

MIK Holding JSC, Group  
Annual report 2016





## Contents

<b>About the Company</b>		
Our Mission	5	
Chairman's Statement	6	
Letter from the Chief Executive Director	8	
"MIK Holding" JSC	10	
"MIK HFC" LLC	10	
Special Purpose Company	10	
Management Committee	10	
Financial Ratios	11	
Highlights of 2016	12	
MIK-10th Anniversary (2006-2016)	13	
Interview	14	
Prominent Quotes	16	
Social Responsibility	18	
<b>Corporate Governance</b>		
Company Structure	21	
Board of Directors Code of Conduct	22	
MIK Holding JSC's		
Organizational Structure	23	
"MIK HFC" LLC's		
Organizational Structure	23	
The Board of Directors (BoD)	24	
Board of Directors of "MIK Holding" JSC	24	
Board Committees and their Functions	26	
Member of Board Committees of		
"MIK Holding" JSC	26	
Member of Board Committees	27	
Board of Directors of SPCs	28	
Internal Audit	29	
<b>For Shareholders and Investors</b>		
Dividend Policy	31	
Stock Information	31	
Share trading information	31	
<b>Business Activities</b>		
Mortgage Market Environment	33	
Housing Market	35	
Housing Demand	36	
Housing Supply	37	
Mortgage Asset		
Assessment and Purchase	39	
Purchase Type	40	
Transaction without Repurchase Term (Purchasing Assets of RMBS)	40	
Purchase with Recourse (Own Capital and KFW Bank's borrowing fund)		42
Securitization Process and RMBS Transaction		43
Mortgage Financing System		44
RMBS Transaction Structure		44
Securitization Process		45
The Issuance of the RMBS		45
<b>Risk Management System</b>		47
Aggregate Portfolio Risk Management		48
Market Risk Management		50
Operational Risk Management		51
Information Security Risk Management		51
Information Security Management		
International Standard		51
<b>Internal Operations</b>		
Information Technology Division		53
Human Resource Management		54
Training and Development		54
Legal Division		55
Legal Environment		55
Finance and Accounting		57
Treasury Department		59
<b>Audited Financial Statement</b>		60
<b>Abbreviations</b>		68



## About the Company

### Our Mission

The mission of “MIK Holding” JSC and “MIK HFC” LLC is through issuing of residential mortgage backed securities and offerings on domestic and foreign markets to establish and develop the primary and secondary mortgage market of Mongolia in order to meet our population’s ever growing housing demand and support the long-term sustainable housing finance system evolution dedicated to the modern day urbanization growth.

*Together for  
financial  
development!*



## Chairman's Statement

Dear Shareholders,

It is a great pleasure to present you the MIK Group's Annual Report 2016. We aim to promote stable and sustainable development in the primary and the secondary mortgage markets, to improve the civil society welfare, facilitate its growth, and establish an international best practice conform housing finance system in Mongolia.

2016 was a great year rich in events. MIK Group of Companies, having been granted by the Financial Regulatory Commission of Mongolia the listing approval at the end of 2015, became the first ever listed company, meeting the Tier One criteria of the Mongolian Stock Exchange and traded the largest IPO shares on the December 24th of 2015. Moreover, owned by 96 corporate and individual stockholders we pioneered to become the first ever publically traded stock company with transparent and good corporate governance practices among the non-bank financial market companies.

MIK Group is a financially sound company with a significant and secure asset market share with international best practices introduced in its operations.

As a publically listed open company we aim to increase our stockholders' equity and return values sustainably and distributed 100 percent of the annual net earnings for 2016 as dividends to our shareholders. In other words, our companies' shareholders derived returns on the assets generated by the housing program, promoting middle-income class social benefit and welfare.

In 2016, we celebrated the 10th anniversary of "MIK HFC" LLC, a subsidiary of "MIK Holding" JSC.

Over the last 10 years, our company has strived to develop the mortgage market, along with its legal and financial infrastructure, and to promote accessibility to borrowers. We have proactively supported the development of legal framework conducive to the international best practices conform secondary mortgage market, contributing to the initiation and growth of the asset-backed securities market, streamlining and harmonizing mortgage underwriting standards and supporting lending documentations.

The successes and achievements of 2016 is the outcome of the great cooperation and joint efforts of our investors, shareholders, bond holders, customers, employees, mortgage borrowers and altogether of all stakeholders.

I express herewith my sincere appreciation to all of you for your solidified and aspired joint efforts and would like to wish you great fulfillment and achievements in 2017.

Yours Sincerely,



**M. Munkhbaatar**

Chairman of the Board of Directors  
"MIK Holding" JSC, "MIK HFC" LLC



## Letter from the Chief Executive Director

Dear Shareholders, bondholders, customers, co-operating partner institutions and employees.

It is a great day for us to provide our greetings to all of you.

For MIK Group of Companies the recent 2016 year was a year remarked by maintained success and achievement, contributing to the economic growth of country, solidifying our shareholders, bondholders' trust and focusing substantially on our values' growth.

Our company is operating to develop the secondary mortgage market by complementing the housing long-term lending sustainable system through issuance of residential mortgage backed securities on the domestic capital market. Furthermore, our mission is to introduce newly and support investment finance operations on the capital market. We support the development of investments to provide the Mongolian population with comfortable housing property with engineered infrastructure solutions and commenced first time in our country the capital finance solution, in many other countries commonly known as structured finance investment.

Back in 2006 jointly with Bank of Mongolia 10 commercial banks have formed "MIK HFC" LLC. with the objective to develop the secondary mortgage market, being the enhancement of the primary mortgage market for securitizing the mortgage loans, underwritten by individual banks. Two years after, since the company was established and we issued in 2008 our first asset-backed security, in 2013 our company' growth history went to the next development stage.

In other words, within the Bank of Mongolia

and the Government of Mongolia jointly launched 8 % +/- 1 % pa. interest bearing Affordable Mortgage Housing Program, our company has been in December 2013 granted from the Financial Regulatory Commission the inaugural Special Purpose Company license.

As at December 31, 2016, MIK established 9 SPCs, purchased 52, 500 families' mortgage and issued RMBS of 2.4 trillion MNT worth, within the last three years.

As the leading and the first professional institute for development of the Mongolian secondary market "MIK HFC" LLC is honored to implement benchmark standard for mortgage securitization in the Mongolian market and to hold a leading position. In 2016, we celebrated the 10th anniversary of "MIK HFC" LLC, a subsidiary of "MIK Holding" JSC. Since the establishment, "MIK HFC" LLC has been stably operating for ten years and our priority has been always to grow to a publicly renowned, visible, successful organization, to hold a leading position and contributing to the sustainable development of the mortgage market.

The housing finance system development in Mongolia started in 2003. Remarkably, from 2013 to 2015 this market's growth has expanded sizable, reaching presently 4.0 Trillion MNT worth of mortgage loans outstanding in the total banking sector.

Our MIK Group of Companies' value is in good corporate governance and distribution of dividends to our shareholders, and we are presenting herewith our Annual Report for the second consecutive year.

Despite the economic growth slowdown, the amendments in the public housing policies effected in the procedures and the moderation of the mortgage lending pace,

the year was marked by further elevation of our shareholders' value. "MIK Holding" JSC's net earnings after tax increased to MNT 51.0 bn MNT in the past year, of which "MIK HFC" LLC's net earnings available for dividend distribution reached MNT 10.0 bn MNT. This is an attributed result of the IPO undertaken.

MIK Group has introduced the international standard ISO-27001 Information Security Management System to the business operation for the first time in Mongolia, aiming to grow the scope of the company's operation range. Our costumers' trust to our company is increasing by adopting this standard.

We are confident in your cooperation devoted to our consolidated efforts for common growth and progress towards Smokeless clean Ulaanbaatar city urban and rural citizens' family townhouse and condominium affordable housing development.

Yours Sincerely,



**D. Gantugs**  
CEO of "MIK Holding" JSC and  
"MIK HFC" LLC

## “MIK Holding” JSC

Based on the resolution of MIK HFC LLC shareholders meeting held on November 9, 2015, MIK Holding LLC was established as the parent company of MIK HFC LLC, and the shares of MIK HFC LLC were transferred to MIK Holding LLC. MIK Holding LLC became an open joint stock company by the shareholders meeting resolution issued on December 4, 2015. MIK Holding LLC become MIK Holding JSC, a listed at the MSE, and the number of shareholders increased from 12 to 96 as at the end of the 2016.

MIK Holding JSC is a parent and sole shareholder company to MIK HFC LLC providing MIK HFC LLC with top executive management. In addition, MIK Holding JSC is one of the TOP 20 public companies of Mongolia and first company listed in the “Tier One” board at Mongolian Stock Exchange.

## “MIK HFC” LLC

“Mongolian Mortgage Corporation” HFC LLC was officially established on October 6, 2006 by the Bank of Mongolia (BoM) and ten commercial banks, including Anod Bank, Golomt Bank, Zoos Bank, Capital Bank, Capitron Bank, Mongol Post Bank, Khan Bank, Xac Bank, Trade and Development Bank, and Ulaanbaatar City Bank to aim to operate in the Secondary mortgage market and to issue Asset backed securities.

As implementation of the Mongolian law on asset-backed securities became effective on January 1, 2011, the legal environment for the ABS business has been created. Accordingly, “MIK” LLC obtained special permission to issue asset-backed securities from the Financial Regulatory Commission (FRC) of Mongolia on March 14, 2012, and

changed its name to “Mongolian Mortgage Corporation HFC” LLC.

MIK HFC LLC also obtained special permission for fiduciary manager services on December 16, 2013, and it is currently the only legal entity that has the license to issue ABS in Mongolia. The result of the purchasing mortgage loans, MIK HFC LLC has highly effected the legal relationship of the securitization, risk management, and the mortgage ownership transfer by increasing the liquidity of the banks.

As of December 31, 2016, “MIK HFC” LLC has 2.4 trillion MNT assets including 2.2 trillion MNT of RMBS outstanding and issued total of nine RMBS through subsidiary special purpose companies respectively.

## Special Purpose Company

The Special Purpose Company (SPC) is incorporated for the purpose of operating a business involving purchase of mortgage loan asset, issuing RMBS and other related operations according to the Asset backed securities law.

In order to implement securitization, “MIK HFC” LLC establishes a special purpose company MIK Active One to Eleven to purchase from the originators a portfolio of mortgage loans. Special purpose company will issue the RMBS, consisting of the senior tranche and the junior tranche.

This RMBS transaction is a continuation of the work to develop a secondary mortgage market which is implemented and introduced on the stock market by “MIK HFC” LLC.

## Management Committee

### **D.Gantugs**

Chief Executive Officer

### **B.DoljindembereI**

Deputy Director, Chief Operational Officer

### **J.Altangerel**

Deputy Director, Chief Business Development Officer

### **M.Bat-Ulzii**

Deputy Director, Chief Financial Officer

### **S.Amarsaikhan**

Director of Risk Management Department

### **G.Sansar**

Director of Treasury Department

### **G.Gongor**

Director of Financial Accounting, Controlling Division

### **Kh.Margad-Erdene**

Director of Mortgage Assessment Division

### **Ts. Munkh-Erdene**

Director of Information Technology Division

### **N.Erdenechimeg**

Chief Accountant

### **G.Gantulga**

Head of Marketing and Product Development Sub-division

### **B.Solongo**

Head of Risk Management of Aggregate Portfolio Sub-division

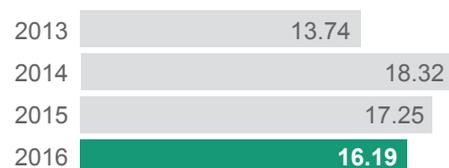
## Financial Ratios

Indicators	2015	2016
Total liabilities / Total assets	94.52%	94.18%
Total liabilities / Total equity ratio	17.25	16.19
Financial leverage	18.55	17.69
Net interest Margin	3.24%	3.55%
Return on assets (ROA)	2.46%	2.42%
Return on equity (ROE)	43.18%	40.37%
Book Value Per Share (BVPS), MNT	5,738.56	6,523.54
Earnings per share (EPS), MNT	1,721.28	2,475.26

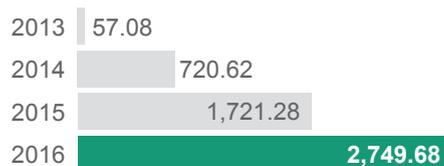
### Total liabilities / Total assets



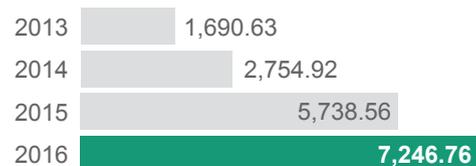
### Total liabilities / Total equity ratio



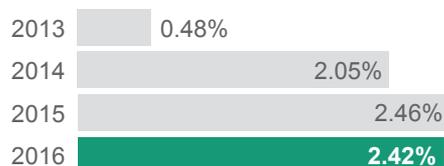
### Earnings per share (EPS)



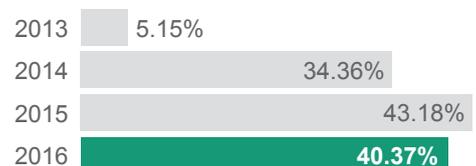
### Book Value Of Equity Per Share MNT (BVPS)



### Return on assets (ROA)



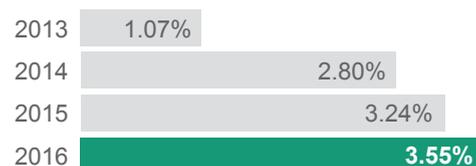
### Return on equity (ROE)



