MNT thousands/

	Notes	2016	2017
Interest income	3	192,685,281	215,043,980
Interest expense	4	(113,557,241)	(125,386,232)
Net interest income		79,128,040	89,657,748
Fee and commission expense	5	(8,493,493)	(9,984,700)
Other operating income	6	149,548	69,156
Total operating income		70,784,095	79,742,204
Credit loss expense	12	(6,271,976)	(1,673,740)
Net operating income		64,512,119	78,068,464
Operating expenses	7	(5,622,382)	(7,027,586)
Profit before tax		58,889,737	71,040,878
Income tax expense	8	(8,151,844)	(11,877,891)
Profit for the year, representing total comprehensive income		50,737,893	59,162,987
Earnings per share			
Basic and diluted earnings per share	9	2,530.97	3,180.32

MIK Holding JSC and its Subsidiaries

Consolidated statement of financial position as at 31 December 2017 /MNT thousands/

	Notes	2016	2017
Assets			
Cash and bank balances	10	156,519,377	212,950,606
Mortgage pool receivables with recourse	11	28,639,946	29,825,565
Purchased mortgage pool receivables	12	2,122,227,156	2,518,056,150
Other assets	13	331,971	794,194
Property and equipment	14	14,689,287	14,527,014
Intangible assets	15	76,621	112,569
Total Assets		2,322,484,358	2,776,266,098
Liabilities			
Borrowed funds	16	8,552,889	15,498,844
Collateralized bonds	17	2,165,576,045	2,576,010,489
Other liabilities	18	4,001,750	4,813,595
Income tax payable		1,009,039	3,639,426
Deferred tax liability	19	8,214,763	13,800,402
Total liabilities		2,187,354,486	2,613,762,756
Equity			
Ordinary shares	20	20,709,320	20,709,320
Share premium	20	52,225,115	52,225,115
Treasury shares	20	(24,057,436)	(47,055,136)
Retained earnings		86,252,873	136,624,043
Total equity		135,129,872	162,503,342
Total liabilities and equity		2,322,484,358	2,776,266,098

MIK Holding JSC and its Subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2017 /MNT thousands/

	Notes	Ordinary shares	Share premium*	Treasury shares	Retained earnings**	Total equity
At 1 January 2016		20,709,320	52,225,115	-	40,510,068	113,444,503
Total comprehensive income		-	-	-	50,737,893	50,737,893
Repurchase of shares	20	-	-	(24,057,436)	-	(24,057,436)
Dividend declared	20	-	-	-	(4,995,088)	(4,995,088)
At 31 December 2016 and 1 January 2017		20,709,320	52,225,115	(24,057,436)	86,252,873	135,129,872
Total comprehensive income		-	-	-	59,162,987	59,162,987
Repurchase of shares	20	-	-	(22,997,700)	-	(22,997,700)
Dividends declared	20	-	-	-	(8,791,817)	(8,791,817)
At 31 December 2017		20,709,320	52,225,115	(47,055,136)	136,624,043	162,503,342

* Included in share premium is share issuance cost amounting to MNT 124,670 thousand.

** Included in retained earnings as at 31 December 2017 are restricted retained earnings of MNT 138,004,023 thousand (31 December 2016: MNT 82,147,627 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities (referred to as "RMBS") (see note 1 below for further details), whereby the retained earnings of the SPCs that have issued RMBS are restricted from distribution until their liquidation in accordance with their Articles of Charter and related FRC regulation.

MIK Holding JSC and its Subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2017 /MNT thousands/

	Notes	2016	2017
Cash flows from operating activities			
Profit before tax		58,889,737	71,040,878
Adjustments to reconcile profit before tax to net cash flows:			
Unrealised foreign exchange gain		(68,439)	(70,559)
Credit loss on purchased mortgage pool receivables	12	6,271,976	1,673,740
Loss on disposal of property and equipment	7	300	86
Depreciation of property and equipment	7	529,069	496,718
Write-off of property and equipment	7	3,149	-
Amortisation of intangible assets	7	61,188	54,586
Amortisation of deferred grants	6	(10,824)	(1,058)
Interest accrual on financial investments-held to maturity	3	(100,999)	-
Operating profit before working capital changes		65,575,157	73,194,391
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		5,753,764	(84,591,223)
Mortgage pool receivables		156,593,466	211,431,147
Other assets		(143,756)	(462,223)
Collateralized bonds		(164,439,464)	(199,685,056)
Other liabilities		472,428	812,903
Cash generated from operations		63,811,595	699,939
Income tax paid		(2,739,934)	(3,661,865)
Net cash flows (used in)/from operating activities		61,071,661	(2,961,926)
Cash flows from investing activities			
Proceeds on disposal of property and equipment		684	63,000
Purchase of property and equipment	14	(588,386)	(397,531)
Purchase of intangible assets	15	(45,475)	(90,534)
Proceeds from financial investments-held to maturity		3,000,000	-
Net cash flows (used in)/from/ investing activities		2,366,823	(425,065)

Cash flows from financing activities			
Dividends paid		(4,995,088)	(8,791,817)
Proceeds from borrowed funds*		-	8,500,000
Repayment of borrowed funds*		(313,479)	(1,554,045)
Purchase of treasury shares		(24,057,436)	(22,997,700)
Net cash flows used in financing activities		(29,366,003)	(24,843,562)
Net (decrease)/increase in cash and cash equivalents		34,072,481	(28,230,553)
Effect of exchange rate changes on cash and cash equivalents		68,439	70,559
Cash and cash equivalents at 1 January		106,112,793	140,253,713
Cash and cash equivalents at 31 December	10	140,253,713	112,093,719
Operational cash flow from interest			
Interest received		190,442,934	209,648,564
Interest paid		(111,150,110)	(120,750,529)

* There is no non-cash changes for liabilities arising from financing activities.



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