

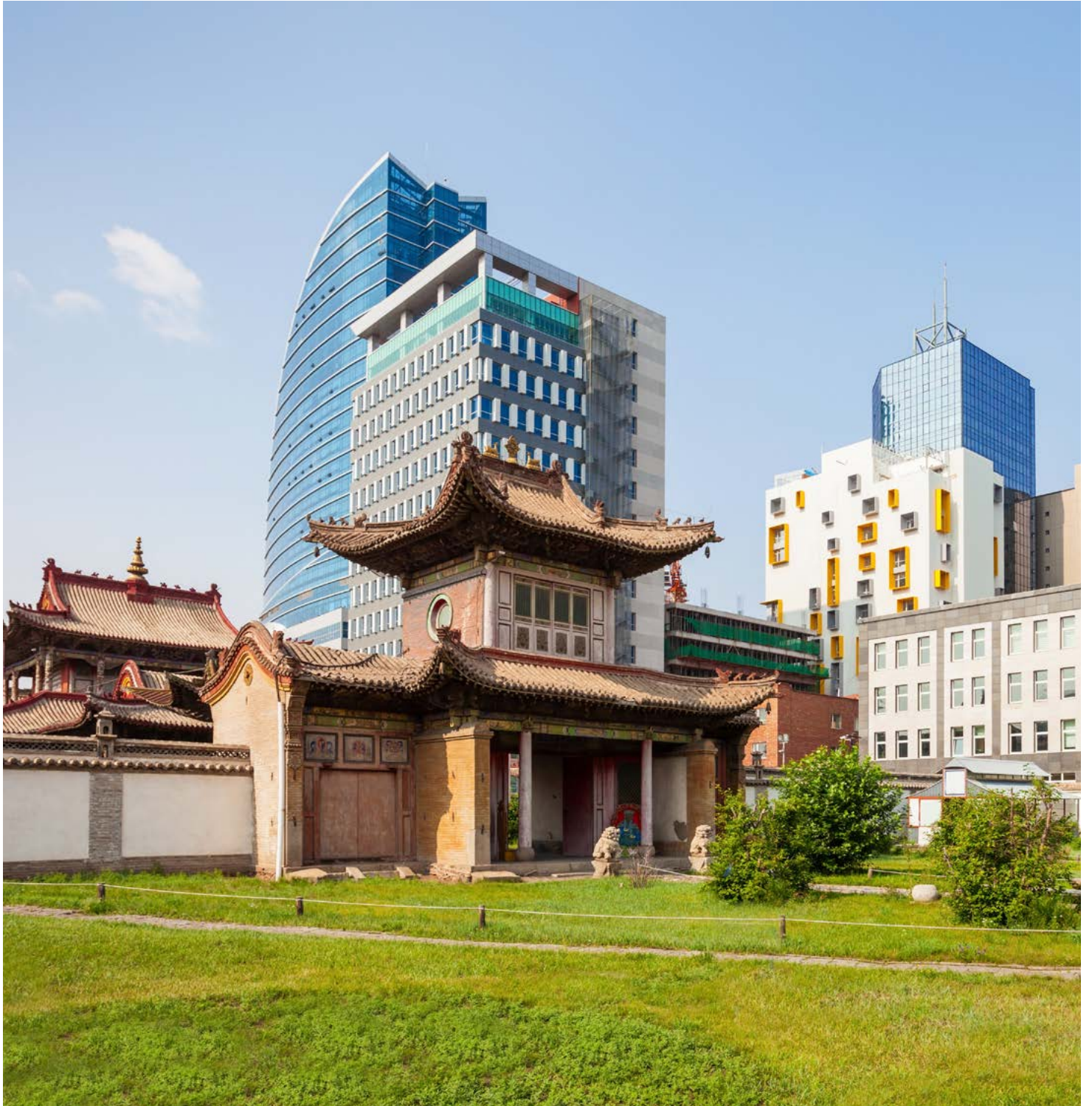
Mongolian Mortgage
Corporation Group
Annual Report
2018





Acronyms

AFIS	Asian Fixed Income Summit
AHFP	Affordable Housing Finance Program
AHLFP	Affordable Housing Loan Finance Procedure
AQR	Asset Quality Review
ASMMA	Asian Secondary Mortgage Market Association
ABS	Asset-backed securities
BFA	Banking and Finance Academy
Board	Board of Directors
BOM	Bank of Mongolia
Cagamas Berhad	National Mortgage Corporation of Malaysia
CEO	Chief Executive Officer
DBM	Development Bank of Mongolia
FRC	Financial Regulatory Commission
GDP	Gross Domestic Product
HAI	Housing Affordability Index
HPI	House Price Index
HR	Human Resources
IAD	Internal Audit Division
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
KfW	German Development Bank
KHFC	Korea Housing Finance Corporation
LH	Korea Land and Housing Corporation
MBA	Mongolian Bankers Association
MCSD	Mongolian Central Securities Depository LLC
MCUD	Ministry of Construction and Urban Development
MIK	MIK Group Company
MIK HFC	Mongolian Mortgage Corporation HFC LLC
MNCA	Mongolian National Construction Association
MNT	Mongolian Tugrug
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MSE	Mongolian Stock Exchange
NSO	National Statistics Office
PWOR	Purchase without resource
PWR	Purchase with resource
RMBS	Residential Mortgage-Backed Securities
SPC	Special Purpose Company
TA	Technical Assistant
USD	United States dollar



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Message from Management



Message from the Chairman of the Board of Directors

Dear Shareholders, Customers, and Partners. We present to you the 2018 Annual Report of MIK Group Company.

In 2018, we directed our recourses to increase shareholders' wealth and return on investment. Within the reporting period, MIK Holding JSC market capitalization reached MNT305 billion, a 41% increase from the previous year. Furthermore, we secured our position in the MSE TOP 20 index through displaying high volumes of trade, while maintaining our Classification 1 status on the Mongolian Stock Exchange for a third consecutive year.

In relation to the Affordable Housing Finance Program, being implemented by the Government of Mongolia and the Bank of Mongolia, for the first time in the company's history, MIK Group Company completed the largest number of transactions, namely 5, issuing Residential Mortgage Backed Securities in the sum of MNT580.5 billion.

During the reporting period, we have paid a total of MNT258.41 billion in principal payments and MNT140.67 billion in coupon payments to the residential mortgage-backed securities investors.

Within the scope of increasing funding for the housing finance market in Mongolia, the company focus on continuing its effort to raise funds from the international capital market. Our company has obtained ratings from the Big Three credit rating agencies and cooperated with similar foreign institutions in order to research experience through benchmarking.

As a result of our actions completed within the reporting period, we have set a goal to issue bonds on the international capital market, to not only create a new funding source for housing finance but also provide a tangible contribution to Mongolia's economy.

I would like to express my sincere gratitude to all, who have supported MIK Group Company and wish you success and prosperity.

Yours sincerely,



M.Munkhbaatar

Chairman of the Board of Directors
of the MIK Holding JSC



Message from the Chief Executive Officer

Dear Shareholders, Partners, Customers, and Colleagues, we present to you our 2018 Annual Report.

In 2018 MIK Group Company's operational performance was stable as we worked to bring our business operations to a new level by directing our efforts towards increasing funding for housing finance.

Within the reporting period, we obtained 5 licenses to issue asset-backed securities from the Financial Regulatory Commission and acquired 9,525 residential mortgage loans from commercial banks which were then securitized. Regardless of limited funds, we continued to provided banks with liquidity through purchasing mortgages pools with recourse by completing a transaction for a total amount of MNT3.7 billion. As a result, MIK group company total assets increased by 14.72% to reach MNT3.2 trillion, which constitutes 9.6 percent of the total assets of the banking sector.

As the Company's total assets increase our business operation required us to conduct a narrower methodology of research in order to optimally manage potential risks to the business operations, and provide preventive reports to make risk-based decisions. Within this scope to evaluate credit risks according to international standards, we adopted the International Financial Reporting Standards-9 promulgated by the International Accounting Registry Board. Furthermore, in order to improve the confidentiality of information, its completeness, and availability, we have reaffirmed our Information Security Management System ISO/IEC27001:2013, for the third consecutive year.

Even though the company received credit rating B1 (Moody's), B (S&P, Fitch), stable outlook, by international rating agencies Moody's Investment Services, S&P Global Ratings, and Fitch Ratings. Due to the rating methodology, the company's ratings were downgraded to meet Mongolia's sovereign rating. This is evidence that the international market deems MIK group company to be systematically important while operating with low operational risk.

In 2018, MIK HFC organized the 5th Asian Fixed Income Summit by the Asian Secondary Mortgage Market Association, jointly with the Financial Regulatory Commission of Mongolia, Ministry of Finance, the Ministry of Construction and Urban Development for the first time in Mongolia. As a result of the summit, we signed an imperative Memorandum of Understanding with Korea housing and finance corporation and the Malaysian national mortgage corporation with the scope of exchanging experiences of the mortgage market. Furthermore, during the summit, MIK HFC received the role of chairman of the association until the next summit.

In the mid-term, there is an expectation for Mongolia's economy to grow, and market activities to improve. In 2019, we will work towards raising funds from the international financial market by cooperating with public authorities, international financial institutions, foreign and domestic investors to increase the source of funding for housing finance, and contribute to government policies that provide housing for its citizens.