### Financial leverage



### Net interest Margin



## Highlights of 2016

- In 2016, “MIK HFC” LLC has established subsidiaries “MIK Asset Ten SPC” LLC, “MIK Asset Eleven SPC” LLC, “MIK Asset Twelve SPC” LLC, and “MIK Asset Thirteen SPC” LLC. Therefore, “MIK Asset Eight SPC” LLC and “MIK Asset Nine SPC” LLC obtained special permission to issue 292 billion MNT of RMBS from the FRC.
- In January, MIK developed a mortgage loan insurance modules and introduced it to the banks to pursue agreement which books and controls insurance status of the mortgage loans.
- On 26-27th of April, CEO of “MIK Holding” JSC, Mrs.D.Gantugs, participated “Mongolia-London business forum” held at the London Stock Exchange as a first-class listed company at the Mongolian Stock Exchange. Mongolian and English investors and reputable companies which are active in the stock market were also participated this event.
- In April, first shareholders meeting of “MIK Holding” JSC was held since becoming a JSC and distributed dividends.
- In June, “MIK HFC” LLC developed and introduced “Servicer report module” system recommended by Board of Directors Meeting for internal use.
- In September, the interactive system between Issuer and Originators called “Bank v2.0” was developed and updated to exchange not only information but also receive servicer reports and insurance modules from the Servicing banks.
- Residential Mortgage Financing Procedure was amended by The Governor of Bank of Mongolia A-67 order /2016.03.11/ in accordance of the adoption of “Law on Future Pension Fund”. Following changes made in the procedure due to amendment.
  - Duration of the mortgage loan was changed up to 360 months
  - Interest rate of Mortgage loan became 5 percent depending on the location of the pledge and their type.
  - Limitation that “None of the borrower’s family members should have any outstanding loans under the Government of Mortgage Loan Program” was taken.
- In accordance with the 40th regulation /2016.09.07/ of the Government “The Law of Future Pension Fund”, Residential Mortgage Financing Procedure was amended by Governor of Bank of Mongolia A-295th order /2016.10.25/. Following changes made in the procedure due to the amendment.
  - Annual interest rate of the mortgage will be 8 percent regardless of location
  - The borrower should not have any State implementing mortgage preferential outstanding mortgage loans.
- The employees who awarded for their achievements from the Government and the Regulators:
  - J.Elbegsaikhan  
Order of the Red Banner of Labor Valor
  - J.Altangerel  
A Leading Economist and Banker
  - Ts.Munkh-Erdene  
A Leading Economist and Banker
  - S.Amarsaikhan  
A Leading Economist and Banker
  - B.Damdin
- The Best Transporter of Mongolia
  - B.Solongo  
Credential from the City Office of Governor
  - O.Gantulga  
Credential from the City Office of Governor
  - D.Enkhbayar  
Credential from the City Office of Governor
  - Ts.Munkhzul  
A Golden medal for A Leading Youngster
  - G.Ankhbayar  
A Golden medal for A Leading Youngster
- “MIK HFC” LLC has cooperated with BSI - British Standards Institution company in order to implement Information security management system ISO 27001:2013 standards. UK based company was formed in 1901, BSI was the world’s first National Standards Body and a founding member of the International Organization for Standardization (ISO) in 1947. BSI has extensive experience internationally by implementing 32,980 standards in various sectors and transferring it to International standard organization directly. In 2016 with over 80,000 clients in 172 countries, BSI is an organization whose standards inspire excellence across the globe.
- November 14, 2016 was the 10th anniversary of “Mongolian Mortgage Corporation HFC” LLC.
- In December, International Finance awards from International Finance Magazine in England named “MIK HFC” LLC as a “Best Issuer of RMBS Mongolia”.



## MIK-10th Anniversary (2006-2016)

“Mongolian Mortgage Corporation HFC” LLC was officially established by Bank of Mongolia and 10 commercial banks (Anod Bank, Golomt Bank, Zoos Bank, Capital Bank, Capitron Bank, Mongol Post Bank, Khaan Bank, Xac Bank, Trade and Development Bank, and Ulaanbaatar City Bank) in order to support the development of primary and secondary mortgage market. Ashidmaa.D, an advisor of the Economic Policy Renovation and Competency Project, was appointed as an acting CEO of MIK. From 2007 to 2013, Ts.Enkhbayar became the CEO at MIK HFC LLC. From 2013 to currently, D.Gantugs is the CEO at MIK HFC LLC.

## Interview



### D. Ashidmaa

CEO at "Mongolian Mortgage Corporation HFC" LLC /2006-2007/

#### **Please share your memories of the establishment of "MIK HFC" LLC as a former CEO?**

First of all, I would like to congratulate the "Mongolian Mortgage Corporation HFC" LLC for the 10th year anniversary and becoming the first an organization to contribute the secondary mortgage market and structured finance system.

In framework of technical support project called "Economic Policy Renovation and Competency", I was involved as a project officer for developing a long term house financing system and secondary mortgage market in Mongolia. When Bank of Mongolian and 10 commercial banks jointly and officially established "MIK HFC LLC" in April, 2006, I was appointed as temporary acting CEO for over 1 year. We rented a room in the same office I worked and began to build a team and other organizational work. Khishigdulam was a first employee of MIK and 4 more officers were joined later including financial analysts and lawyers. During my management at "MIK HFC" LLC with the small team, we have developed the organization's business strategy and plans and secondary markets/mortgage securities model due to attract and raise funds from international organizations, foreign

investments, and the Government of Mongolia. Furthermore, we have purchased our initial mortgage portfolio from XacBank based on the Resolution of the Board and Shareholders including Mongolbank and other commercial banks. Also we had initiated the cooperation proposals with KfW and IFC. Everything has just begun. The current logo of MIK was created by Khishigdulam and it is still the symbol of the organization

#### **How do you review the "MIK HFC" LLC's role of operating in secondary mortgage market after ten years?**

"MIK HFC" LLC had developed into becoming a Group company which has more than 10 special purpose companies and became publicly listed company registered at the Mongolian Stock Exchange and has been working successfully by creating secondary mortgage market system. "MIK HFC" LLC also plays an important role to release the capital or mortgage issued by banks "stuck" on the balance sheet, recovers/ increases the resources and provides financial circulation. This is very important especially for low-income communities. Despite the Government support, attitude toward interest rate for the most of mortgage loans showed signs of reducing to 8 and 5 percent.

#### **How the development of a secondary mortgage market further helps development of other sectors?**

Along with a development of a secondary mortgage market, other products will develop too, such as insurance sector, pension and social security systems and financial market instruments and derivatives. Furthermore it aims to ease credit and to enables population to acquire lifelong assets.



**Ts. Enkhbayar**

Former CEO of “Mongolian Mortgage Corporation HFC” LLC /2007-2013/

**Please share your memories of the establishment of “MIK HFC” LLC as a former CEO?**

I was appointed as CEO at “MIK HFC” LLC which was located in a room next to the USAID’s Competitiveness Project unit with 4 employees in November 2007.

Even though the primary mortgage market was just developing, mortgage loan was becoming financial new product for the banks. First of all, I focused on the creating environment for staff to carry out the business operation including proper office space, development of organization’s procedures and regulations, recruitment, training employees, and preparing the first purchase activities in order to build the organization on its feet. As the mortgage loan market especially secondary mortgage market was just developing in Mongolia, we were a “LEARNER ORGANIZATION” and our goal was not to hire experienced employees but to find the people who are eager to learn new knowledge. Back then when the legal environment and terminology was new, it was very important for us to start the business with right terms and directions.

**For the first years, what was the business operation?**

There were no practices of purchasing mortgage loans as a portfolio in the banking sector at that time. Therefore, it was necessary to set the appropriate base framework of legal environment and financial infrastructure with intention to offer investors a risk free financial products by purchasing eligible assets to back. At the beginning, number of activities were implemented to regulate purchase of residential mortgage loan pools, selecting mortgages, concluding agreement with participating parties, contracts, services, property registration issues and preparation of documents for investors based on the condition of home country with knowledge of internationally implemented practices. Therefore, we invested an important role for drafting the Law on Asset Backed Securities, Law on Immovable pledge, and other related regulations, as well as the document standard for mortgage loans. We issued the first mortgage backed securities with the term of 2 to 5 years in 2009, even the legal framework was not completely developed.

**How do you review “MIK HFC” LLC’s business after ten years?**

I would say GOOD not the best. Today, the stock market is not developed perfectly in Mongolia. Although, “MIK HFC” LLC would purchase good quality loans and issue mortgage backed securities, “MIK HFC” LLC’s securities should be able to compete with the Government bond, which will make the product more liquid in the secondary market. MIK has issued series of RMBS within the support of Government programs. However, it was a great support to develop the secondary mortgage market, it is not perfectly structured instrument to attract long term investment. It may take more than.

**How important is the development of a secondary mortgage market?**

For one side, housing is the product of society and other side its economical. It requires investment as one of an important needs of human life and generates large demand for possible long-term payment which is key to the development of a mortgage market. Permanent needs of apartments itself sustains housing finance market. Therefore, one of the many party which involved in responding housing need is the development of a secondary mortgage market in Mongolia. “MIK HFC” LLC’s role is very important to this.

**How do you see the future of “MIK HFC” LLC?**

Definitely, to work without losing the current momentum, expand the market by offering attractive products to investors, gradually reduce the interest rate of loan at the same time to encourage energy efficiency and green building culture through financial instrument. Overall, I see that “MIK HFC” LLC is very promising organization.

## Prominent Quotes



**J. Unenbat, CEO at Mongolian Bankers Association**

The success of “Mongolian Mortgage Corporation HFC” LLC effects the housing

secondary market and it is measured by not past 10 years but the coming 10 years and the issuance of domestic and international asset-backed securities attracting personal investors. However, it will be contributed by the accumulated technical skills during the previous 10 years.



**B. Medree, President of Trade and Development Bank**

Commercial banks started new, high-value of mortgage backed securities with the

participation of Mongolian Mortgage Corporation (MIK) in the Mongolian financial sector and offered securities both domestic and foreign investors for the first time in 2008. “MIK HFC” LLC participated in this activity as a lender and capital market intermediaries and issued asset-backed securities in the market and created a standard framework consistent with international standards. In the result, “MIK HFC” LLC provides not only huge support for capital market development, but allows increased access to residential mortgage loans and huge impact on the housing market and construction industry as well.



**U. Ganzorig, CEO at Golomt Bank**

“MIK HFC” LLC has fulfilled its role honorable over the past 11 years and became an influential professional organizations

which complies with international standard and development of the financial market. In fact, 89 thousand households obtained residential mortgage loans reaching 4 trillion MNT which indicates the organization’s valuable effort in housing nations. On the other hand, it has many good sides such as increased financial disciplinary of person, established financial responsibility etc. For this reason, the establishment of “MIK HFC” LLC has historical role as it satisfied the conditions to minimize the risk level of residential mortgage loans, loan standards, and created legal framework in Mongolia.



**D. Batsaikhan, Former CEO at the State Bank**

In the past, banks are used to issue loans using the individual savings and now the mortgage program is the new

resource to mortgage loans. “MIK HFC” LLC is purchasing mortgage loan portfolios from banks with low interest money they have raised. I believe that the expand of Mongolian Mortgage Corporation /MIK/ to “MIK Holding” JSC by increasing their shares will enlarge the cash flow from the market and create the possibility for low interest mortgage loans.



“Government news” newspaper 2016-12-29  
**N. Bayartsaikhan, Governor of Bank of Mongolia**

The stable mortgage loan financing system will

affect the people to change the spending to saving. There is a forecast that public wages, evaluation, and productivity will grow and economic transparency and appearance is improving as a whole. As a result, there will be steady increases in the social insurance funds of our country.

All of this can contribute to a positive effect on macro-economic stability and increased deposits and country’s economic growth. “The most secure repayment of a loan is a mortgage loan.”



Enkhjargal  
“Government news” newspaper 2016.08.29  
**Z. Narantuya, Member of Parliament, Head of the Subcommittee for Budget Control**

Housing finance program is not only about mortgage loan between banks and borrowers rather it supposes to enhance the real state, especially the construction sector. The matter of whether size is large or not is the least issue to discuss. Most importantly, mortgage loans do not have pressure on our economy. On the contradictory, it is believed that program slowed the economy’s decline.



www.breakingnews.mn 2016.12.20  
**J. Erdenebat, The Prime Minister of Mongolia**

The government is looking for funds to continue with the mortgage financing

program. Now, it is planned that current procedure to be amended to adjust the restriction of 80 square meters to 100 square meters. Banks are not issuing mortgage loans due to the insufficient funding. Funding intended to be addressed by the development loan rather than commercial loans.



www.news.mn 2016.12.20  
**G. Munkhbayar, The Minister of Construction and Urban Development**

Until today, about 88 thousand families housed by mortgage loans. About

372 borrowers acquired mortgage loans in October 2016. There have been number of meetings regarding mortgage loan issues among Ministry of Construction and Urban Development and Bank of Mongolia. It should be pointed out that there is tangible results. Currently, the repayment amounted to 30-35 billion MNT is being used to finance mortgage loans. This indicate that around 600 families acquire mortgage loans a month. The loan with the best repayment at the commercial bank is a mortgage loan.



www.eagle.mn 2016.01.11  
**D. Batsaikhan, the Former CEO at State Bank**

It's been more than 20 years that mortgage loan was introduced in Mongolia. Moreover,

for the 18 years, the mortgage loans had high interest and short-term. During that time, mortgage market is operated based merely on the primary market. The meaning of primary is the from that banks granted loan to citizens funded by the money drawn by the customers. There were only connections between individuals and banks. As the interest rate of the fund raised by banks was high, and terms were shorter, the personal loans' interest rate was high and short term. The housing finance program took into action on June 14, 2013 which was based on the secondary mortgage market. Therefore, the program created a low-interest rate and long-term mortgage loans.



www.itoim.mn 2016.09.15  
**O. Orkhon, CEO at Trade and Development Bank of Mongolia**

There is no other way but to continue the mortgages financing program. This

program has become the consumption

of Mongolians and banking culture in the last four years. Many families housed under the program. The program may change depending on the current economic conditions whether to be 5 percent or 8 percent or if it can be changed from 80 square meters. This program cannot be fundamentally changed, ceased, or offer higher interest rate for the previously issued mortgages or further swing the situation. Government policies need to be sustainable, must be economically long-term, which should not depend the political cycle of four years. Based on that the citizens and enterprises must plan benefits and income of its business operations.



**International Finance Magazine Awards**  
"MIK HFC" LLC

has been regularly operating on the Capital markets and Securities markets of Mongolia by issuing RMBS over the past 4 years, contributed large amount of investment in regional financial sector which is recognized by "International Finance Magazine" and Mongolian State nominated and granted the trophy of "Best Issuer of Residential Mortgage Backed Securities" in 2016.



EUROPE BUSINESS ASSEMBLY

**European Business Assembly Awards**  
"MIK HFC" LLC

has been nominated and awarded by "Best Enterprise" in 2015 from European Business Assembly based on its position in the securities and financial markets in Mongolia, active participation of the internationally organized Conference, Exhibition, international rating of the organization, implementation of modern management technology, staff expertise in the particular sector, business reputation on regional or Mongolian national level and competitiveness.



**Asia Pacific Headquarters**  
"MIK HFC" LLC

has been evaluated by Headquarters in Asia and the Pacific for its very careful or realistic assessment of securitization risks and at the same time developed real estate markets consisting of merely 65 people since 2013 and its recognition in the world as a result and has become financially strengthened organization. Moreover, the company has been acclaimed for cutting operating expense while satisfying the quality of return on equity (ROI).



## Social Responsibility

Housing is a basic human need and asset that can be kept for life with value that increases over time. The main criteria for a borrower to obtain a mortgage loan are to be a tax payer, to have a stable income, and not to have overdue loans outstanding or debt in court. These requirements for borrowers are the foundation to increase responsibility and to stabilize employment and income.

The primary mortgage market is a long-term financial relationship raised upon negotiations between the banks and borrowers, while the secondary mortgage market is the creation of new financial resources by way of securitizing granted mortgages after classifying them by their specific qualities and conditions. In this way, mortgages are converted into cash, bringing favorable mortgage conditions such as decreased interest rates and extended terms.

In 2016, the number of mortgage loan borrowers had reached to 89,516 in Mongolia. MIK has purchased total of 52,908 mortgage loan pool and securitized them and issued 4 trillion MNT of RMBS under the framework of house financing program. The originators collect about 30 billion MNT per month from monthly payments of borrowers and it gives opportunity for other people to get mortgage loans. In addition, the herders are now able to get mortgage loans with 8+/-1 interest rate by pledging their animals. In a way, MIK has contributed our social responsibilities by enhancing the environment to reach more people.

Since 2016, MIK sets a policy to contribute for material sponsorship for society. In fact, we have built a classroom separation wall for IT class at School no.18 and no.60 in Khan-Uul district and it enables students to have two section class.

The business operation of MIK benefits people's life and the country's economy through mortgage loans.



## Corporate Governance

### Company Structure

The Board of Directors organized a shareholders extraordinary meeting to transfer "MIK HFC" LLC's organizational structure to an open joint stock company, based on a resolution of shareholders, shares of "MIK HFC" LLC were transferred to "MIK Holding" LLC and "Share exchange and assignment on contractual right" was concluded on November 09, 2015. Consequently, "MIK HFC" LLC's shareholders have incorporated as "MIK Holding" LLC's shareholders, become the investors of SPC's established by "MIK HFC" LLC and simultaneously set the foundation to become a joint stock company listed at Mongolian Stock Exchange.

Based on the "MIK Holding" LLC's Board of Director's resolution made on December 04, 2015, they decided to trade 15 percent of the its outstanding shares to the public in order to change the Company type by becoming open joints stock company to expand its operation, and to become open company on the market, to be transparent, to strengthen good corporate governance and to attract domestic and foreign investors. Based on the Financial Regulatory Commission's resolution No.447 made on December 17, 2015, total of 20,709,320 ordinary shares with nominal value of MNT 1,000 per share have been traded and approved to list at "Mongolian Stock Exchange" and Mongolian Securities Clearing House and Central Depository LLC (SCHCD). Based on the CEO of Mongolian Stock Exchange's order No.385 in 2015, "MIK Holding" LLC became the first joint stock company to satisfy the first grade listing requirements at Mongolian Stock Exchange.

In relation to this, the primary market subscription trade was made between

11:00-13:00 PM on December 24, 2015 and a total of 3,106,398 shares had offered to the public and per share traded at a nominal value of MNT 12,000.

Further, the Company changed its official name as "MIK Holding" JSC which is registered at the Department of Legal Entity and State Registration Office on November 6, 2016. "MIK Holding" JSC first started its operation with 12 shareholders, and since trading its shares publicly by listing at Mongolian Stock Exchange, the shareholders have expanded to a total of 96 as of December 31, 2016.

According to the Clause 9.2 of the Company's charter, the Company's Board of Directors shall have nine regular members and three independent members. Therefore, nine Board of Directors were selected to be members based on a resolution of shareholders extraordinary meeting held on March 7, 2016. Based on a resolution of "MIK Holding" JSC's Board of Directors regular meeting held on March 15, 2016, Mr. M.Munkhbaatar was elected as Chairman of the Board of Directors by unanimous decisions of members, and appointed D.Gantugs as a Chief Executive Officer of the Company on October 30, 2015.

"MIK Holding" JSC operates by complying with the Company law of Mongolia, Investment Fund Law, Securities Market Laws and other applicable procedures and legal provisions established by authorities, and protects an interests of shareholders, and delivers timely information to the public through Mongolian Stock Exchange. In addition, Operation procedures of "MIK Holding" JSC's Board of Directors, Ethics on Board of Directors, Procedure on information dissemination to the public, Procedures on dividend policy, and Procedures on

announcement of shareholders meeting are approved to comply good corporate governance.

## Board of Directors Code of Conduct

According to “Code of Corporate Governance” which approved and amended by Financial Regulation Commission Resolution No.162 dated May 07, 2014, “Board of Directors Code of Conduct” was approved by the meeting resolution No.16/06, dated February 24, 2016 in order to implement good corporate governance. The purpose of this Code of Conduct is to set the ethical standards, to strengthen a social responsibility of their member company, shareholders and citizens, to prevent shareholders from potential conflicts and investment, to make efficient decision for the Company, to determine the policy and strategy of the Company.

### Shareholders of the “MIK Holding” JSC:

“MIK Holding” JSC became an open company based on a resolution of the Shareholders meeting held on December 4, 2015. Since the Company became an open company its shareholders reached to total of 96 as of December 31, 2016.

### Shareholders’ structure:

1. State owned entities 19.31 percent
2. Private entities and banks 80.63 percent
3. Citizens 0.06 percent

### Shareholders Meeting (SHM)

A shareholders meeting (SHM) is the highest management unit of “MIK Holding” JSC. A shareholders meeting can be regular or extraordinary. A shareholders meeting regularly discusses and makes a decision about the Company’s financial report and annual report, organizational

structure, budget report and other issues stated in the Company Law of Mongolia.

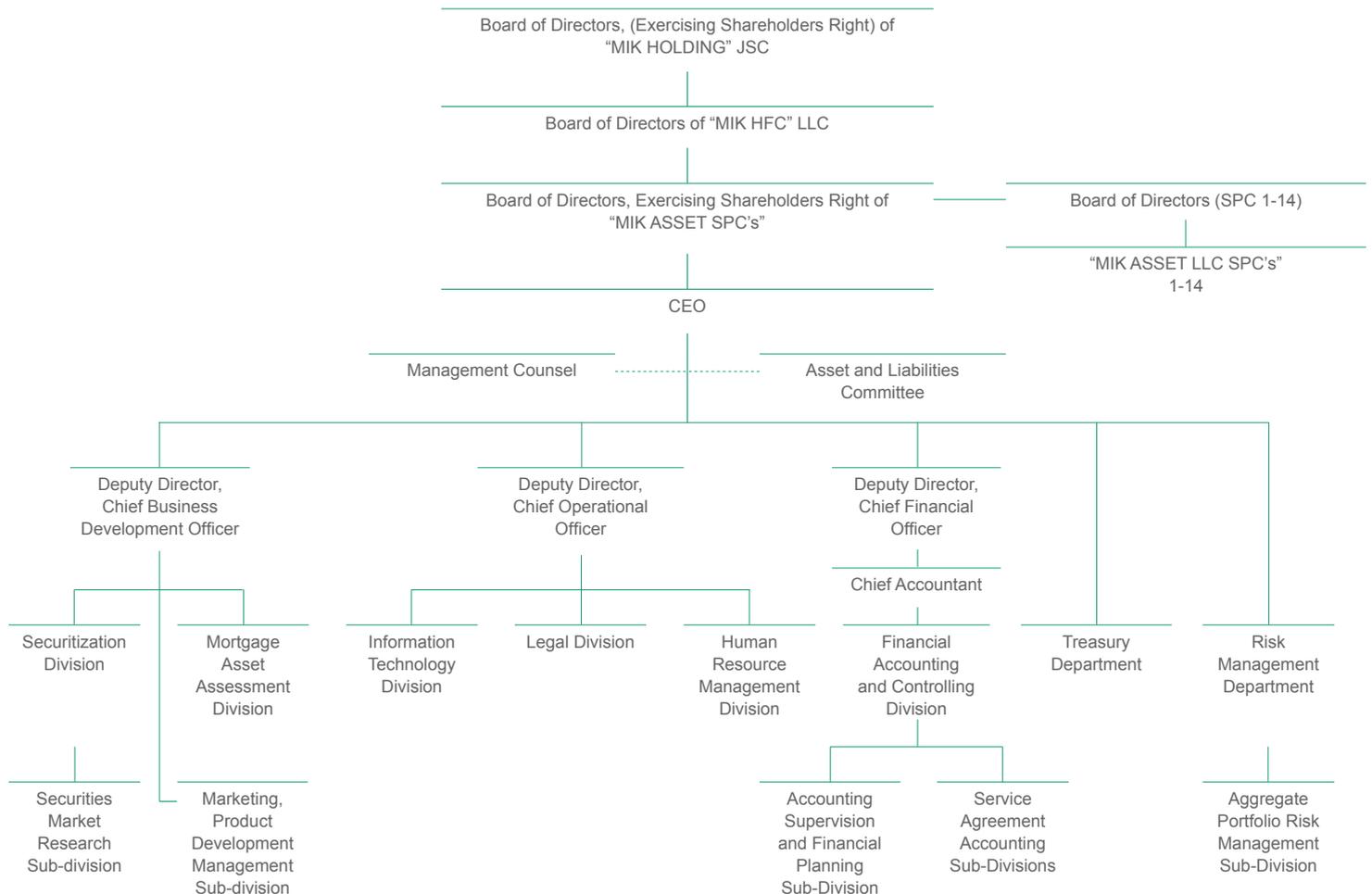
Date	2016
Distributed number of shares	20,709,320
Dividends per share (MNT)	268
Total dividends (MNT)	5,550,097,760
Earnings per share after tax	241.2

“MIK Holding” JSC’s Board Resolution No.15/04 held on December 4, 2015, Annex 2.

## MIK Holding JSC’s Organizational Structure



## “MIK HFC” LLC’s Organizational Structure



## The Board of Directors (BoD)

Board of Directors makes a decisions on issues beyond the authority of Shareholders and responsible for issuing securities, determining and appointing the authority of executive managment, as well as selecting an audit, determining a market value of the company's property, and issuing or purchasing shares.

"MIK Holding" JSC's Board implement executor on behalf of the Board of "MIK HFC" LLC

Board of Directors and Board Committee members of "MIK Holding" JSC works to strengthen the social responsibility of the Company, shareholders and citizens, and also works to prevent a shareholders' interest from potential conflicts according to the related legislations, to respect the company's rules, to comply with the code of ethics to strengthen justice, and to implement Board of Director's authority.

## Board of Directors of "MIK Holding" JSC



**M.Munkhbaatar**

Majored in Banking and Finance. He is a Board Chairman of "MIK Holding" JSC and also the Chair of the Nomination and Remuneration Committee of the Board.



**D.Sugar**

Majored in Finance. Director of Business Development Division at Golomt Bank and Board member of "MIK Holding" JSC. He is also a member of the Finance and Audit Committee of the Board.



**D. Boldbaatar**

Majored in Economy and lecturer of Politic and Economy. Senior Economist of the Monetary Policy Department at the Bank of Mongolia and Board member of “MIK Holding” JSC. He is also Chair of the Risk Management Committee of the Board.



**G. Khurelbaatar**

Majored in Finance. CEO at “United Securities” LLC and Board member of “MIK Holding” JSC. He is also a member of the Finance and Audit Committee of the Board.



**B. Choijiljalbuu**

Majored in Economy. Deputy CEO, Director of asset, liability and Treasury management department at Development bank of Mongolia. He is appointed as an impermanent Board member of “MIK Holding” JSC and a member of the Operational and Legal Committee of the Board.



**L. Gantumur**

Majored in Banking and Finance. Director of the Director of Treasury Department at Trade and Development Bank of Mongolia and Board member of “MIK Holding” JSC. He is also a member of the Finance and Audit Committee and Risk Management Committee of the Board.



**D. Bailikhuu**

Majored in Communication Engineer and Economy. Team Advisor of the “Developing Conductive Environment for Public-Private Partnerships” project at Asian Development Bank. He is an independent member of the Board of Directors of “MIK Holding” JSC and a member of the Operational and Legal Committee and the Nomination and Remuneration Committee of the Board.



**E. Shijir**

Majored in Finance and IT. He is an independent member of Board of Directors of “MIK Holding” JSC. He is also a Chair of Finance and Audit Committee and a member of Nomination and Remuneration Committee of Board.

## Board Committees and their functions

Board committees pay great concern to implement accurate policy and principles of corporate governance and regularly organized Shareholders meetings, Board of Directors meetings, and Board committees meetings to make decisions within their authority in 2016. “MIK Holding” JSC’s Board is operating with four committees, namely the Finance and Audit Committee, Risk Management Committee, Operational and Legal Committee, and Nomination and Remuneration Committee.

The Finance and Audit Committee’s functions are to support the effectuality of the Board of Directors in relation to ensuring the accuracy of financial statements, internal audit policies and procedures; to facilitate the communication between independent and internal auditors; to supervise and appraise accounting and financial management operations; and to give related information and recommendations.

The Risk Management Committee’s functions are to calculate predictable market and credit risks of “MIK Holding” JSC within the core business operation and to monitor the implementation of risk management procedures and the market and credit risk mitigation plans approved by the Board of Directors, and to provide accurate recommendations and information.

The Operational and Legal Committee’s functions are to support and give recommendations on strategic planning and implementation and the formulation of the legal environment, including internal procedures and guidelines, contracts and transactions.

Nomination and Remuneration Committee’s

functions are to nominate, elect, and remove Board members; to extend terms of office; to determine the remuneration policy for the Board of Directors, the management team, and other authorized persons of the company; and to make decisions on matters related to human resource planning and the creation of stable working conditions.