Sincerely,



B. Gantulga

Chief Executive Officer of the MIK Holding JSC and MIK HFC



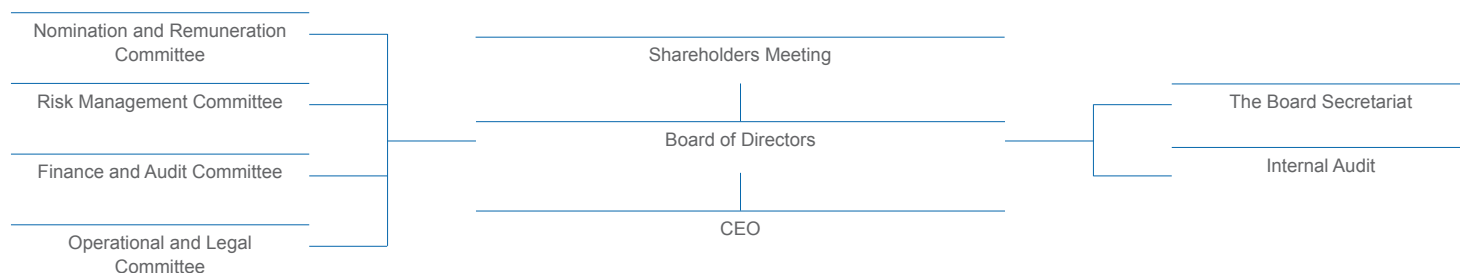


Our Mission

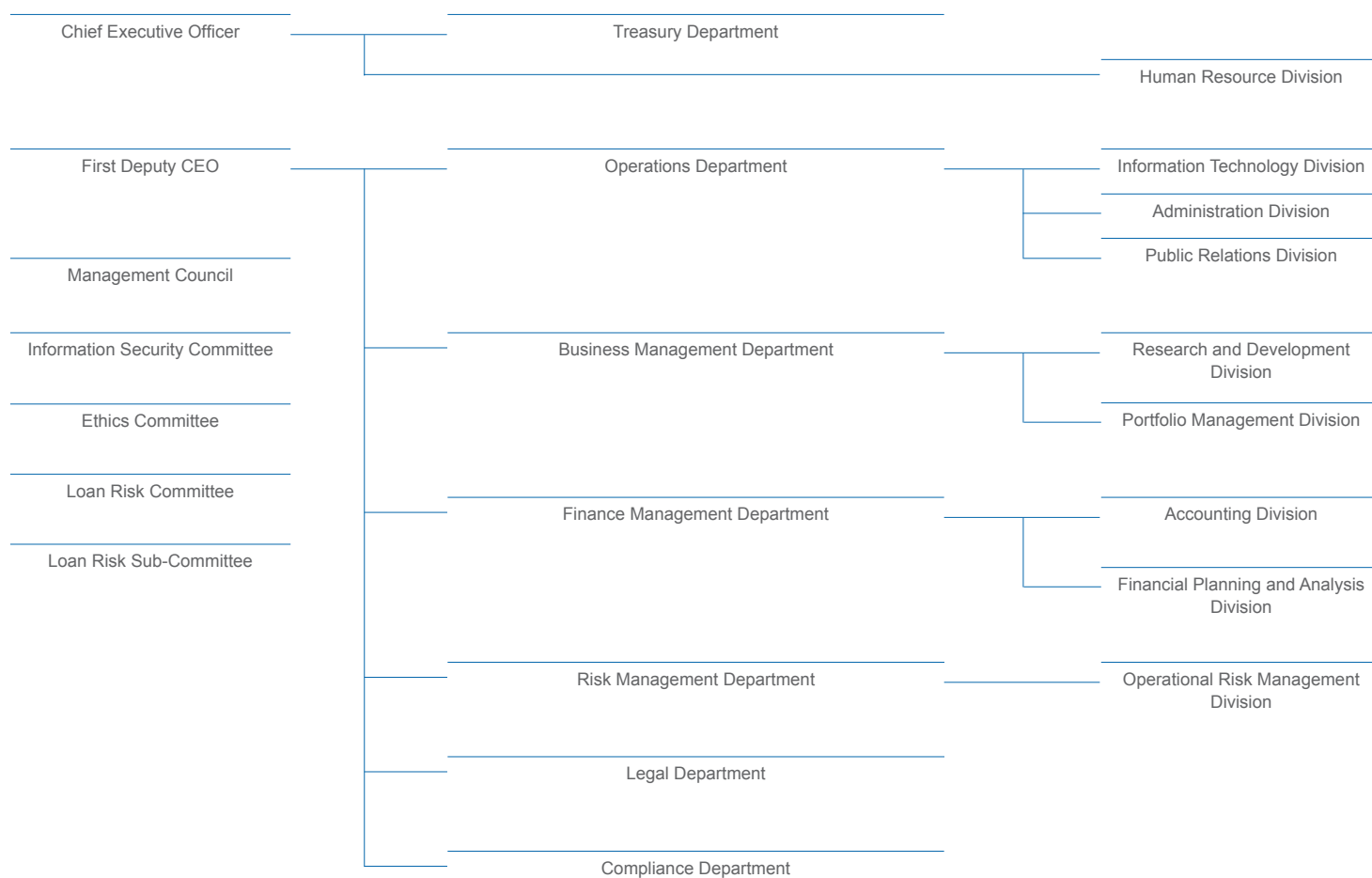
Our mission is to promote development of the primary and secondary mortgage markets by issuing and selling mortgage-backed securities on domestic and international capital markets, and to establish a long-term financing structure in Mongolia that would provide the population with affordable housing and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

*Together for
financial
development!*

Organizational Structure of MIK Holding JSC



Organizational Structure of MIK HFC

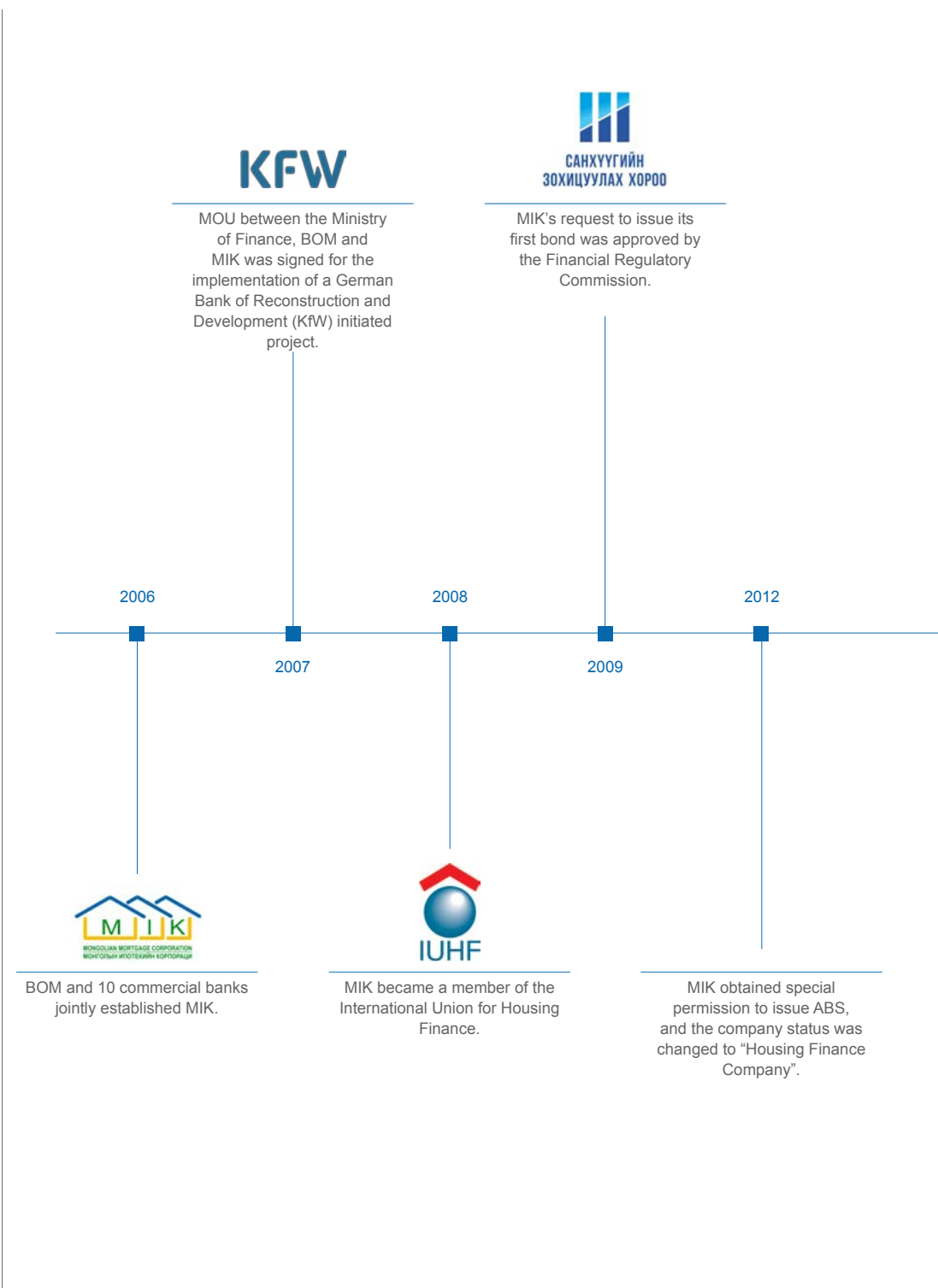




Key changes made to the organizational structure are defined below:

- An Ethics Committee was established in order to instill and enforce a code of conduct that sets an ethical and moral standard in the workplace.
- The Asset Assessment and Management Division was transformed into Portfolio Management Division, in order to increase operational efficiency by concentrating activities related to secondary loan screening, loan pooling and loan acquisition to a single division.
- A Financial Planning and Analysis Division was newly established under the Finance Management Department in order to converge the group's financial analysis, forecasting, and projections under one division.
- An Operational Risk Division was newly established under the Risk Management Department to identify, mitigate, and manage the operational risk that could adversely affect the company business plans.

Company History





MIK Holding proceeded go public by offering 15% of the companies shares through an IPO which was the largest primary market issuance in the Mongolian stock market history and MIK was listed as Tier 1 Issuer.

MIK Holding was established as a parent company of MIK HFC and transformed into JSC.



MIK Holding has been included in the TOP20 Index of the Mongolian Stock Exchange based on 2017 performance.



MIK successfully organized 5th Asian Fixed Income Summit.

2013

2015

2017

2017

2018

2018

2018



Entered into "General agreement of housing finance" with BOM and commercial banks.

MIK issued the first RMBS through its wholly-owned subsidiary "MIK Asset One SPC" LLC.



Introduced Information Security Management System (ISO-27001:2013 standard) to the business operations by obtaining ISO certificate.

MOODY'S

S&P Global Ratings

Fitch Ratings

MIK Holding JSC and MIK HFC has been rated on par with Mongolia's sovereign rating by Fitch, S&P and Moody's international rating agency.

S&P Global Ratings

B Stable

S&P international rating agency upgraded MIK HFC's credit rating to "B".

Highlights of 2018

January 11

In co-operation with the MCUD and Bloomberg TV Mongolian, MIK HFC successfully organized “Smog-Free Ulaanbaatar” forum.

January 31

MIK Asset Fourteen SPC LLC issued a RMBS worth over MNT 139 billion.

March 16

Moody’s Investors Service assigned a first-time B3 long-term foreign currency issuer rating and B3 corporate family rating to MIK.

March 29

Fitch Ratings assigned a first-time Long-Term IDR of ‘B-’ to MIK Holding JSC and MIK HFC, with a stable outlook.

March 29

S&P Global Ratings assigned MIK HFC ‘B-/B’ Ratings with a stable outlook.

April 30

MIK Holding JSC held its annual shareholder regular meeting.

May 26

MIK HFC organized a joint “MIK and Journalist” event with BOM within the framework of “Protection of Financial Consumers”.

June 15

MIK Asset Fifteen SPC LLC issued a RMBS worth over MNT 129 billion.

July 2

In co-operation with MCUD, MoF, and FRC, MIK HFC successfully organized the 5th AFIS.

July 2

MIK HFC signed a MOU with KHFC.

August 9

MIK Asset Sixteen SPC LLC issued a RMBS worth over MNT 100 billion.

October 5

MIK HFC signed a MOU with Cagamas Berhad.

November 12

S&P Global Ratings upgraded its rating of MIK HFC from “B-, Stable” to “B, Stable”.

November 13

MIK HFC attended the initial discussion on the legal and regulatory framework of mortgages in Mongolia held by the World bank working group.

November 15

MIK Asset Seventeen SPC LLC issued a RMBS worth over MNT 100 billion.

December 12

MIK HFC signed a MOU with LH.

December 28

MIK Asset Eighteen SPC LLC issued a RMBS worth over MNT 92 billion.