## Member of Board committees of “MIK Holding” JSC

No	Committee	Number of members	Name	Assigned date	Status
1	Finance and Audit Committee	5	E.Shijir	2016.03.15	Chair
			D.Sugar	2016.03.15	Member
			L.Gantumur	2016.03.15	Member
			B.Delgerjargal	2016.03.15	Member
2	Risk Management Committee	4	G.Khurelbaatar	2016.03.15	Member
			D.Boldbaatar	2016.03.15	Chair
			D.Zorigt	2016.03.15	Member
			D.Khosbayar	2016.11.24	Member
3	Operational and Legal Committee	3	B.Battulga	2016.03.15	Member
			M.Oyuntuya	2016.03.15	Member
			B.Choijiljalbuu	2016.11.24	Member
4	Nomination and Remuneration Committee	3	D.Bailiikhuu	2016.03.15	Member
			M.Munkhbaatar	2016.03.15	Chair
			E.Shijir	2016.03.15	Member
			D.Bailiikhuu	2016.03.15	Member

## Members of Board Committees

The issuer pays great concern to an implementation of accurate policy and principles of corporate governance and regularly organized Shareholders meetings, Board of Directors meetings, and Board committees meetings of the Company to make decisions within their authority.



**D. Khosbayar**

Majored in Economy. He is a Director of Credit Policy and Administration Department of State Bank, a member of the Risk Management Committee.



**M. Oyuntuya**

Majored in Banking Economy. She is a Director of the Finance and Treasury Department at Capital Bank and a member of the Operational and Legal Committee.



**D. Zorigt**

Majored in Business Management. He is a Director of the Corporate banking division at Capitron Bank and a member of the Finance and Audit Committee.



**B. Delgerjargal**

Majored in Banking Economy and Finance. She is Chief innovation officer at Xac Bank and a member of the Finance and Audit Committee.

## Board of Directors of SPCs

SPC	Board Members	Status
"MIK Asset One SPC" LLC	Ch.Bayartuul	Chairman of BOD
	A.Enkhjin	Board member
	B.Osorgarav	Board member
"MIK Asset Two SPC" LLC	D.Bayanzul	Chairman of BOD
	L.Ganchimeg	Board member
	Ch.Bayartuul	Board member
"MIK Asset Three SPC" LLC	B.Osorgarav	Chairman of BOD
	A.Enkhjin	Board member
	Ch. Bayartuul	Board member
"MIK Asset Four SPC" LLC	D.Bayanzul	Chairman of BOD
	G.Oyungerel	Board member
	D.Gantugs	Board member
"MIK Asset Five SPC" LLC	B.Osorgarav	Chairman of BOD
	A.Enkhjin	Board member
	Ch.Bayartuul	Board member
"MIK Asset Six SPC" LLC	A.Enkhjin	Chairman of BOD
	L.Ganchimeg	Board member
	D.Gantugs	Board member
"MIK Asset Seven SPC" LLC	B.Osorgarav	Chairman of BOD
	G.Oyungerel	Board member
	D.Bayanzul	Board member
"MIK Asset Eight SPC" LLC	S.Bekhbat	Chairman of BOD
	D.Gantugs	Board member
	D.Bayanzul	Board member
"MIK Asset Nine SPC" LLC	Yo.Munkhbat	Chairman of BOD
	E.Oyunbileg	Board member
	D.Gantugs	Board member
"MIK Asset Ten SPC" LLC	E.Oyunbileg	Chairman of BOD
	S.Bekhbat	Board member
	Yo.Munkhbat	Board member
"MIK Asset Eleven SPC" LLC	S.Bekhbat	Chairman of BOD
	E.Oyunbileg	Board member
	Yo.Munkhbat	Board member

According to the "Regulation on Issuing, Registering, and Granting Special Permission for Asset-backed Securities" approved by FRC and Charter of Special Purpose Company, the Board of Directors of SPCs' shall have three members and elected members may be elected to be Board of Directors of not more than three other SPCs.

### Ch.Bayartuul, Chairman of the BoD of "MIK Asset One SPC" LLC

She is a Lawyer and General Partner at "Bayanzurkh Consulting".

### D.Bayanzul, Chairman of the BoD of "MIK Asset Two SPC" LLC

Majored in Economics and Banking and Finance. She is a Director of Lending and Liquidity Policy Division of Monetary Policy Department of the Bank of Mongolia.

### B.Osorgarav, Chairman of the BoD of "MIK Asset Three SPC" LLC, "MIK Asset Five SPC" LLC, and "MIK Asset Seven SPC" LLC respectively

Majored in Accounting and Economy. He is a General Director at "Ulaanbaatar Audit Corporation" LLC.

### A.Enkhjin, Chairman of the BoD of "MIK Asset Six SPC" LLC

Majored in Economy. He is a Director of General Management Department Bank of Mongolia (Central Bank).

### S.Bekhbat, Chairman of the BoD "MIK Asset Eight SPC" LLC and "MIK Asset Eleven SPC" LLC respectively

Majored in Banking, Finance and Economics. Holds M.A. in International Development Policy from Duke University, He is a CEO of the "Mongolian Public and Private Partnerships Development Center".

### Yo.Munkhbat, Chairman of the BoD of "MIK Asset Nine SPC" LLC

Majored in Economy. He is a Director of Banking policy & Restructuring Division, Supervision Department of the Bank of Mongolia.

### E.Oyunbileg, Chairman of the BoD of "MIK Asset Ten SPC" LLC

Majored in International Economic Relations. She is a Consultant, Mongolia Corporate Governance Program, International Financial Corporation.

### D.Gantugs, Member of the "MIK Asset Four SPC" LLC, "MIK Asset Six SPC" LLC, "MIK Asset Eight SPC" LLC, and "MIK Asset Nine SPC" LLC respectively

Majored in Economy. Works as a CEO of "MIK Holding" JSC and "MIK HFC" LLC.



## Internal Audit

“MIK Holding” JSC’s Internal Audit is a unit that works as independent part of the Board of Directors and operates directly under management of Finance and Audit Committee of BoD. The internal audit reported their work to BoD two times in 2016.

Based on the international practical standards, senior auditor and internal auditors team evaluates and consults on the corporate governance, and risk management, as well as assess or recommend the establishment of internal control system; monitors the result and present it to Finance and Audit Committee and other Committees.

According to the Risk-Based annual plan approved by Board of Directors in 2016, total of 17 units have been involved in the audit process. The internal audit team prepared 32 recommendations in the first half-year, 21 recommendations in the last half-year and presented it to the Finance and Audit Committee meeting in 2016.

The Board of Directors concentrates on conducting an effective audit with potential human resources by providing them opportunities to participate necessary professional training and promotions.



## For Shareholders and Investors

### Dividend Policy

“MIK Holding” JSC is working to implement policies to distribute dividends to its current and future investors, and working compliance with the policy to keep an adequate levels of capital invested by investors according to Company Law, Asset Backed Securities Law and Corporate Governance Conducts of Mongolia. Decisions of distributing a dividend are an indicator of the company’s value, financial position, and operational result.

Based on the Board of Director’s resolution made on March 18, 2016 “MIK Holding” JSC decided to distribute dividends per share of MNT 241.2 to its shareholders from operating profit of 2015. The transaction was made through “Central Securities Depository” LLC on May 3, 2016.

### Stock information

“MIK Holding” JSC is an open a joint stock company which trades its shares to the public and included in the first classification and Top-20 index of the joint stock companies registered at the Mongolian Stock Exchange.

The company have led the other companies by trading 15 percent of the authorized capital or 3,106,398 MNT to the public at Mongolian Stock Exchange in the late 2015, and the total transaction amount was 37.2 billion MNT. “MIK Holding” JSC became the first joint stock company to satisfy first grade listing criteria of Mongolian Stock Exchange.

“MIK Holding” JSC’s 9170 shares traded in 2016.

### Share Trading Information

#### Per share price growth



Transaction name	“MIK Holding” JSC
Traded number of shares	9,170
Value	110,711,780 MNT

#### How to purchase shares

-  Visit with your identification card
-  Select from more than 40 listed companies
-  Open up account at Securities depository center
-  Place money in the account and pay premiums for Dealers
-  Conclude subscription and purchase agreement and give orders



## Business Activities

### Mortgage Market Environment

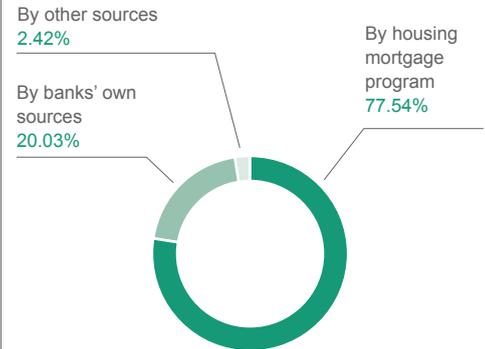
Mortgage market is a mortgage financing system including primary and secondary market. The primary mortgage market relies on the long-term mortgage loans which granted by banks to lenders. In Mongolia, the primary mortgage market has been developed sharply by introducing mortgage loans in banking sector since 2003. The primary mortgage market is defined to be the lowest risk product for society and economy. For individuals, it is a most trusted long term investment.

The banks' mortgage loan amounts have been increasing constantly and the total amount of mortgage loans of banking sector reached 4.02 trillion MNT by the end of 2016. For one hand, the increase directly connects to the implementation of "Construction Sector Support and Residential Housing Price Stabilization" program approved by the Government of Mongolia and Mongolbank on 14 June 2013.

As of the end of 2016, mortgages issued under the mortgage program with an interest of 8 percent and 5 percent constituted 77.54 percent, and other 20.03 percent and 2.42 percent are financed by commercial banks and other funds respectively. MIK has purchased and securitized 68.14 percent of the total mortgage loans in the market and 31.86 percent are held by commercial banks in 2016.

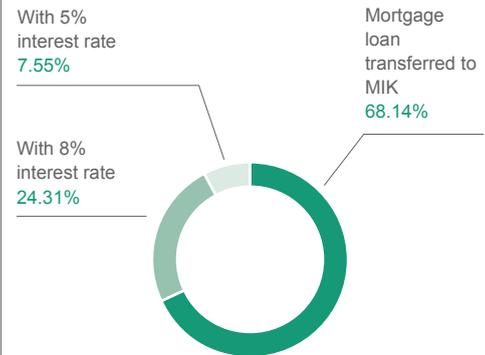
### Total mortgage loans outstanding (December 2016)

Outstanding: 4,018.03 MNT billions  
Borrowers: 89,156



### Housing Mortgage Program (December 2016)

Outstanding: 3,115.9 MNT billions  
Borrowers: 63,729



The population of Mongolia has reached 3.1 million by the end of 2016 and 40 percent of the population lives in Ulaanbaatar city. As 60 percent of the citizens in Ulaanbaatar lives in ger area, it interprets high demand of housing needs and it also leads to support and meet the housing needs by depending on their purchase capacity and income level.

The table 9 compares before the “Housing Mortgage Program” the mortgage loan outstanding was 845 billion MNT of 29,000 borrowers in 2012, and by the end of 2016, the outstanding reached 4,018 billion MNT by increasing by 5 times and 89,000 borrowers increased 3 times. When the newly originated loan rate in 2012 was 14.9 percent, it decreased slightly to 8.8 percent in 2016.

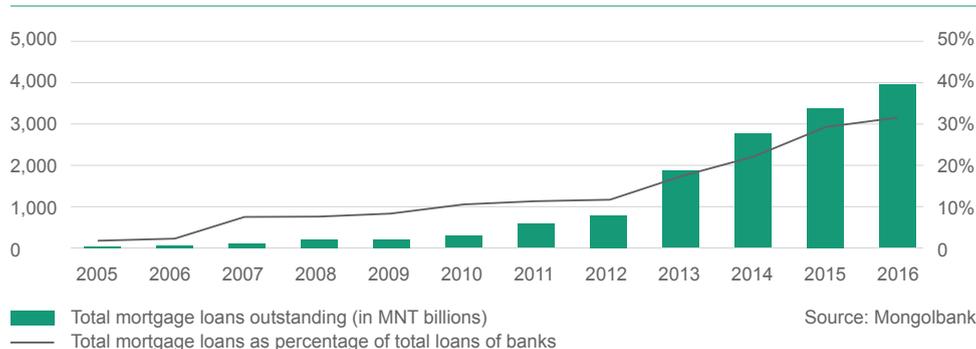
### Mortgage market indicators

Indicators	2012	2013	2014	2015	2016
Total Mortgage Outstanding (billion MNT)	845.20	1,938.95	2,844.61	3,432.96	4,018.30
Loan outstanding of banking sector (billion MNT)	6,941.14	10,715.63	12,440.93	11,633.57	12,337.51
Mortgage loans as % of banking sector	12.18%	18.09%	22.87%	29.51%	32.57%
Total number of borrowers	29,887	48,320	66,334	77,105	89,156
Average mortgage loan amount (million MNT)	28.28	40.13	42.88	44.52	45.07
Average interest rate of newly issued loans for the year (%)	14.91%	12.63%	10.19%	9.70%	8.80%
Loan outstanding of construction sector	899.89	1,457.20	1,647.37	1,526.77	1,333.77
Construction sector loan as % to banking sector	12.96%	13.60%	13.24%	13.12%	10.81%
Construction sector as % of GDP	5.02%	5.11%	4.45%	4.23%	3.44%

Source: Mongolbank

Since the approval of “Construction Sector Support and Residential Housing Price Stabilization” program in 2013, MIK has purchased 2.46 trillion MNT of mortgage loans which is subject to the RMBS issuance. Among the purchased mortgage loans, 1.65 trillion mortgage loans are newly originated and 0.52 trillion are refinanced mortgage loans.

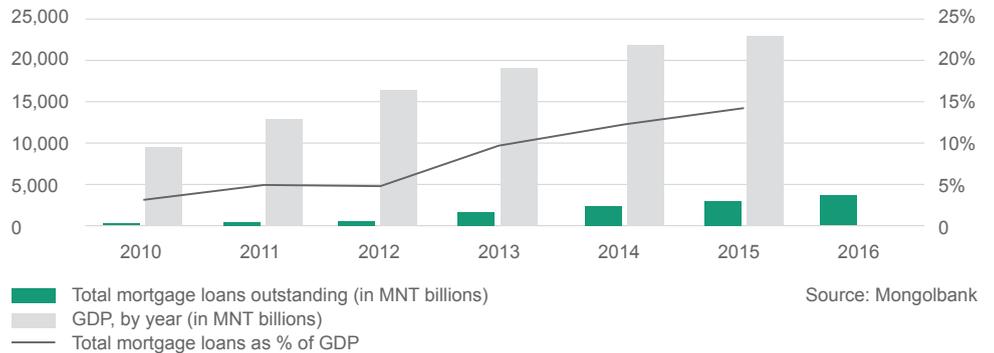
### Mortgage loans as % of Banking sector



Source: Mongolbank

Mortgages at commercial banks constituted 10.11 percent of the GDP in 2013 as the beginning of the subprogram, 12.80 percent in 2014 increased by 2.69 percent, 14.84 percent in 2015 increased by 2.04 percent comparing to the year began the program.

### Mortgage loans as % of GDP

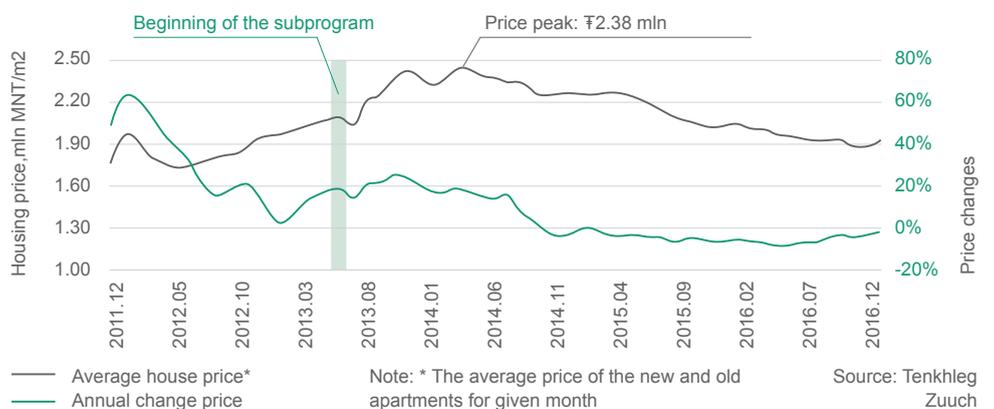


According to the amended “Mortgage loan financing procedure” of Mongolbank on October 25, 2016, Mongolbank will finance the mortgage loans using the payments from coupon and principle of senior RMBS. Although it may lead to a lower mortgage loan supply, the amended procedure also extended the loan maturity to 30 years which gives more possibility for borrowers to get mortgage loans as it declined monthly payments.

## Housing Market

Since the implementation of subprogram, the average house price has reached 2.38 million MNT per square meter at the peak in April 2014. It declined to 1.98 million MNT per square meter in December 2016. Therefore, the highest decline of housing price was 10.3 percent in April 2016 and it was 4.1 percent as of December 2016 comparing to the same month of previous year.

### Average housing price and price growth



## Housing Demand

The main factors for growth in housing demand are population and family increase. For the past 5 years, the average increase in the population of Ulaanbaatar city was 47,000 people including 18,000 commuters, and 29,000 birth and death.

### Population growth and migration in Ulaanbaatar

Year	Number of people moved in	Number of people moved out	Birth	Death	Population growth
2011	28,593	(8,502)	30,226	(7,768)	42,549
2012	19,887	(7,024)	33,324	(7,554)	38,633
2013	27,706	(10,060)	36,421	(7,068)	46,999
2014	31,356	(10,009)	37,672	(7,608)	51,411
2015	30,297	(11,702)	42,790	(7,245)	54,140
Average growth	27,568	(9,459)	36,087	(7,449)	46,746

Source: Statistics Department of Ulaanbaatar

The average growth in family of the past 5 years is 5,000 counting 7,000 marriages and 2,000 divorces.

### Household Growth Factor Statistic

Year	Marriage	Divorce	Number of family	Growth rate in family
2011	5,278	1,785	759,915	2.38%
2012	5,699	1,821	768,263	1.10%
2013	6,736	2,054	794,090	3.36%
2014	7,933	2,329	823,412	3.69%
2015	8,263	2,515	859,106	4.33%
Average	6,782	2,101		2.97%

As the youngsters who are age from 25 to 29 share the most of the population, it shows high possibility that the marriage rate will be increasing for the recent years. Among the obligors at MIK, the age group of 30 to 34 years old and 35 to 39 years old are shares the most.

### Population of Ulaanbaatar and Obligors Age Group



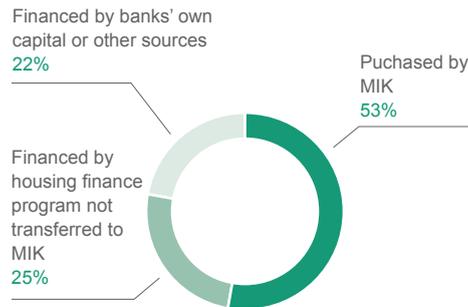
## Housing Supply

60,200 new housing projects have been carried out in Ulaanbaatar as of December 2016. Among the projects, 28.9 percent including 17,400 apartments are subscribed to buy in advance and whereas 11.8 percent including 71,000 apartments are in use. The remaining 71.1% including 42,800 apartments are still under construction and have no subscribers to buy.

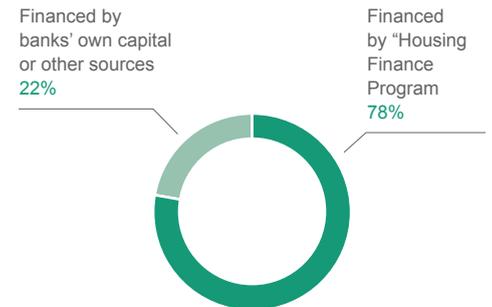
### Residential apartment supply in UB city (as of Dec 2016)

Housing projects	Number of apartments (Thousand)	Percent
Subscribed to buy	17.4	28.9%
- Finished construction	7.1	11.8%
Projects under construction	42.8	71.1%
Total number of apartments	60.2	100.0%

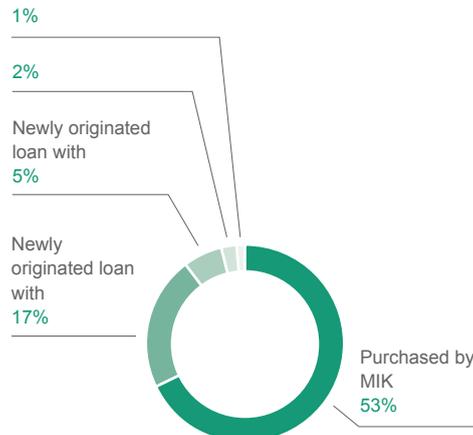
### Total Mortgage Loan Outstanding

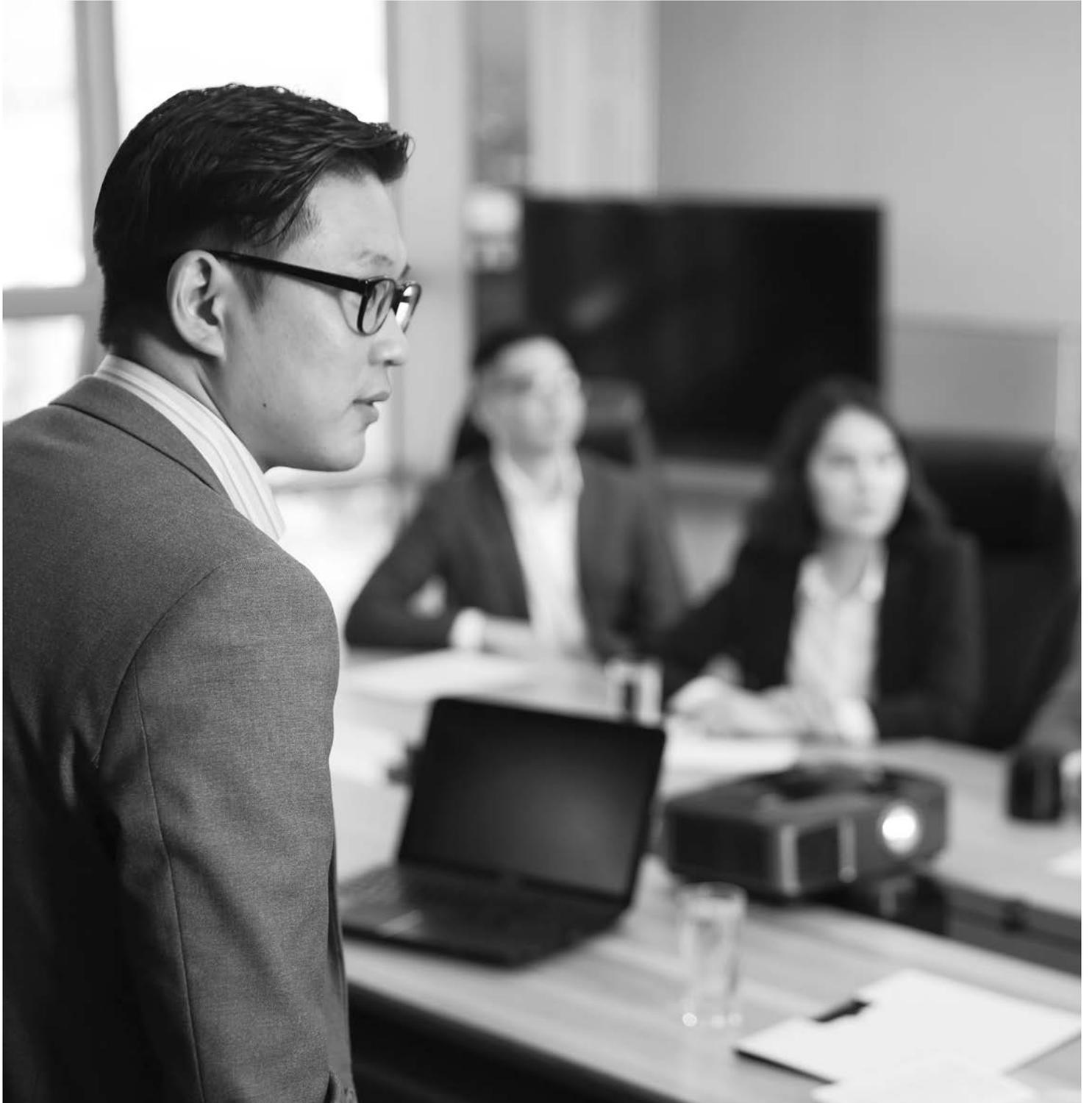


### Total Mortgage Loan Outstanding, by type



### Mortgage Loan Outstanding of "Housing Finance Program"

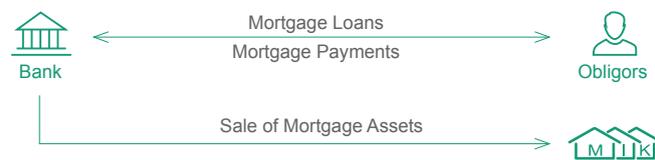




## Mortgage Asset Assessment and Purchase

Mortgage asset assessment division's main operation is to organize the sell and purchase of the Mortgage assets between Originators (banks) and Issuer, to require the selected assets to satisfy the Eligible Criteria, to prepare the Mortgage asset information list to be delivered to the Financial Regulatory Commission, and develop and present asset management reports to the executive team.

MIK assesses to require the purchasing assets to satisfy the Eligible Criteria that is subject to the securitization.



The result of the secondary review will be documented to allocate the mortgage loans purchasing from banks into eligible, clarified, and ineligible.

Where the eligible mortgage loans will be purchased with nominal value or the outstanding loan amount, the ineligible mortgage loans can be purchased with discount rate. However, MIK has not purchased the mortgage loans with discount rate for now.



The Eligible Criteria has been developed mainly in accordance with “Mortgage Lending policy and procedure” of 2008, “Residential Mortgage Financing Procedure” of 2016.

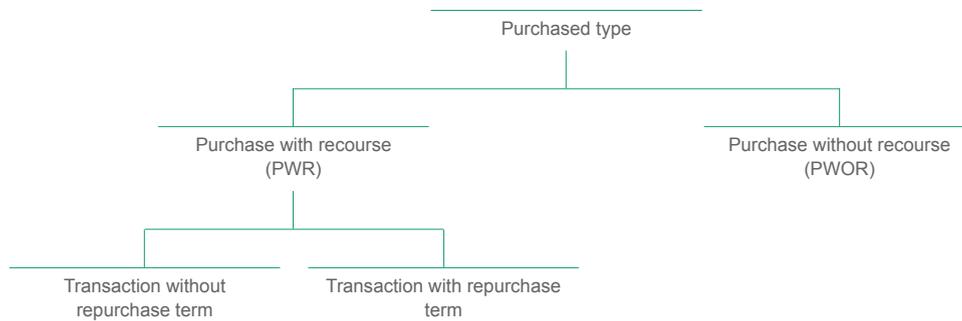
In the framework of mortgage asset purchasing, MIK HFC LLC has developed and approved following 5 procedures in 2016.

No	Procedure name	Summary	Approved date
1	Aggregate portfolio collecting and purchasing process operation (amended)	To regulate process of collecting and purchasing the mortgage assets that is subject to the RMBS transaction and to determine the scope of departments and divisions' activities.	2016/03/18
2	General procedure on mortgage asset purchase activities (amended)	To monitor the process of developing purchase plan, set criteria, reviewing asset information, and process of purchasing resolution and determine the roles of the departments and divisions regarding to the transaction financed by MIK or KfW.	2016/10/27
3	Procedure on purchase with recourse terms		
4	Procedure on repurchasing assets with no recourse terms		
5	Procedure on mortgage asset collecting and purchasing financed by KfW		

## Purchase Type

MIK HFC LLC's mortgage loan purchase divided into following in terms of risk allocation conditions:

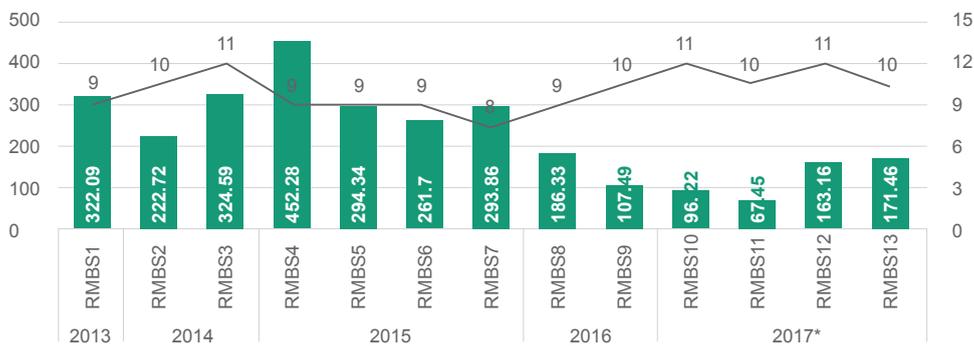
- Purchase with recourse (PWR);
- Purchase without recourse (PWOR)



## Transaction without Repurchase Term (Purchasing Assets of RMBS)

293.82 billion MNT mortgage assets are purchased in 2016 under RMBS eighth and ninth transaction without repurchase term. In addition, 931.7 billion MNT mortgage assets are assessed and 498.29 billion MNT mortgage assets are eligible and ready to be purchased under RMBS tenth to thirteenth transaction.