Credit Ratings

MIK Holding JSC and its subsidiary MIK HFC were assigned credit ratings by Moody's Investor Service ("B3", stable) on 16th March 2018, S&P Global Ratings ("B-", stable) on 29th March 2018, and Fitch Ratings ("B-", stable) on 29th March 2018. The assigned credit ratings were on par with Mongolia's sovereign rates by the respective rating agencies.

On 12th November 2018, S&P Global Ratings upgraded the credit rating for MIK HFC from "B-" to "B" with a stable outlook, following with the upgrade to Mongolia's sovereign rating to "B" on 9th November 2018.

MOODY'S

B3

Stable

S&P Global
Ratings

B

Stable

Fitch
Ratings

B-




Stable

Corporate Governance

Shareholder Structure

According to share distribution information released by MCSD, as of 31st December 2018, the total number of shareholders stood at 182 compared to 165 as of the same time period in 2017. From the total shares of MIK Holdings JSC, 19.27% shares are held by state-owned entities, 80.66% by businesses and 0.07% by individuals.

Shareholder structure of MIK Holding JSC

Central Bank and state owned entities	Ownership of business entities	Individuals
19.27%	80.66%	0.07%
		
BOM, State Bank and DBM	8 commercial banks and other private entities	

Source: MCSD /2018.12.31/

Shareholder Meeting

The governing body of MIK Holding JSC is the shareholder meeting. A plenary shareholders meeting of MIK Holding JSC convened on 30th April 2018 with a 98.25% attendance rate, where shareholders reviewed the opinion of the Board on the 2017 Group Financial Statement and Operational Report, appointed the Board, approved the 2018 Board budget, and passed amendments to the company charter.

Introduction of Board committees

As stipulated in the Charter of MIK HFC, MIK Real Estate LLC, and Protego First LLC, the Board of MIK Holding JSC exercises the authority of the Shareholders' Meeting and of the Board meeting of the respective companies.

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

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

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

Operational and Legal Committee functions include exercising oversight over corporate strategic planning and its implementation; providing recommendations on the formulation of business and operational

procedures, including internal rules and regulations; and providing necessary guidance in improving overall legal and regulatory environment.

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

Introduction of Board of Directors

The Board of MIK Holding JSC consists of 9 members, 3 of whom are independent directors. The Board members were elected in three years terms by the plenary shareholder meeting held on 30 April 2018 in accordance with the Charter and the Company Law of Mongolia as well as in line with international standards of corporate governance.



M. Munkhbaatar

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



B. Gantulga

Director of the Board of MIK Holding JSC, a Member of the Risk Management Committee and the Operational and Legal Committee. He is a CEO of the MIK HFC. Master of Commerce and Finance.



B. Chojiljalbuu

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



L. Gantumur

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



Ch. Khashchuluun

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



Ch. Otgochuluu

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



E. Shijir

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



T. Davaajav

Director of the Board of MIK Holding JSC, a Member of the Risk Management Committee and the Operational and Legal Committee. He is a CEO of the TDB Capital LLC. Bachelor of Economics.



B. Ganbat

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

Board Activities

The Board of MIK Holding JSC, in compliance with regulations passed by regulatory bodies, regularly publishes required information on the company's website (www.mik.mn) and the MSE's website (www.mse.mn) for the public, to ensure transparency.

Over the course of the reporting period, the Board convened a total of 12 times, that resulted in 32 resolutions. These include approving corporate governance policies in-line with the company's objectives and goals, convening the shareholder meeting of MIK Holding JSC, approving the group company's 2018 business plan and 2019-2020 projections, establishing subsidiaries that diversify company operations and increase profitability.

In 2018, the board of MIK Holding JSC, with the full authority to represent MIK HFC, announced 17 meetings and passed 26 resolutions. These include decisions to expand the companies operations, obtain credit ratings, approvals to issue USD denominated bonds on the international capital market, review company's operations and financial report, convening the shareholder meeting of MIK HFC, authorize the CEO to enter into conflict of interest and major transaction, establish MIK Asset Seventeen, Eighteen, Nineteen SPC LLC.

Furthermore, the Board of MIK HFC, with the full authority to represent shareholder meeting of SPSS, reviewed each SPC's operations and financial statements, appointed board members, approved amendments to each SPC's charter, and authorized the issuance of RMBS in the total amount of MNT541 billion.

Board of Directors of Special Purposed Companies

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

Regular members

P.Munkhbayar is Director of Reserve Management Financial Markets Division of BOM. The member of the Board of MIK Asset One SPC LLC and MIK Asset Two SPC LLC.

B.Erdenekhuyag is a Bachelor of Law and Master of International relations. He is Director of Legal Policy Division of Legal Department of the BOM. The member of the Board of MIK Asset Four SPC LLC and MIK Asset Five SPC LLC.

A.Tuul is Bachelor of Bank economics and Master of business administration. She is Director of Legal Implementation and Control Division of Legal Department of the BOM. The member of the Board of MIK Asset Sixteen SPC LLC and MIK Asset Seventeen SPC LLC.

T.Delgerkhuu is Bachelor in Financial management and Master of Law. He is Senior lawyer of the Legal Department of the BOM. The member of the Board of MIK Asset Three SPC LLC.

O.Odgerel is Master of Financial management. She is Senior economist of the Financial Market Division of

Reserve Management Financial Markets Department of the BOM. The member of the Board of MIK Asset Seven SPC LLC.

A.Tsolmon is Master of Business administration and finance. He is Senior economist of the Financial Market Division of Reserve Management Financial Markets Department of the BOM. The member of the Board of MIK Asset Eight SPC LLC.

B.Zayabal is a Bachelor of Economics and Law. He is Head of the General Department of Taxation. The member of the Board of MIK Asset Thirteen SPC LLC, MIK Asset Fourteen SPC LLC and MIK Asset Fifteen SPC LLC.

D.Erdenebileg is a Bachelor of Law. She is Lawyer of the Legal Department of the BOM. The member of the Board of MIK Asset Nine SPC LLC and MIK Asset Ten SPC LLC.

N.Khadbaatar is Master of Public administration. She is Senior specialists of Division of Financial Assets Management Department of the Financial Policy Department of the MoF. The member of the Board of MIK Asset Six SPC LLC and MIK Asset Eighteen SPC LLC.

B.Batzorig is the Doctor of Law, Associate professor. He is Head of Administration Department of the FRC. The member of the Board of MIK Asset Eleven SPC LLC, MIK Asset Twelve SPC LLC and MIK Asset Nineteen SPC LLC.

Independent members

B.Oyunbileg is Master of Economics of foreign trade and international marketing. She is a CEO at Odon consulting LLC. Chair of the Board of MIK Asset One SPC LLC and MIK Asset Three SPC LLC the independent member of the Board of MIK Asset Two SPC LLC.

T.Tsend-Ayush is Doctor, Professor of Business administration, Master of Economics. She is a CEO at Corporate Governance Development Center. Chair of Board of MIK Asset Two SPC LLC and an

independent member of the Board of MIK Asset One SPC LLC and MIK Asset Three SPC LLC.

B.Munkhzaya is Doctor of Business management science. She is Deputy professor at the Department of Financial Management at the University of Finance and Economics. Chair of Board of MIK Asset Four SPC LLC and an independent member of the Board of MIK Asset Five SPC LLC and MIK Asset Six SPC LLC.

B.Tuguldur is an International multi-development economist, Master of science. He is CEO of UNDP's Development and Quality Department. Chair of Board of MIK Asset Five SPC LLC and MIK Asset Six SPC LLC and an independent member of the Board of MIK Asset Four SPC LLC.

G.Oyungerel is Master of Economics. She is a CEO at A Estate LLC. Chair of Board of MIK Asset Seven SPC LLC and MIK Asset Nine SPC LLC and an independent member of the Board of MIK Asset Eight SPC LLC.

Ts.Batsukh is Doctor of economic. He is Professor of University of Finance and Economics. Chair of Board of MIK Asset Eight SPC LLC and an independent member the Board of MIK Asset Seven SPC LLC and MIK Asset Nine SPC LLC.

S.Bekhbat is Master of Economics. He is a CEO at Mongolian Public-Private Partnership Development Center. Chair of Board of MIK Asset Ten SPC LLC and MIK Asset Twelve SPC LLC and an independent member of the Board of MIK Asset Eleven SPC LLC.

Kh.Purevsuren is Master of Economics. An economist. Chair of Board of MIK Asset Eleven SPC LLC and an independent member of the Board of MIK Asset Twelve SPC LLC.

E.Altan-Ochir is Bachelor of Business administration. An economist. Chair of MIK Asset Thirteen SPC LLC and an independent member of the Board of MIK Asset Fourteen SPC LLC and MIK Asset

Fifteen SPC LLC.

N.Batnasan is a Ph.D. of Economics and Associate professor. He is a Professor of the Business school of the National University of Mongolia. Chair of MIK Asset Fourteen SPC LLC and MIK Asset Fifteen SPC LLC and an independent member of the Board of MIK Asset Thirteen SPC LLC.

E.Altanzul is Bachelor of Business Administration. She is an Accountant at Shangri-La Ulaanbaatar LLC. Chair of MIK Asset Sixteen SPC LLC and MIK Asset Seventeen SPC LLC and an independent member of the Board of MIK Asset Eighteen SPC LLC.

G.Tsogzolmaa is Bachelor of Business administration. She is an Accountant at Dorniin Tsas LLC. Chair of MIK Asset Eighteen SPC LLC and an independent member the Board of MIK Asset Sixteen SPC LLC and MIK Asset Seventeen SPC LLC.

E.Oyunbileg is Master of International economics. She is an Advisor to the Corporate Governance Program of the International Finance Corporation, Managing director of Petrovis Oil LLC and Secretary of the Board of Directors. Chair of MIK Asset Nineteen LLC.

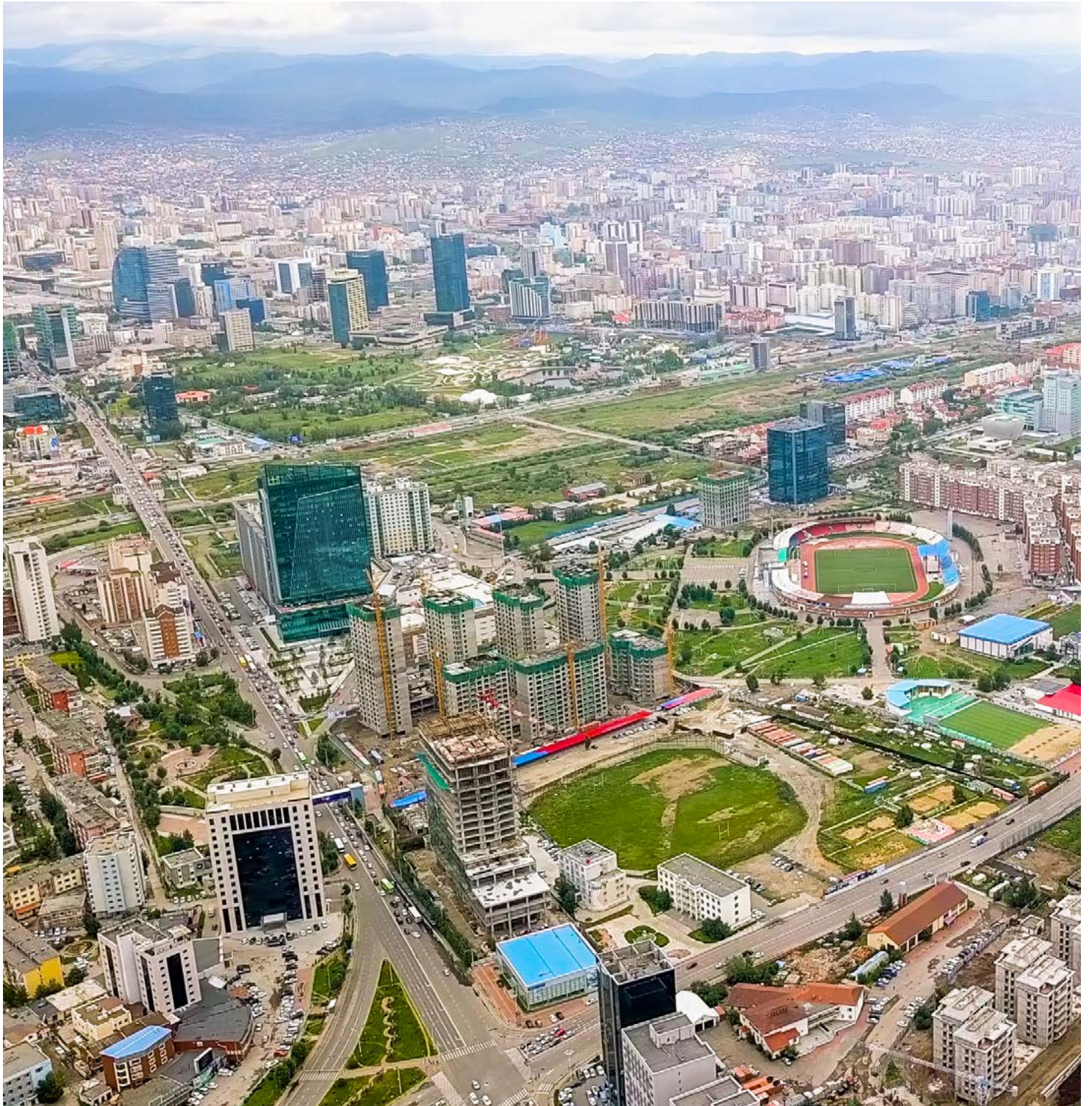
E.Khosbayar is a Bachelor in Business administration and financial and a Master in Business management. He is a Project consultant at the World Bank. An independent member of MIK Nineteen LLC.

Internal Audit

The IAD is responsible for the internal audit of the group company in accordance with its roles and responsibilities set by the Board. IAD is involved in all aspects of the group company's operations and conducts independent audits to effectively manage governance, risk management, internal control systems, as well as communicate findings to the appropriate management through advice and recommendations stated in audit reports. These operations are performed in compliance with the rules, procedures and audit plans approved by the Board, and International Standards for Professional Practice of Internal Auditing.

The IAD collaborates with the CEO to ensure that day-to-day operations of the company are aimed at achieving business and strategic goals while in compliance with laws, regulations and other documents directly related to the company's operation and to ensure effective control of all business processes while taking proper actions in conformance with the audit recommendation.

In order to safeguard operational efficiency, continuity and consistent improvements without delay, IAD conducts planned audits in a timely manner and reports its findings to the CEO and Finance and Audit Committee.



Business Environment

Economy Environment

Mongolia's improved macroeconomic and financial performance is creating positive sentiment for mid-term, as Economic growth of Mongolia was 6.9% in 2018. IMF estimates that this figure will decrease to 6.3% in 2019, and further deteriorated to 4.9% in 2020.

In 2018, the State budget ended with an income of MNT10.1 trillion, and expenditure of MNT9 trillion, resulting in the first time for the budget to achieve a surplus since 2013.

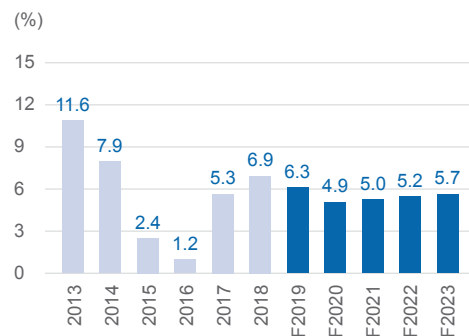
The Parliament of Mongolia approved the 2019 State budget bill, which stipulates a total income of MNT11.1 trillion and a total expenditure of MNT11.6 trillion.

BOM aims to support business environment activities within the framework of the "Monetary Policy Guidelines for 2019". They have targeted to stabilize inflation at 8% during 2019-2020, and later decrease inflation to 6% in the mid-term.

BOM came to a conclusion that activities to stabilize inflation rate at 8% in 2018, as stated in the "Strategy to decreasing loan interest rates 2018-2023" policy, resulted in the increase of loan distribution which leads to competition in the banking sector over interest rates, thus decreasing market interest rate.

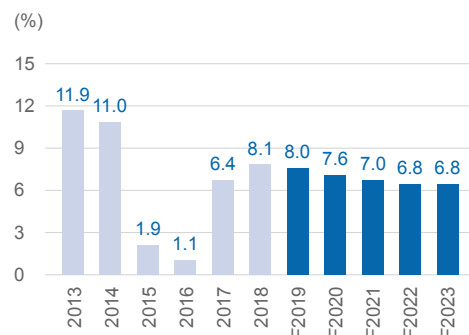
BOM's gradual activities to reduced the monetary policy rate and its eventual decrease to 10% on 10 March 2018 resulted in the drop of credit and savings interest rates. However, the policy rate was increased to 11% in November 2018, due to the government's expected expansionary fiscal policy in 2019.

Real GDP Growth



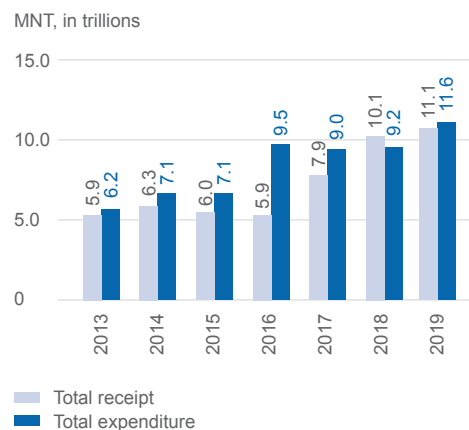
Source: NSO, IMF

Inflation Rate



Source: BOM, IMF

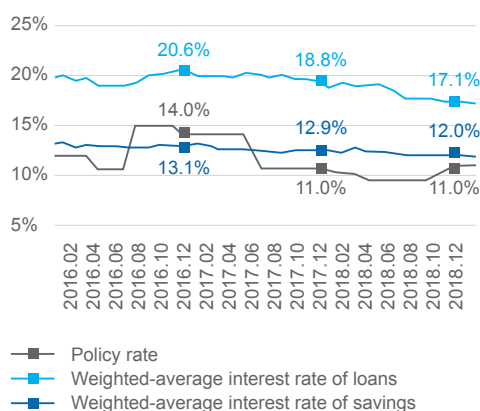
Government Budget Performance



Source: MOF

In 2018, international rating agencies upgraded Mongolia's long-term credit ratings to B3 (Moody's), B- (Fitch), B (S&P). MoF announced that the government debt to GDP ratio is estimated to reach 55% in 2019, off the back of an initial estimate of 60.9% at the end of 2018, which dropped from 74.4% in 2017.

Interest Rate



Source: BOM

Financial Market Environment

At the end of the reporting period, out of the total outstanding loans in the banking sector, MNT17.1 trillion or 25.9% were mortgage loans. Total assets of the banking sector reached MNT33.1 trillion, while MIK HFC's total assets reached MNT3.2 trillion, which is equivalent to 9.6% of the banking sector's total assets.

By years end, BOM announced that the implementation of requirement enforced as a result of the AQR to raise the equity standing of the banking sector within December 2018, was adequate.

Statement of Financial Positions of Banks

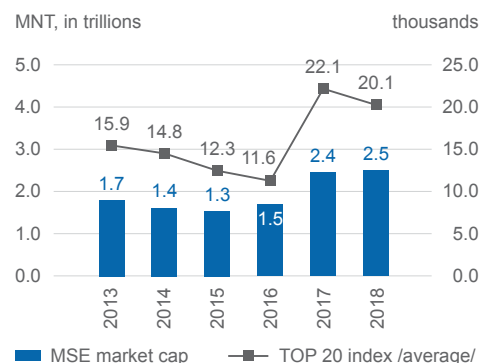
Indicators	2017/12	2018/12
Balance sheet (MNT, in billions)		
Total assets	28,772.9	33,053.3
- Banks reserves	3,385.9	4,506.5
- Central bank notes and Government bills	6,004.2	5,967.7
- Foreign assets	1,301.2	1,682.8
- Loans	13,506.5	17,082.4
Total liabilities	25,623.0	29,793.3
- Demand deposits	4,095.6	5,628.4
- Time deposits	11,087.6	13,076.0
- Foreign liabilities	4,837.0	5,343.0
- Government deposits	1,615.3	2,094.7
Equity	3,149.9	3,259.9

Source: BOM

In line with the findings of the AQR, non-performing loans in the banking sector increased by MNT800 billion, in October 2018 from the beginning of the year. Non-performing loans went from MNT1.1 trillion to MNT1.9 trillion. In terms of non-performing loans as a percentage of total

outstanding loans, increased from 8.1% to 11.6%. A ratio that dropped at the end of the year to 10.4%, which is equivalent to MNT1.8 trillion. This spite in non-performing loans was due to the re-classification of non-performing loans, advised by the IMF.

MSE Market Cap



Source: MSE

In 2017, the MSE market cap increased dramatically from MNT1.5 trillion to MNT2.4 trillion. However, in 2018, the MSE market cap increased to MNT2.5 trillion.

Capital Market Indicators

Indicators	2017/12	2018/12
MSE, yearly statement		
Listed companies	218	216
Trading companies (average)	81	77
Total transaction (MNT, in billions)	859.2	244.1
Government bond	772.5	33.5
Corporate bond	10.2	0.6
Stock	76.4	210.0

Source: MSE

Secondary market activities in 2018, mostly comprised of government bond trades in the amount of MNT33.5 billion, and MNT0.6 billion in corporate bonds. A total of 5 companies did an IPO on the stock

exchange that raised a total amount of MNT26.7 billion.

Government bond trades amounted to 89.9% of the total transactions on the MSE in 2017. This year, this percentage dropped to 13.7% due to the suspension of new government bond issuance from November 2017.

In October 2018, DBM successfully issued a 5-year bond with a principal amount of USD500 million at an interest rate of 7.25% from the international capital market.

Housing Market Environment

HPI started to rise at the beginning of 2018 and reached 1.1 units at the end of the year, an increase of 0.04 units compared to the beginning of the year. The HPI for new apartments fluctuated between 1.2-1.3 units in 2018, while HPI for old apartments illustrated a stable performance and reached 0.97 units at the end of the year.