### Mortgage Assets Purchase Information from 2013 to 2017

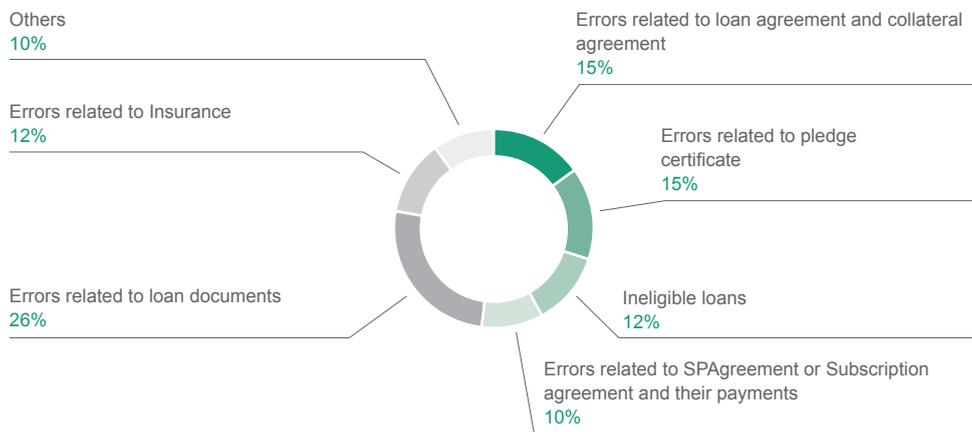


■ Transaction amount (MNT billions)  
— Number of Originators

\*The asset assessment process has been done and will be purchased in 2017.

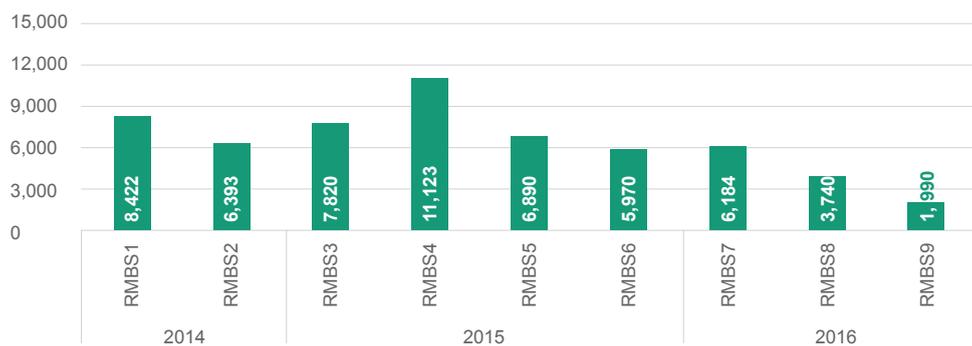
There are 7 common reasons that mortgage assets held to be clarified and not to be purchased due to the RMBS transaction. The reasons of the clarification are shown based on the result of the secondary review within the RMBS 10, RMBS 11, RMBS 12, and RMBS 13 in 2016.

**Reasons of the clarification of the secondary review in 2016**



The ownership of 58,532 mortgage assets backed RMBS 1 to 9 has been transferred to the related MIK Asset SPC LLC (the Issuer) and such title transfer registered at General Authority for State Registration according to the special permission of the FRC in Mongolia.

**Number of the property ownership transfer from 2014-2017**



## Purchase with Recourse (Own capital and KfW Bank's borrowing funds)

MIK has purchased mortgage assets with purchase with recourse term funded by its internal resource and KfW. 18.35 billion MNT of 628 mortgage loans from 7 banks are purchased 8 times and financed by MIK's own resource and 4.66 billion MNT mortgage loans from 4 banks purchased 8 times and financed by KfW in 2016.

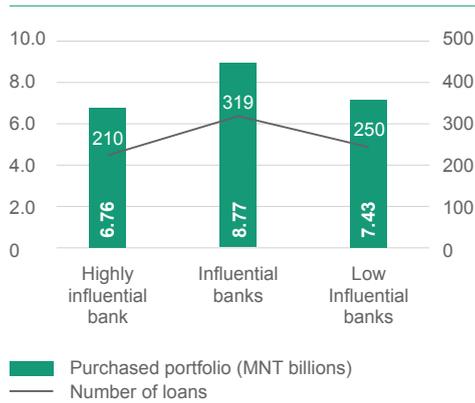
As the purchase with recourse continues, 5.26 billion MNT of 82 mortgage loans from 2 banks are assessed and ready to be purchased.

### PWR structure in 2016



The purchase from the banks are leveled by Mongolbank depending on their asset volume in the banking sector which are highly influential bank, influential bank, and low influential bank to the banking system.

### Purchased mortgage asset structure in 2016



The ownership of 1,208 mortgage assets purchased by MIK and KfW has been transferred and such title transfer registered at General Authority for State Registration in 2016.



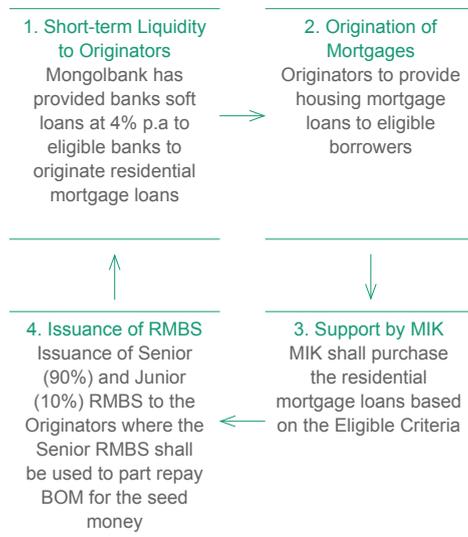
## Securitization Process and RMBS Transaction

The main activity of Securitization division is to increase the financial funding sources by issuing the Asset Backed Securities (ABS) and implement the following processes regarding to the transaction:

- To develop a financial cash flow model and assumptions based on the eligible mortgage assets to be backing the RMBS transaction
- To prepare RMBS transaction documents, applications, and Prospectus according to the related regulation, present them to the Board of Directors of MIK and MIK Asset SPC LLC for approval, submission, and registration at the Financial Regulatory Commission
- To estimate and model the interest, duration, structure, and rating of the securities
- To prepare and present reports and information to the Investor Bondholders, Board of MIK Asset SPC LLC, and related regulatory Authorities accordance to the related legal regulation post RMBS issuance.

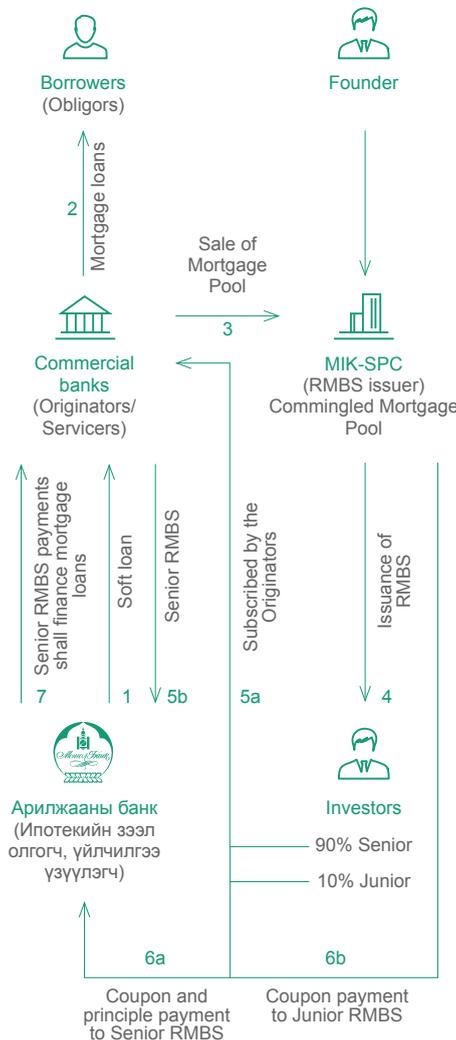
## Mortgage Financing System

The Government of Mongolia and Mongolbank have signed the memorandum of understanding on cooperation to implement “Price Stabilization Program” on 22th of October, 2012.



## RMBS Transaction Structure

MIK HFC LLC has been appointed as the Transaction Administrator, the Fiduciary Manager and the Security Agent for the transaction.



- 1 BOM provides soft loan to eligible banks in order to finance mortgage loans
- 2 Originators provide mortgage loans to eligible borrowers
- 3 Banks shall sell their respective pools of mortgages to MIK-SPC
- 4 MIK-SPC to issue RMBS in Senior and Junior tranches
- 5 The Junior Tranche will be subscribed by respective Banks whilst the Senior Tranche shall be sold to BOM
- 6 MIK-SPC shall pay coupon to Junior Tranche holders and coupon and principle payments to the Senior Tranche holders quarterly
- 7 The Senior Tranche holder, BOM, shall finance mortgage loans by the coupon and principle payments from the Senior Tranche / In accordance with “Residential mortgage finance Resolution” approved by the Governor N.Bayarsaikhan of BOM/

## Securitization Process

Within the implementation of the “Construction Sector Support and Residential Housing Price Stabilization” sub-program, MIK HFC LLC is promoting the development of the secondary mortgage market and issuing residential mortgage-backed securities upon the purchase of 8 and 5 percent interest rate mortgages portfolio from commercial banks to raise finances accumulating available assets.

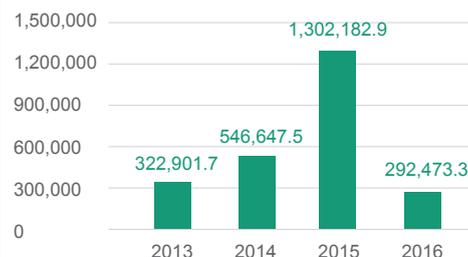
### Stages of Securitization settlements

- 1 Mortgage asset purchase
- 2 Develop Prospectus and Transaction documents
- 3 To request special permission from FRC
- 4 To issue the securities
- 5 To finish transaction and reporting

## The Issuance of the RMBS

MIK HFC LLC has issued the initial RMBS of 322,901.7 million MNT through “MIK Asset One SPC” LLC in 2013. “MIK Asset Two SPC” LLC and “MIK Asset Three SPC” LLC have issued total of 546,647.5 million MNT RMBS in 2015 and “MIK Asset Four SPC” LLC, “MIK Asset Five SPC” LLC, “MIK Asset Six SPC” LLC, and “MIK Asset Seven SPC” LLC have issued total of 1,302,182.9 million MNT RMBS in 2016.

RMBS issuance by year (in MNT million)

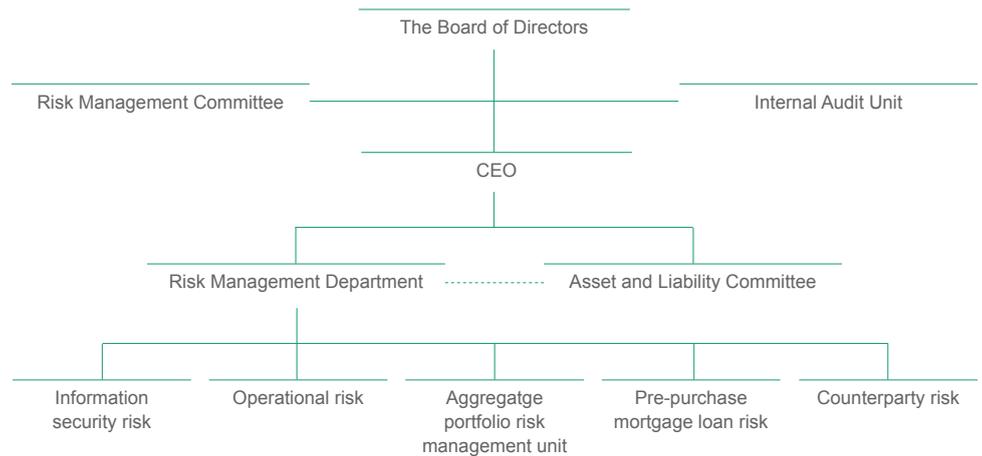


In addition, “MIK Asset Ten” LLC and “MIK Asset Eleven” LLC has received the special permission to issue RMBS from FRC in December 2016.

This year, MIK HFC LLC also established “MIK Asset Twelve” LLC and “MIK Asset Thirteen” LLC and preparing to request special permission to issue RMBS from the FRC.



## Risk Management System



**Board of Directors (BoD):** The Board of Directors, consists of 9 members, is the highest management unit which is responsible for monitoring the risk management policy, core business activities, strategy, and goals. The Board Finance and Audit committee, Risk management committee, and Nomination and Remuneration committee monitor the implementation of risk management through their scope respectively.

**The Board Risk Management Committee:** The Committee controls the market tolerance risk level and the company's risk policy and responsible for recognizing the possible business risks and presenting the implementation of the resolutions to the Board of Directors.

**Internal Audit unit:** The unit is responsible for implementing the risk based auditing in order to identify and assess the possible results of the risks to the operation and report them to the Board and Finance and Audit committee.

**Executive Committees:** The Asset and Liabilities Committee is an executive committee of the Company and controls the quality of mortgage loans purchased or to be purchased. In addition, the Committee reviews the risk reports of the company's loan assets and adequacy and to define the adequate market interest margin of the company and resolutions on mitigating risks.

**The Management Council:** The Management Council of the Company monitors the implementation of the short, mid, and long-term business plans of the company. It provides oversight to ensure that there is applicable correspondence between the departments and evaluation of the work performance. The Council also identifies a prospective investment and purchase plan and requests approval from the Board.

**Risk Management Department:** In line with the risk management of business and company activities, Risk management department is responsible for identifying, measuring, analyzing, controlling, monitoring and reporting the loan portfolio cover pool risk, aggregate portfolio risk management, collateral risk, operational risk, the compliance of information security management system, and counterparty risk assessment.