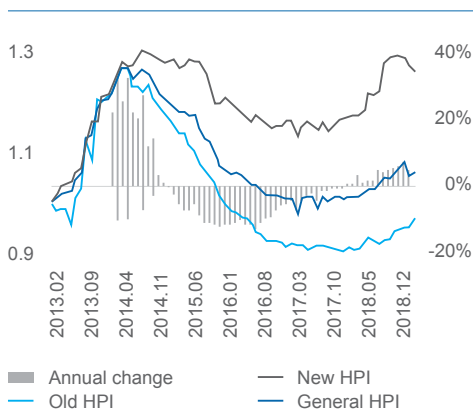
During the years from 2014 to 2017, new apartment sales were higher than old apartment sales, within Ulaanbaatar. However, in 2018, a total of 9.8 thousand households moved into new apartment units that they purchased while 14.7 thousand households moved into old apartment units that they purchased.

In 2018, of the 328 housing projects, that amount to 57.2 thousand residential apartment units, 16.6 thousand apartment units were sold, and 40.6 thousand units have yet to be sold or are still under construction.

In May 2018, Tenkhleg Zuuch LLC conducted a “Housing market supply and

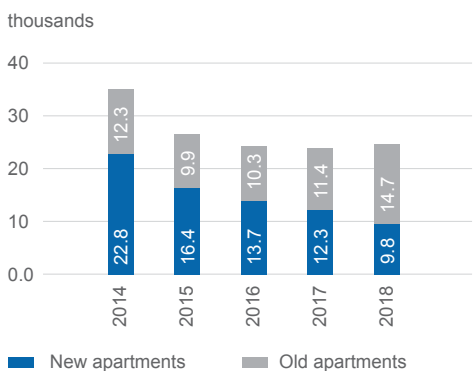
demand” survey at the request of MCUD, MIK HFC, and the MNCA. The finds of the survey illustrated that by 2020 there will be a supply of 10.8 thousand apartment units and demand of 9.8 thousand apartment units in rural provinces. In the case of Ulaanbaatar city, within the next three years, the total supply for housing will reach 38.5 thousand apartment units and demand will be 33.1 thousand apartment units, resulting in an oversupply of 5.4 thousand apartment units.

HPI



Source: Tenkhleg Zuuch LLC

Apartment sales in Ulaanbaatar



Source: Tenkhleg Zuuch LLC

23 construction companies began construction of 10,364 residential apartment units under the “Ger area redevelopment” project conducted by the Government of Mongolia. As of December, within the framework of this project, a total of 1,847 apartments units have been listed on the market for sale, of which 322 apartment units (17%) have been commissioned and 1,525 apartment units (83%) are yet to be commissioned.

The Government of Mongolia signed an agreement with the Asian Development Bank in December 2018, to implement an “Affordable Eco-Housing Project” that will construct 10 thousand apartment units beginning in 2019.

Apartment projects under construction in Ulaanbaatar

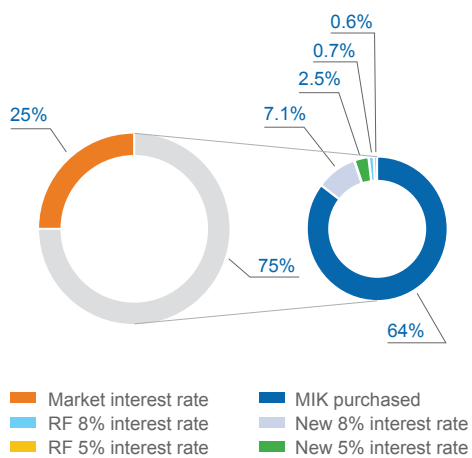
By units	2018/12
Number of projects under construction	57,229
Of which: Number of apartments sold	16,619
Of which: Number of apartments not sold or under construction	40,610

Source: Tenkhleg Zuuch LLC

Mortgage Market Environment

At the end of 2018, the total outstanding balance of mortgage loans reached MNT4.4 trillion and the number of borrowers reached to 93.9 thousand. Namely 75% or MNT3.3 trillion was provided under the AHFP and 25% or MNT1.1 trillion was funded from other sources. This implies that at present, there are MNT487 billion of mortgage loans that MIK HFC can acquire under AHFP and MNT1.1 trillion of Non-AHFP mortgage loans available in the market.

Outstanding Balance of Mortgage Loans

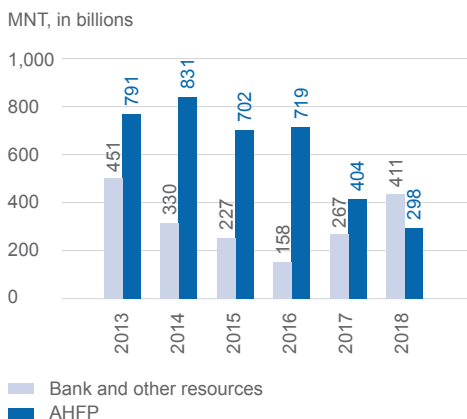


Source: BOM

In 2018, the government allocated a budget of MNT120 billion for the AHFP and BOM allocated an estimated MNT180 billion from the Senior RMBS payments to the AHFP. At the end of 2018, a total of MNT309.8 billion in funding was disbursed for the AHFP. Since 2013, the implementation of the AHFP has induced a decrease in the disbursement of mortgage loans through the bank's own resources, resulting in a steady decrease in the mortgage market

funding. However, in 2018, mortgage loan issuance reached MNT411 billion, surpassing AHFP mortgage loan issuance by over MNT101 billion, implying an increase in other sources of funding.

Mortgage Issuance



Source: BOM

As of the end of 2018, the age classification of mortgage loan recipient analysis indicates that 25 to 35 year-olds occupy the largest bracket, making up over 39.0 thousand mortgagors. As of 2017, 45.5% of the population is made up of 0 to 25-year-olds, of which 7.7%, or 240 thousand people are aged from 20 to 24 year-olds that are potential future mortgagors in the near-term.

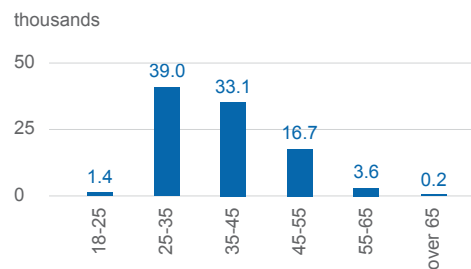
In order to identify housing affordability, MIK HFC began to estimate a HAI, which uses the ratio between average household income and the mortgage loan amount for an average priced apartment. In 2018, the unemployment rate was 6.6%, which decreased by 0.7 percentage from the previous year. While median household income reached MNT1.17 million, a 21.2% increase from the year before. In relation to the growth in revenue, HAI increased by

0.11 in the 4th quarter of 2018 to 0.79.

The Government of Mongolia and BOM has budgeted MNT115 billion and MNT200 billion, respectively, to fund the AHFP in 2019.

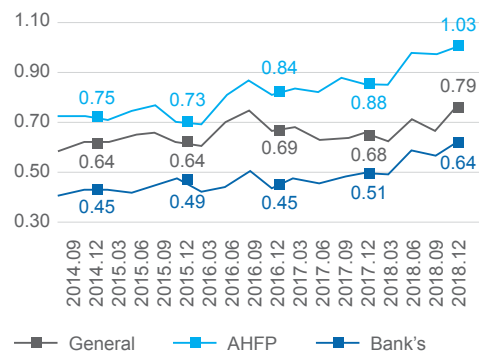
Furthermore, a new AHLFP issuance procedure was passed with the intent to increase the availability of current AHFP, a notable addition permitted households to receive loans of up to MNT60 million to build single detached houses that are up to 120 square meters.

Age Structure of the Mortgagors



Source: BOM

HAI of Ulaanbaatar, 2018.12



Source: BOM

Legal Environment

MIK Holding JSC is a publicly listed company that solely owns its subsidiaries: MIK HFC, Protego First LLC, and MIK Real Estate LLC. Through the company's ownership, it provides its subsidiaries with management in accordance with the Company Law of Mongolia. Among these subsidiaries, MIK HFC is the only company that is actively conducting business, while the other two are non-operational.

MIK HFC has a Fiduciary management license that is issued by the FRC under the Law on Asset-Backed Securities. In accordance with this license, MIK HFC issues RMBS through establishing SPCs. BOM holds 90% (senior tranche) of the RMBS issued by the SPCs and the remaining 10% (junior tranche) is owned by commercial banks. Throughout the process of issuing RMBS through SPCs, the FRC monitors our activities from a regulator's standpoint, while BOM, commercial banks and the Board of the SPCs monitor our activities from an investor's standpoint.

The following are the main laws and regulations, that which MIK HFC complies with:

Law	Regulation
- The Constitution Law	- Procedure on mortgage financing
- Civil Law	- Regulation on mortgage loan procedure
- Law on the Securities Market	- Regulation on issuing, registering and licensing of asset backed securities
- Law on the Asset-Backed Securities	
- Company Law	

Key changes to MIK HFC's business legal environment.

- In regard to amendments to laws that MIK HFC activities have to adhere, there were no amendments to the Civil code, Company Law and Law on the Asset-Backed Securities. However, changes were made to Law on the Securities Market. The statement "dependent and subsidiary" in article 27.3, and "it's dependent or subsidiary" in article 46.2 of the Law on Securities Market were removed in the revision approved in 18th January 2018. Furthermore, the revised General Law on State Registration and relevant changes to other applicable laws were approved by the Parliament of Mongolia on 21st June 2018 to take effect from 1st January 2018.
- The final draft of the revised General Taxation Law, Corporate Income Tax Law, and Personal Income Tax Law were approved by the Parliament of Mongolia on 22nd March 2018 to take effect from 1st January 2020. In accordance with the newly incorporated Corporate Income Tax Law, asset-backed securities issuance tax on SPC has increased.
- On 5th December 2018, the Government approved an AHLFP. The key aspect of this procedure is aimed to provide policy support for first-time homeowners, housing of ger area households, expired building usage permit holders, and citizens that want to connect to municipal infrastructure. Previously, the affairs between the mortgage lender and a home buyer were regulated by the General Mortgage Regulation and Financing Guidelines approved by the Government of Mongolia in 2016. In order to ensure the continuity of financing operations these affairs have been included in the AHLFP with the addition of the permittance to finance loans directed towards the above-mentioned target group to be paid back with RMBS in accordance with applicable laws and procedures.
- On 6th June 2018, FRC approved Mortgage Insurance Procedure. This procedure regulates the relationship between insurer and insurance provider to provide mortgage borrowers with life, health, and mortgage collateral insurance, and the ensuing compensation of such liabilities in the case of an insurance event. Furthermore, FRC approved an "Announcement of shareholder meeting of a joint stock company" procedure in 14th December 2018. This procedure regulates the announcement of the ordinary and irregular shareholder meeting, meeting correspondences, monitoring, and notification procedures to the FRC and other organizations.



Operational Performance

Business Activities

Types of acquisition of mortgage loan portfolios

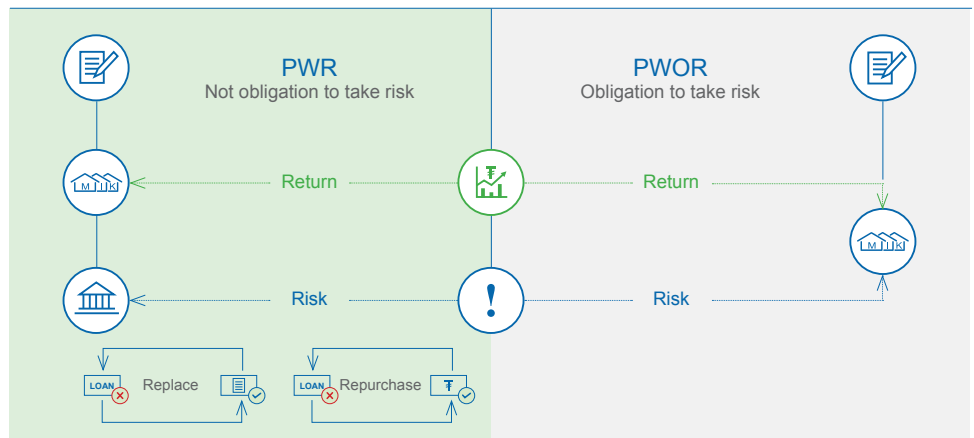
MIK HFC is engaged in purchasing residential mortgage loan portfolios from commercial banks with cash and with the use of other financial instruments in order to improve the liquidity of commercial banks. Mortgage loan portfolio purchase agreements are classified as follows based on how loan risk is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

1. Purchase without recourse (PWOR)

The transaction which allows transfer of both of mortgage returns and potential risks. This transaction is used for trading of subsidized interest rate mortgage loans under the AHFP implemented by the Government of Mongolia and BOM with RMBSs.
2. Purchase with recourse (PWR)

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

Types of purchase

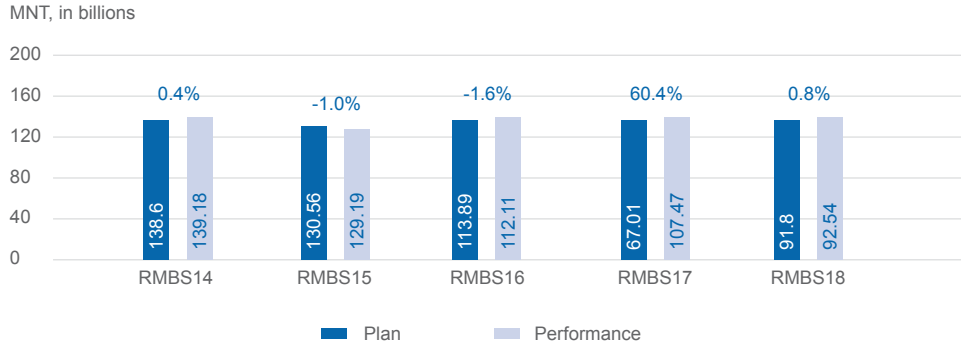


Purchase without recourse

In 2018, MIK HFC successfully purchased and securitized MNT580.5 billion in mortgage loans under the PWOR model, this result exceeds the company's initial acquire plan to acquire MNT541 billion worth of mortgage loans by 7%. Furthermore, the company has identified a mortgage pool totaling in MNT175.8 billion that meet requirements under the PWOR model and is being planned to be securitized as a part of RMBS issued through SPCs 19 and 20.

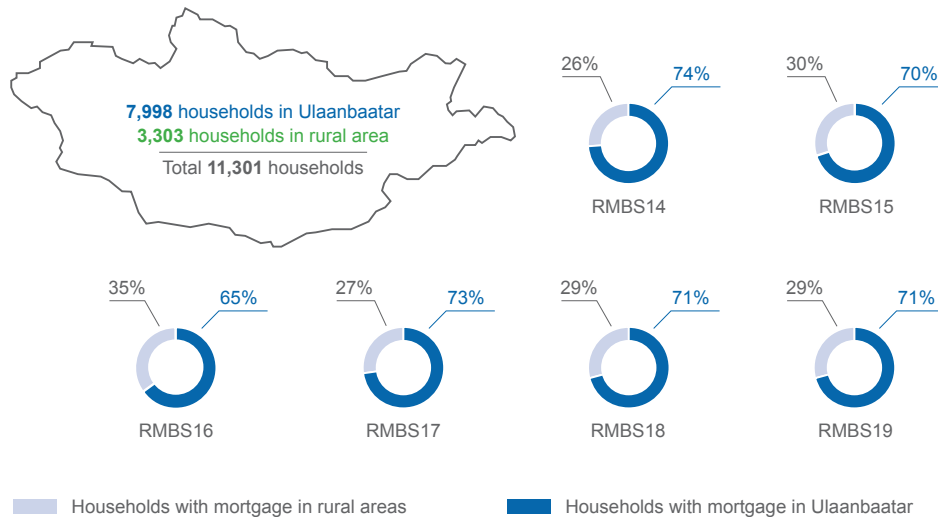
The following graph compares the PWR purchase plan and purchase performance for 2018.

Purchase plan for PWR versus performance



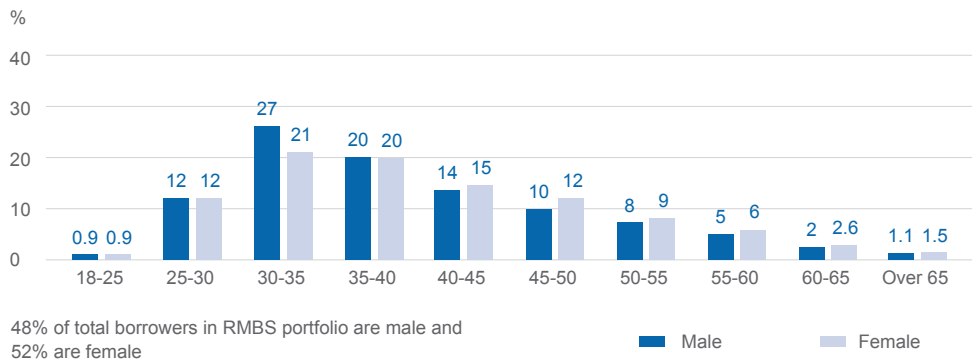
A total number of 9,591 mortgage loans have been purchased in 2018, and a further 1,710 mortgage loan has been identified to be purchased. From the 11,301 households that obtained mortgage loans that makeup RMBS 14th to 19th, 7,998 households obtained homes in Ulaanbaatar city whereas 3,303 households obtained homes in rural areas.

Geographical Distribution of Mortgage Loans Purchased in 2018 and of Mortgage Loans Identified to Purchase



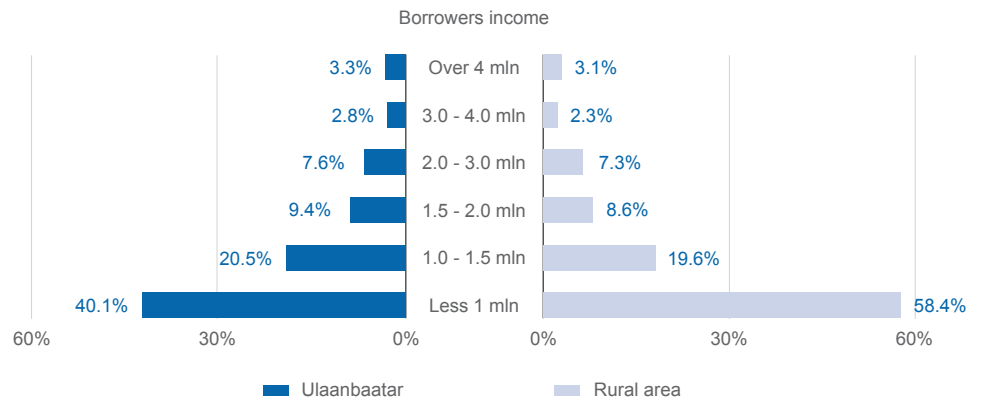
The gender and age structure of mortgagors indicate that the economically active population, or borrowers aged between 25 to 45, make up most of the borrowers under AHFP.

Information of borrower's age and gender



At the end of 2018, NSO reported that average monthly income in Mongolia reached MNT1.1 million. The company has found that nearly half of the borrowers under AHFP, earn a monthly salary that is below MNT1.0 million.

Classification of borrowers' household income under RMBS 1-18 transactions



From Graph 22, household in under RMBS 1-18 transactions graph we can infer that under the AHFP individuals with middle and lower-middle-class fixed income, namely young households with housing demand needs have benefitted.

Starting in 2017, MIK HFC has internally developed and implemented a Borrower Employment and Income analysis software. Through the use of this software, the company was able to deduce that mortgagors working in wholesales and retails sector make up most of the borrowers in Ulaanbaatar, whereas in rural areas, most of the mortgagors are employed in the civil and defense sectors.

Employment of Borrowers in Ulaanbaatar, by sector

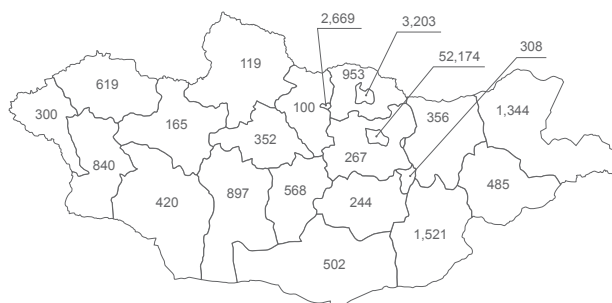


Employment of borrowers in rural areas



As of 31st December 2018, 61,142 mortgage loans with 68,406 primary and additional collateral were recorded on MIK HFC's balance. Borrowers are permitted to pledge his or her property against the down payment thus mortgage loans can have more than one collateral asset.