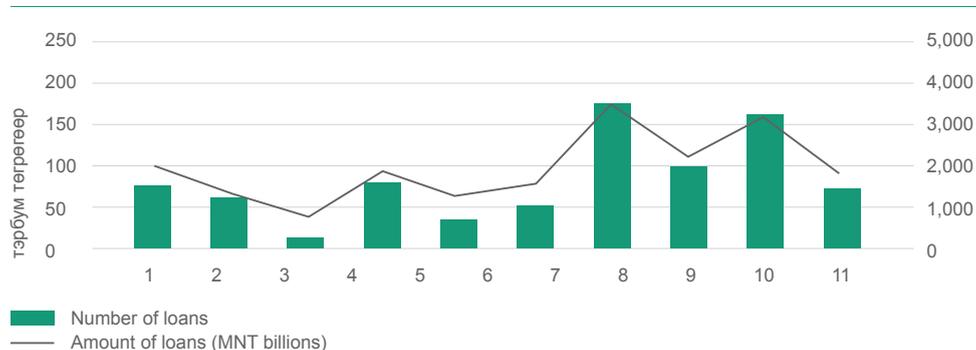
## Aggregate Portfolio Risk Management

Implementation to the contractual obligation with Issuers (SPCs), MIK sets Aggregate portfolio risk management system to provide oversight to control each mortgage loan risks that is subject to issuing RMBS before and after the purchase.

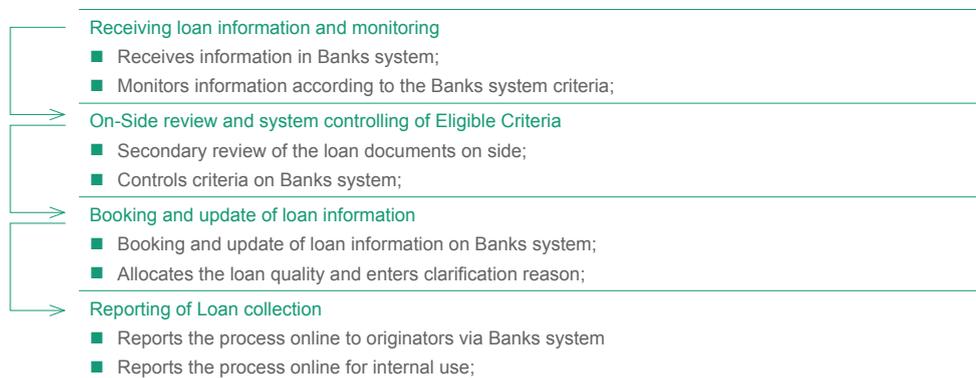
### Pre-purchase aggregate portfolio risk management

During the year, SPCs have planned to issue five RMBS backed by 987.3 billion MNT of 16,832 mortgage loans. We have implemented the pre-purchase risk control and reduced the risk of 436.1 billion MNT of 7,081 mortgage loans for meeting the eligible criteria.

### Risk control implementation

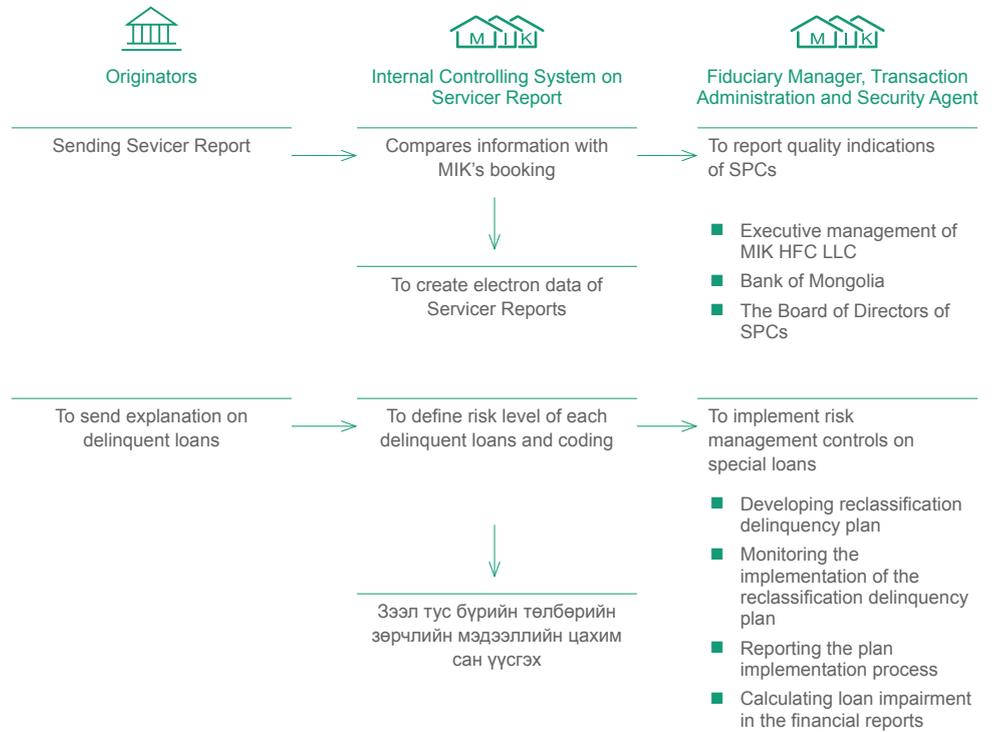


In order to reduce company's operational risk, MIK developed a system called Banks which registers all information of each loan rapidly, efficiently, and safely and it controls the loan purchasing process at initial level. The system improves the loan portfolio registration and quality of the asset control and it works according to the agreement made with originators.



### Post-purchase aggregate portfolio risk management

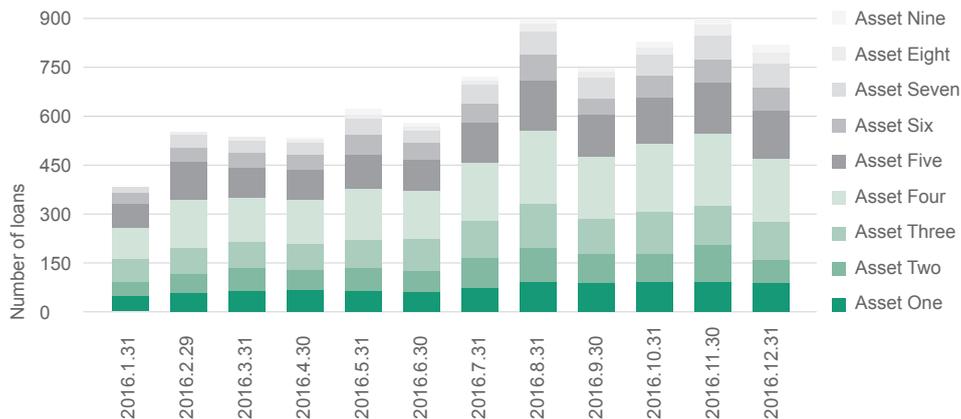
As MIK is appointed as a Fiduciary manager, Transaction Administration, and Security Agent to SPCs, we have introduced a risk management software solution completely based on information technology system.



### Aggregate Portfolio Quality Report (2016.12.31)



### Loan accounts under risk management control



## Market Risk Management

In line with the counterparty risk management, we focus on financial and adequacy information of each Originators monthly. Especially we consider the following indications after risk:

- External Ratings
- Financial Ratios
- Compliance with regulatory authority rules

Market risk is defined as potential loss to income and returns of the company arising from changes of market interest and exchange rate. The company manages market risk by constantly increasing the effect of the contractual obligations with counterparties and remaining the risk lower than market rate.

## Operational Risk Management

Operational risk management sets continuous risk mitigation operation against the potential loss resulting from inadequate or failed internal processes, people, correspondence between departments, and external events.

## Information Security Risk Management

Information security risk management sets and improves an information security system to prevent from intentional and unintentional threat to company's confidential information and information system.

## Information Security Management International Standard

Since the third quarter of 2016, the Company has been developing and introducing Information security management system ISO27001:2013 for business operation.

The Company shall establish, implement, maintain and continually improve an information security management system, in accordance with the requirements of International Standard and legislations of Mongolia, which provides information security for shareholders, bond holders, servicer banks, associates and borrowers, as well as protecting their rights and maintaining the Company's business continuity.

### Main policy of Information Security Management System:

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#### Creating Structure

The Company shall establish required processes and procedures for Information Security that ensures Confidentiality, Integrity and Availability of Information, in accordance with Organizational Structure and ensure that all employees and contractors comply with the Procedures in their day to day operations

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#### Defining responsibilities

The Company, in order to implement information security actions, shall define and assign the relevant roles and responsibilities within the company for ensuring and monitoring the effective implementation

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#### Training and Awareness

The Company shall conduct information security related trainings and awareness for employees as well as contractors on a regular basis, in order to continually improve information security

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#### Applying international standard and legalization

The Company shall establish, implement, maintain and continually improve an information security management system, in accordance with the requirements of International Standard and legislations of Mongolia, which provides information security for shareholders, bond holders, servicer banks, associates and borrowers, as well as protecting their rights and maintaining the Company's business continuity

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#### Improving control system

The Company shall define and implement required monitoring and measuring systems and processes for evaluating the implementation of ISMS actions, improve internal audit system and exercise appropriate controls within the Company

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## Internal Operations

### Information Technology Division

Information Technology Division was established in 2013 and responsible for the following tasks:

- Provide company's everyday operation with information technology services
- Provide a reliable and secure technology system for company's accounting and business operation
- To develop and improve necessary software for company's operation computing
- Provide the company's information security

Implementation of the projects of information technology among company in 2016:

- Improved company's information technology infrastructure:
  - Network extension – Restructured the internal network by usage and improved network security
  - Endless system operation – By extending the infrastructure, the company secures the constant operations of the main systems and provides substitute systems.
- Communication between banks and MIK has simplified to be automatic by MIK IT Division.
  - Servicer's report – In order to receive the monthly servicer's reports fast and actual from the servicer banks, the software was developed and introduced to the operation.
  - Delinquent loan control – Delinquent loan controlling software was developed to monitor the purchased loan portfolio in banks. The loan officers of the banks will be able to

access the software and report.

- Repurchase – In framework of purchasing the mortgage loans with 5 percent interest rate, the software is developed to receive requests from banks to transfer purchased 8 percent interest rate loans into 5 percent.

- The following software developed for internal use:

- Procedures database – A sub software was developed in the internal web system to keep availability of the procedures, guidance, and handbooks of the company to all employees.
- HelpDesk – A HelpDesk program was developed to document the correspondence between departments and monitor the implementation of the tasks.

- Introduced new systems

- GreenERP system – Green ERP system developed by IT Zone LLC was introduced to MIK's internal use to manage company's staff working time registration, salary calculation, and capital records.
- Updated company's website – IT Division has organized open bidding to renovate company's website which will be accessible for users and based on new technology and modern design

- ISO/IEC 27001:2013 – In line with introducing Information Security Management System, IT Division has implemented following tasks with advisors.

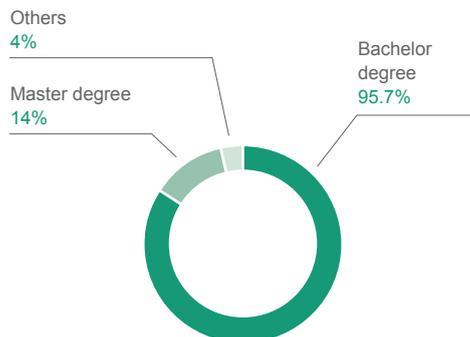
- To define the risks of loss of Confidentiality, Integrity and Availability of Information and develop necessary procedures and policies for implementing Information security management

- To appoint Information Security Management Committee and Internal Audit to conduct periodically check that the ISMS is effective and reports the results to the management Committee.
- Successfully organized the introduction of ISMS for the business operations and ready to be conducted by the international Auditor.

## Human Resource Management

MIK HFC LLC's human resource policy is aimed to create skilled and professional human resource, maintain the stability of the employment, and provide adequate training and rewarding employees in accordance with their achievements. MIK HFC LLC sets a salary policy which is based on the performance. In 2016, MIK has increased employees' salary level based on the individual performance valuation and the task implementation of departments. Introducing "Green ERP" system to the human resource management has enhanced the registration of work time logging and performance reports.

### Employee education level



### Professions by number



## Training and Development

In framework of introducing Information security management system, MIK HFC LLC organized 757.8 hours of 49 training and seminars participating duplicated number of 251 workers:

- 646.3 hours of 24 training participating 54 workers for asset appraisal, financial, risk, compliance oriented courses;
- In order to introduce ISO 27001:2013 standard, the advisor of Britain international standard company has organized 40 hours of 3 trainings for duplicated number of 90 workers.
- For other professional trainings, duplicated number of 82 workers have participated for 63.5 hours of 21 trainings.

## Legal Division

Legal Division of MIK HFC LLC is responsible for developing and providing a necessary legal documentations and legal advises within company and monitoring the issues raised among a legal environment for MIK Holdings and their subsidiary companies.

Therefore, Legal Division also provides legal information related to Company's business operation and protects from possible legal risks for Group company.

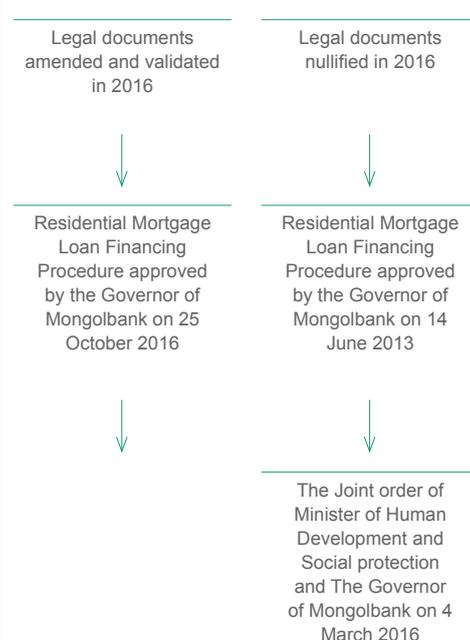
## Legal Environment

In line with Securitization process and Securitization transaction, the following legalizations and Laws have been applied in Mongolia.