Geographical spread of collateral properties under RMBSs 1-18



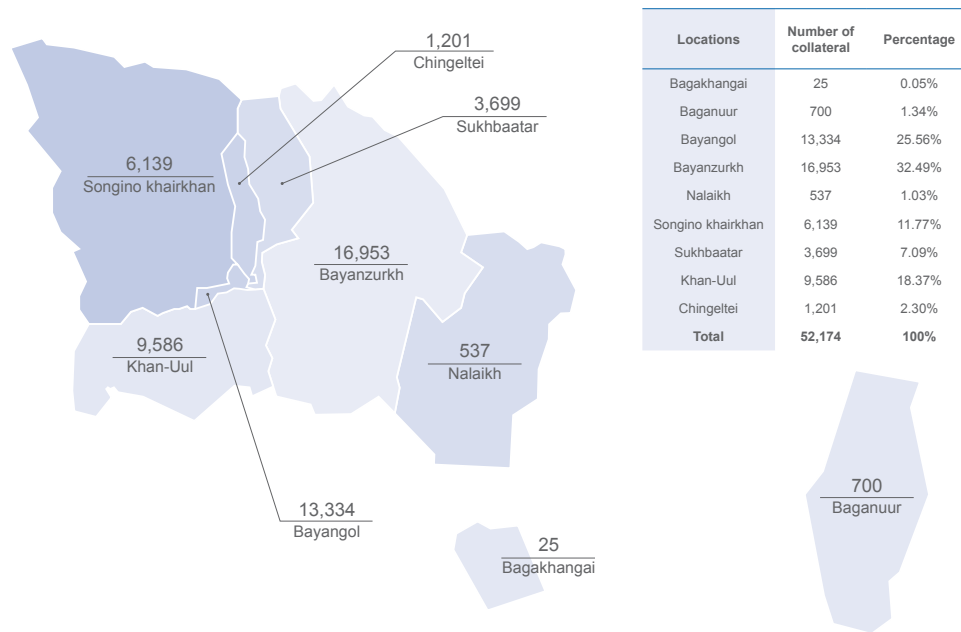
Locations	Number of collateral	Percentage
Ulaanbaatar	52,174	76.27%
Arkhangai	352	0.51%
Bayan-Ulgii	300	0.44%
Bayankhongor	897	1.31%
Bulgan	100	0.15%
Gobi-Altai	420	0.61%
Gobisumber	308	0.45%
Darkhan-Uul	3,203	4.68%
Dornogobi	1,521	2.22%
Dornod	1,344	1.96%
Dundgobi	244	0.36%

Locations	Number of collateral	Percentage
Ulaanbaatar	52,174	76.27%
Rural area	16,232	23.73%
Total	68,406	100%

Locations	Number of collateral	Percentage
Zavkhan	165	0.24%
Orkhon	2,669	3.90%
Uvurkhangai	568	0.83%
Umnugobi	502	0.73%
Sukhbaatar	485	0.71%
Selenge	953	1.39%
Tuv	267	0.39%
Uvs	619	0.90%
Khovd	840	1.23%
Khuvsgul	119	0.17%
Khentii	356	0.52%

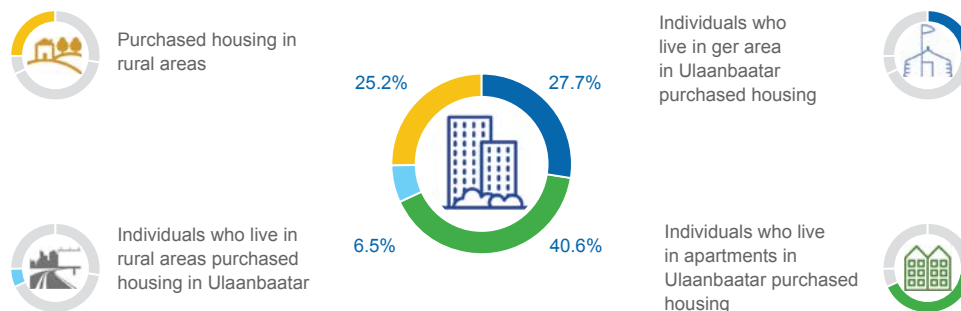
76.3% of the total collateral is located in Ulaanbaatar city, the location of collateral properties in Ulaanbaatar city is shown below by 9 districts:

Geographical distribution of collateral assets located in Ulaanbaatar, by districts



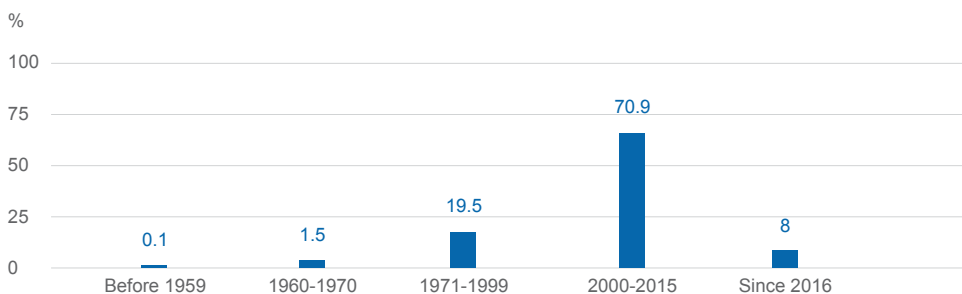
27.7% of borrowers who own apartments in Ulaanbaatar city have migrated from the ger area.

Impact on Borrower Living Conditions /2018.12.31/



As of 31st December 2018, 70.9% of the total collateral constitutes apartment units that were built between 2000 to 2015.

Information of collateral assets use of date

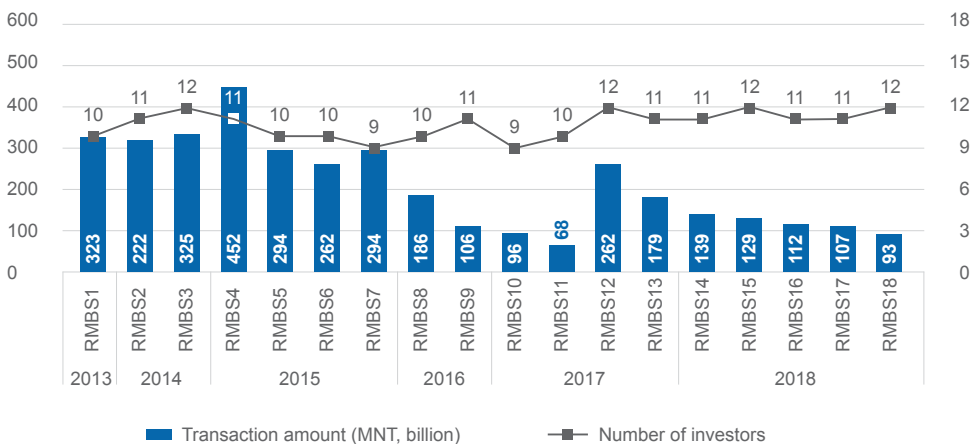


Securitization – RMBS

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

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

Total RMBS information



In accordance with Asset-Backed Securities Law, MIK HFC establishes a SPC and obtains the relevant license from FRC, which allows it to issue and trade RMBS on the domestic capital markets.

Within the framework of AHFP implemented jointly by the Government of Mongolia and BOM, MIK HFC has performed 18 transactions and issued a total of MNT3.6 trillion in RMBS. In 2018, through the securitization of RMBS 14 through 18, a total of MNT580.5 billion worth of RMBS was issued.

Fiduciary Management and Transaction Administration - 2018

On 16th December 2013, as MIK HFC was granted a special license to conduct Fiduciary manager, since then the company has operated fiduciary management according to Asset-Backed Securities Law and other relevant legislation.

MIK HFC manages RMBS assets of each of the 18 SPCs by a conducting Trust deed agreement in order to protect investor right and make securities payment.

Fiduciary manager service provides the following services in accordance with the Asset-Backed Security Law and Trust deed agreement conducted with SPC.

- Protecting the interest of investors pursuant to the Asset-Backed Securities Law;
- Prepare and maintain bookkeeping, including but not limited to the necessary registers prescribed by law;
- Prepare fiduciary management reports and introduce them to the Board of SPCs, Investor, and FRC on a quarterly basis;
- Transfer principal and coupon payments from RMBS issued by each SPC in a timely.

Throughout out the RMBS issuing process RMBS, the MIK HFC acts as a Transaction Administrator in accordance with the agreement between MIK HFC and SPCs among other activities.

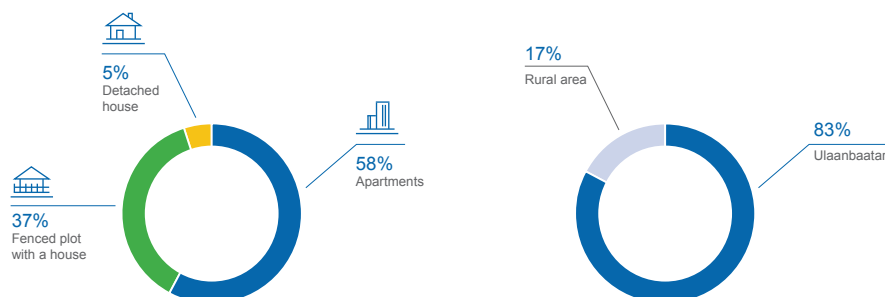
- Provide corporate administration and secretarial services to each SPC, submit requests to FRC, issue and register the RMBS.
- Prepare and maintain accounting records of each SPC in accordance with IFRS.
- Review and analyze data received from the service providers, and audit annual financial statements of the bond issuer.
- Receive and summarize information related to the aggregate portfolio from the participating banks, including the information about loan status, repayment reports, quality and financial statements to Investors and FRC.
- Settle non-performing loan principle and interests in the aggregate portfolio of the SPC.

Purchase with Recourse

By purchasing mortgage portfolios with recourse, we allow banks to create an additional source of funding to improve their liquidity. On the other hand, the transaction aims to reduce the cost of funding, lengthen loan maturity and improve mortgage terms for borrowers.

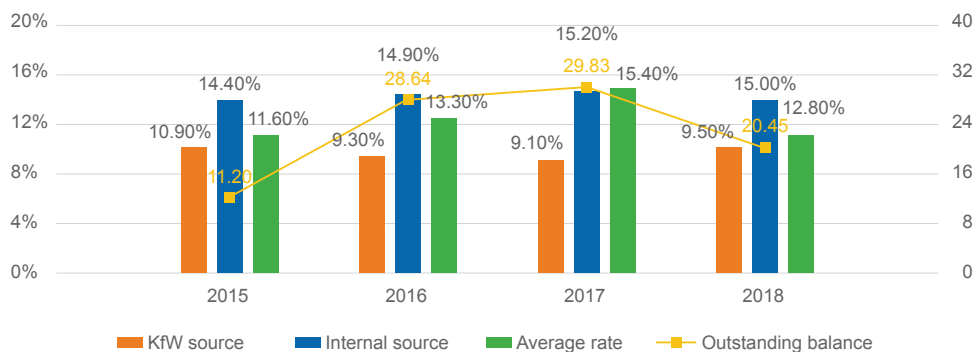
As of the end of the year, the company has 33 PWR portfolios that consist of 697 mortgages, which has an outstanding of MNT20.4 billion. Out of the 697 mortgages, 255 mortgages were used to purchase a fenced land plot with a house, 407 mortgages were used to purchase apartment units, and 35 mortgages used to purchase a single detached house.

Information on collateral assets under transactions with recourse



Under the PWR model, MIK HFC purchased mortgages from banks at a weighted average interest rate of 12.8% per annum, this form of long-term mortgage loan financing was provided at a similar rate to the policy rate. The weighted average interest rate of the mortgages purchase using KfW fund is 9.5% per annum, while the weighted average interest rate of mortgages purchased with the company's internal funding is 15% per annum.