No	Name of the Law and Procedure	Approved date
1	"Civil Law of Mongolia"	2002
2	"Company Law of Mongolia"	2011
3	"Law on Real State Collateral"	2009
4	"Law on Securities Market"	2013
5	"Law on Asset-backed Securities"	2010
6	"Law on Asset Valuation"	2010
7	"Law on State Registration of Ownership Rights and Other Related Rights"	2003
8	"Law on Auditing"	2015
9	"Law on Accounting"	2001
10	"Law on Corporate Income Tax"	2006
11	"Law on Corporate Secret"	1995
12	"Law on Individual Person Secret"	1995
13	"Residential Mortgage Financing Procedure approved by Mongol Bank"	2016
14	Regulation on Issuing, Registering, and Granting Special Permission for Asset-backed Securities approved by the FRC	2016
15	Procedure on Mortgage Loan Operation approved by Mongolbank	2008

16	Procedure of registration of asset pool of backed securities approved by joint order of Minister of Justice and Chairman of FRC	2013
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Within the legal environment of MIK's business operation, the following Laws and Procedures of Mongolia have been validated, amended or nullified in 2016:





## Finance and Accounting

The main function of the Financial Accounting and Controlling Division of MIK HFC LLC is to manage, plan, and report MIK's and its subsidiaries' financial accounting activities, and to implement the agreement obligations with Servicer banks. In 2016, As "MIK Asset Eight SPC" LLC and "MIK Asset Nine SPC" LLC established, FACD is implementing the financial accounting and transactions of the subsidiaries according to the related agreements.

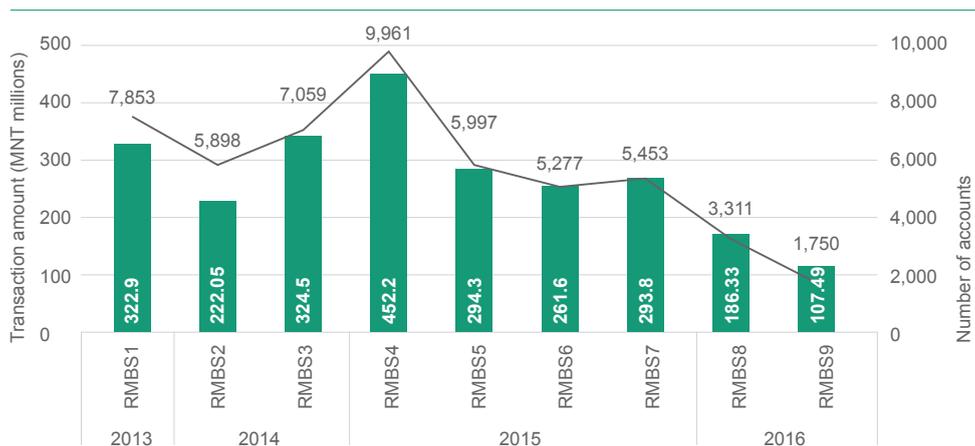
MIK prepares The consolidated financial statements of MIK Group and other statements according to the IFRS 10 approved by the order no.170 of Minister of Finance and Economic in 2015 and applies the standard in the financial and accounting reports.

FACD has reedited MIK's "Accounting Policy Paper" and applied to the company's everyday operations. Therefore, the Paper has become satisfactory development for MIK and the subsidiaries' accounting activities which meets the requirements of the Regulators.

In 2016, FACD has completed the accounting of 292 billion MNT of RMBS transactions and implemented transactions which includes 2 RMBS issued in February and April 2016 according to the Group business plan.

MIK HFC LLC has completed principle payments of 166.62 billion MNT and interest payments of 85.91 billion MNT to the senior RMBS holders and interest payments of 24.59 billion MNT to the Junior RMBS holders relating to the RMBS 1 to 9 through Mongolian Central Securities Depository during 2016.

### Transaction amounts and Number of accounts of RMBS



### Payments effected to Mongolian Central Securities Depository (MNTbillions)

SPCompany name	Senior Bondholders		Junior Bondholders			
	2015	2016	2015	2016		
	Principle		Coupon payment			
"MIK ASSET ONE SPC" LLC	27.5	25.2	11.1	9.92	3.3	3.38
"MIK ASSET TWO SPC" LLC	18.9	17.4	8.3	7.5	2.3	2.3
"MIK ASSET THREE SPC" LLC	23.7	24.7	12.6	11.6	3.3	3.38
"MIK ASSET FOUR SPC" LLC	23.1	32.6	13.3	16.6	3.5	4.7
"MIK ASSET FIVE SPC" LLC	9.3	19.5	5.8	11.1	1.5	3.07
"MIK ASSET SIX SPC" LLC	4.2	16.6	2.6	10.07	0.7	2.7
"MIK ASSET SEVEN SPC" LLC		19		11.5		3.06
"MIK ASSET EIGHT SPC" LLC		8.59		5.51		1.45
"MIK ASSET NINE SPC" LLC		3.03		2.11		0.6
Total	106.7	166.62	53.7	85.91	14.58	24.59

As FACD is obliged to develop Group companies' financial budget which includes the 9 SPCs and MIK HFC LLC, we have successfully planned and implemented the financial budget according to the company's procedures and steps.

#### Financial planning steps:

- Financial plan and budget will be developed in support with Security Market Research Unit complying with related procedures
- Developed plan and budget will be presented to the Management Council
- Will be presented to the Board Finance and Audit Committee
- Will be approved by the Board of MIK Holding JSC

MIK HFC LLC has purchased 9.6 billion MNT of mortgage assets in 2015 and 22.9 billion MNT of mortgage assets in 2016 with recourse term financed by MIK's own resource, resource from issued IPO and KfW respectively.

#### Mortgage loan purchase with other sources (MNT billions)

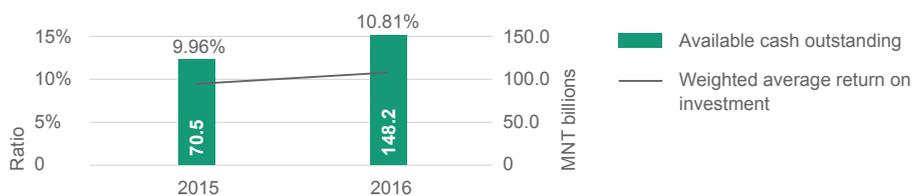
Company name	2015				2016
	By MIK	By KfW	By MIK	By KfW	By IPO
	Loan amount				Loan amount
MIK HFC LLC	4.25	5.37		4.63	18.3
Total		9.62			22.97

## Treasury Department

As a fiduciary manager to the Special purpose companies, MIK has been making the principle and interest payments of the RMBS to the Investors and has been invested in Permitted Investment. Successful activities of the Fiduciary manager and MIK HFC LLC have been increasing the income and financial responsibilities of the each SPCs and MIK HFC LLC itself.

In 2016, MIK Group company as a Fiduciary manager has successfully invested 148.2 billion MNT in Permitted Investment. The weighted average return on investment of MIK has been slightly lower than the banking sector. For the reason that the average quick liquid asset term in permitted investment was 1.8 months and 20.36 percent of the average available cash outstanding was in current account.

#### The weighted average return on permitted investment and cash liquidity /2015-2016/





## Audited Financial Statement

## 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, Gantugs Damdin, being the Chief Executive Officer, and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the 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 financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and its financial performance and cash flows for 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

**Gantugs Damdin**  
Chief Executive Officer

**Bat-Ulzii Molomjamts**  
Chief Financial Officer

Ulaanbaatar, Mongolia  
Date: March 16, 2017

## 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 2016, 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 2016, and 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 judgement, 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 matters below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the 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.

## 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*  
**ERNST & YOUNG MONGOLIA AUDIT LLC**  
Certified Public Accountants



**PETER MARKEY**  
Director

Ulaanbaatar, Mongolia  
Date: March 16, 2017

## MIK Holding JSC and its Subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 december 2016 (MNT thousands)

	Notes	2015 (restated)	2016
Interest income	3	125,520,407	192,685,281
Interest expense	4	(76,445,274)	(113,557,241)
<b>Net interest income</b>		<b>49,075,133</b>	<b>79,128,040</b>
Fee and commission expenses	5	(5,767,364)	(8,493,493)
Other operating income	6	18,873	149,548
<b>Total operating income</b>		<b>43,326,642</b>	<b>70,784,095</b>
Credit loss expense	13	(3,288,839)	(6,271,976)
<b>Net operating income</b>		<b>40,037,803</b>	<b>64,512,119</b>
Operating expenses	7	(4,610,620)	(5,622,382)
<b>Profit before tax</b>		<b>35,427,183</b>	<b>58,889,737</b>
Income tax expense	8	(5,052,299)	(8,151,844)
<b>Profit for the year, representing total comprehensive income</b>		<b>30,374,884</b>	<b>50,737,893</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share	9	1,744.32	2,530.97

**Consolidated statement of financial position as at 31 december 2016** (MNT thousands)

	Notes	2015 (restated)	2016
<b>Assets</b>			
Cash and bank balances	10	128,132,221	156,519,377
Financial investments-held to maturity	11	2,899,001	-
Mortgage pool receivables with recourse	12	11,196,817	28,639,946
Purchased mortgage pool receivables	13	2,010,062,427	2,122,227,156
Other assets	14	188,215	331,971
Property and equipment	15	14,782,248	14,689,287
Intangible assets	16	92,334	76,621
<b>Total Assets</b>		<b>2,167,353,263</b>	<b>2,322,484,358</b>
<b>Liabilities</b>			
Borrowed funds	17	8,866,368	8,552,889
Collateralized bonds	18	2,037,542,209	2,165,576,045
Other liabilities	19	3,688,291	4,001,750
Income tax payable		86,676	1,009,039
Deferred tax liability	20	3,725,216	8,214,763
<b>Total liabilities</b>		<b>2,053,908,760</b>	<b>2,187,354,486</b>
<b>Equity</b>			
Ordinary shares	21	20,709,320	20,709,320
Share premium	21	52,225,115	52,225,115
Treasury shares	21	-	(24,057,436)
Retained earnings		40,510,068	86,252,873
<b>Total equity</b>		<b>113,444,503</b>	<b>135,129,872</b>
<b>Total Liabilities and Equity</b>		<b>2,167,353,263</b>	<b>2,322,484,358</b>

## MIK Holding JSC and its Subsidiaries

### Consolidated statement of changes in equity for the year ended 31 december 2016 (MNT thousands)

	Notes	Ordinary shares	Share premium*	Treasury shares	Retained earnings**	Total equity
<b>1 January 2015</b>		16,798,856	15,724,835	-	13,755,893	46,279,584
Total comprehensive income		-	-	-	30,374,884	30,374,884
Stock dividends declared	21	-	-	-	(3,620,709)	(3,620,709)
Issuance of ordinary shares	21	3,910,464	36,500,280	-	-	40,410,744
<b>At 31 December 2015 and 1 January 2016</b>		20,709,320	52,225,115	-	40,510,068	113,444,503
Total comprehensive income		-	-	-	50,737,893	50,737,893
Repurchase of shares	21	-	-	(24,057,436)	-	(24,057,436)
Dividends declared	21	-	-	-	(4,995,088)	(4,995,088)
<b>At 31 December 2016</b>		20,709,320	52,225,115	(24,057,436)	86,252,873	135,129,872

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

\*\* Included in retained earnings as at 31 December 2016 are restricted retained earnings of MNT 82,147,627 thousand (31 December 2015: MNT 37,252,156 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 these retained earnings are restricted from distribution only until the liquidation of respective SPCs in accordance with their Articles of Charter and related FRC regulation.

### Consolidated statement of cash flows for the year ended 31 december 2016 (MNT thousands)

	Notes	2015	2016
<b>Cash Flows from Operating Activities</b>			
<b>Profit before tax</b>		35,427,183	58,889,737
Adjustments for:			
Unrealised foreign exchange gain		(4,558)	(68,439)
Credit loss on purchased mortgage pool receivables	13	3,288,839	6,271,976
Loss on disposal of property and equipment	7	3,160	300
Depreciation of property and equipment	7	303,550	529,069
Write-off of property and equipment	7	1,802	3,149
Amortisation of intangible assets	7	58,619	61,188
Amortisation of deferred grants	6	(12,058)	(10,824)
Interest accrual on financial investments-held to maturity	3	(321,570)	(100,999)

<b>Operating profit before working capital changes</b>		38,744,967	65,575,157
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		(10,499,376)	5,753,764
Mortgage pool receivables		105,605,825	156,593,466
Other assets		74,169	(143,756)
Collateralized bonds		(99,552,448)	(164,439,464)
Other liabilities		206,587	472,428
<b>Cash generated from operations</b>		34,579,724	63,811,595
Income tax paid		(1,363,049)	(2,739,934)
<b>Net cash flows generated from operating activities</b>		33,216,675	61,071,661
<b>Cash Flows from Investing Activities</b>			
Proceeds on disposal of property and equipment		1,566	684
Purchase of property and equipment	15	(342,689)	(588,386)
Purchase of intangible assets	16	(10,560)	(45,475)
Proceeds from financial investments-held to maturity		-	3,000,000
Additions to financial investments-held to maturity		(2,577,431)	-
<b>Net cash flows generated from/(used in) investing activities</b>		(2,929,114)	2,366,823
<b>Cash Flows from Financing Activities</b>			
Dividends paid		-	(4,995,088)
Borrowed funds		83,452	(313,479)
Purchase of treasury shares		-	(24,057,436)
Proceeds from issuance of ordinary shares		37,152,106	-
<b>Net cash flows generated from/(used in) financing activities</b>		37,235,558	(29,366,003)
Net increase in cash and cash equivalents		67,523,119	34,072,481
Effect of exchange rate changes on cash and cash equivalents		4,558	68,439
<b>Cash and cash equivalents at 1 January</b>		38,585,116	106,112,793
<b>Cash and cash equivalents at 31 December</b>	10	106,112,793	140,253,713
<b>Operational Cash Flow from Interest</b>			
Interest received		120,402,791	190,442,934
Interest paid		(69,106,499)	(111,150,110)

## Abbreviations

GDP	Gross Domestic Product
RMBS	Residential Mortgage Backed Securities
MIK HFC LLC	Mongolian Mortgage Corporation HFC LLC
GoM	Government of Mongolia
BoM	Bank of Mongolia
MSE	Mongolian Stock Exchange
HFC	House Financing Corporation
FRC	Financial Regulatory Corporation
IFRS	International Financial Reporting Standard
MNT	Mongolian tugrug
SPC	Special Purpose Company
BoD	Board of Directors
MCSD	Mongolian Central Securities Depository
ABS	Asset Backed Securities
JSC	Joint Stock Company
TDB	Trade and Development Bank of Mongolia
LLC	Limited Liability Company
SHM	Shareholders' Meeting
ISMS	Information Security Management System
KfW	German government-owned development bank
ROA	Return on Asset
ROE	Return on Equity
EPS	Earnings per share
BVPS	Book value per share
NPM	Net profit margin





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