The weighted average rate of Purchase with recourse



Purchase with recourse
2018

Outstanding balance
20.45
MNT billion

KfW fund
9.5%
per annum

Internal fund
15.0%
per annum

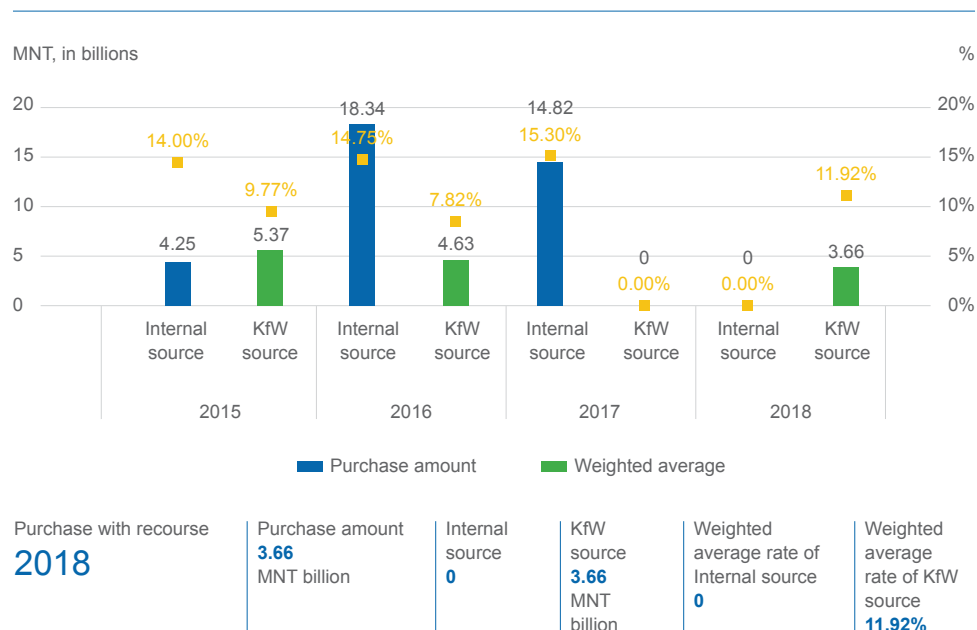
Average rate
12.8%
per annum

57.4% of mortgages purchased with recourse were financed from internal funding and remaining 42.6% were funded by long-term debt financing obtained from KfW.

Since 2009, our company has implemented a jointly by the KfW, MoF, and BOM “Promote the Mortgage Market”. Under this project long-term, low-cost financing is provided to commercial banks in order to finance mortgages.

In 2018, MIK HFC has successfully purchased MNT2.3 billion in market rate mortgages and MNT1.4 billion in subsidized interest rate mortgages.

The purchase amount of Purchase with recourse, 2018



Loan Portfolio Management

Due to the long life of a mortgage loan, MIK HFC preforms asset portfolio management activities to ensure timely repayment of mortgage loans, a high level of yield from the loan portfolio, mitigation of credit risk associated the loan portfolio, until the RMBS is fully repaid to the investors.

During the reporting period, the company has received and processed 462 requests from borrowers to make an amendment to the structure of the agreement signed with the originator. While providing notification of such changes to FRC in accordance with procedure.

Also, MIK HFC recorded 861 repayment rescheduling requests, of which 629 were approved based on the borrower's ability to make repayments. In total 78 percent of all requests from borrowers are related to repayment rescheduling, this is due to changes in borrower's income level, prepayment levels over the course of mortgage life.

Under the PWR model, MIK HFC has approved 18 requests from borrowers to make amendments to the loan agreement, and 1 request to re-issue a mortgage loan, while the servicing banks approved 2 requests for repayment rescheduling.

In 2018, three banks have repurchased 3 portfolios amounting to a total of MNT5.6 billion at the expiration date of the agreement. Furthermore, the company has returned 12 loans amounting to MNT0.3 billion in mortgages to back to the originating banks due to loan delinquency.

Loan repurchase information /MNT, in billions/

Loan repurchasing information	2013	2014	2015	2016	2017	2018	Total
Portfolio	14.82	-	1.44	-	3.41	5.61	25.28
Each loan	0.04	0.03	0.06	0.75	1.53	0.33	2.72
Total	14.85	0.03	1.49	0.75	4.94	5.61	27.67

Mortgage Insurance

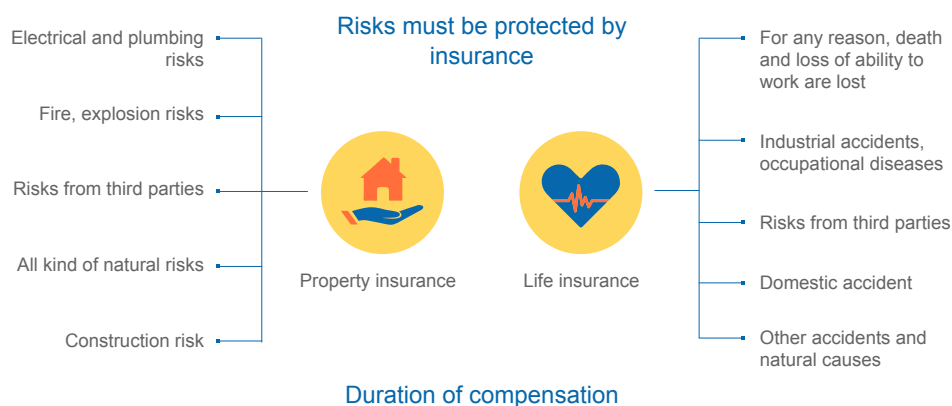
MIK HFC complies with FRC’s Mortgage Insurance Procedure, amended on 6th June 2018. This procedure requires mortgagors to maintain life, health, and property insurance over the course of the loan.

Risk coverage under the mortgage insurance

Borrowers are protected against risks to the mortgage that arise from sudden death, health issues that lead to the temporary inability to make repayments. Furthermore, property insurance covers damage from household accidents that may cause damage to the property.

Mortgage insurance covers the following risks.

Mortgage insurance coverage



Not only are borrowers protected against sudden death and accidents, but the borrower's family is also protected against any sudden financial strains that may occur.

Importance of household and accident insurance

In the event of a risk that you will not be able to pay the loan due to these cases, you will be compensated



Sudden attack



Household and sudden accident



Accidental accident



Temporarily lost working ability

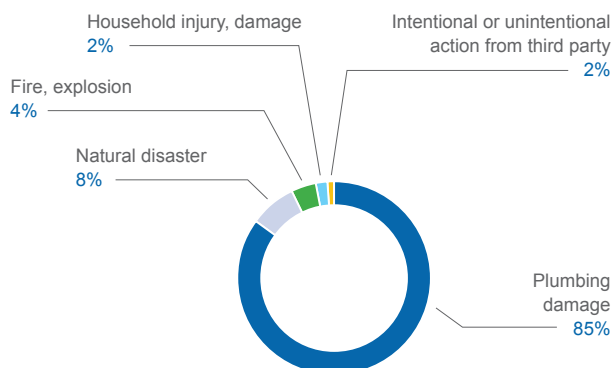
Payments of insurance will be different depending on the insurance company and officers of the shall give details about the conditions.

Recorded insurance incidents

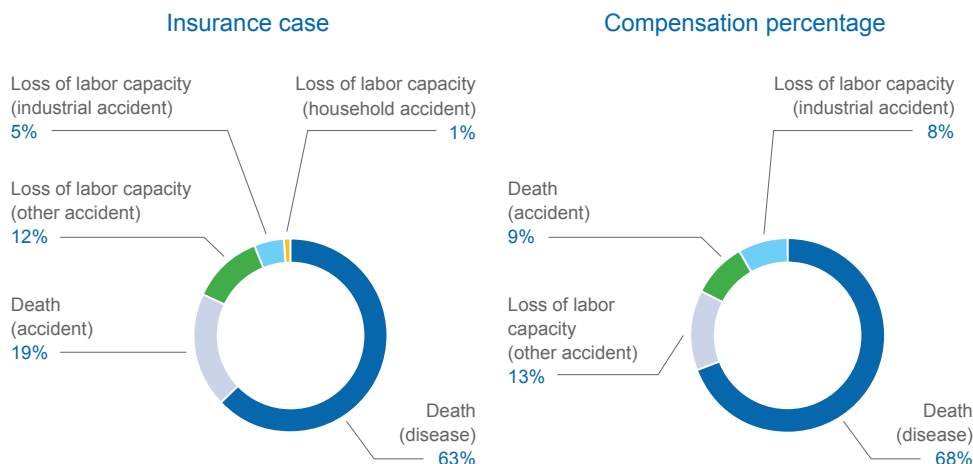
In 2018, 29% of insurance cases were related to sudden death and 71% were related to damage to collateral.

If we look at property insurance case by percentage as follows:

Property insurance cases



Information on life insurance and compensation information /2018.12.31/



Risk Management System

The company improved its risk management framework through implementing procedures and methodologies in accordance with international best practices such as ISO/IEC31000:2018-Risk Management, IFRS9-Financial Instrument, ISO/IEC27001:2013-Information Technology, the Three lines of Defense.

Market Risk Management

Market risks are risks that create fluctuations to the company's earnings, the value of financial assets, interest rates, foreign exchange rates, and market prices. In managing the risks mentioned above the company conducts foreign exchange rate risk analysis, interest rate gap analysis and liquidity gap analysis. Currently, the company has no significant concentration of market risk.

Furthermore, research and assessment of macroeconomic variables and their impact on the company have been conducted to evaluate the capability of the company to endure economic downturns. Plans to implement a suitable stress test to determine reactions to different financial situations are underway as the results will be key in future market risk management.

Compliance Risk Management

The company's compliance policy, procedures, risk assessment methodology, and Anti-money laundering and Terrorism financing procedures have been developed and

approved. These documents have a critical role in establishing a clear compliance management structure that identifies, registers and monitors the implementation of the company's compliance obligations, and to assure preventive actions on anti-money laundering and terrorist financing. In addition, task management software has been developed internally, to facilitate registration and monitoring of compliance obligations.

The company has obtained access to the International Compliance Association (which has members of more than 130 countries around the world) to gain the latest news updates and knowledge about compliance. Moreover, the compliance team has actively engaged with the Compliance professional council of the MBA to share information and experiences on effective implementation of compliance in banks and financial institutions.

Credit Risk Management

Credit risk is risks concerning the failure of borrowers to comply with contractual obligations that may lead to financial loss to the company. In managing credit risk the company takes preventive actions such as locate, assess and monitor potential risk within the mortgage portfolio. The following actions are performed on a continuous basis:

- Mortgage procurement decision is based on the results of legal and financial independent secondary analysis. An independent agent is selected through an open tendering process, all SPCs that were established underwent independent secondary analysis to evaluate prudent levels for each mortgage portfolio.
- IFRS9 – Financial Instrument was adopted in 2018, in order to evaluate credit risk in a way that is compliant with international standards. Mortgage loan portfolio risk is evaluated through the calculation of loan impairment provision in accordance with IFRS 9 and assured by an independent audit company. The implementation of IFRS9 is also useful for shareholders and investors to make risk-based decisions as loan portfolio risk indicators are including in the financial statements.
- Life and collateral insurance of borrowers are continuous monitored, through a web-based system that transfers insurance information of existing and prospective borrowers, from the servicing banks.
- The company receives regular updates of the actions being performed on loans that are 30 days past due, in order to monitor and assess the risk. Our company's collection agents work with the servicing banks to settle outstanding amounts on high-risk mortgage loans.
- Furthermore, a credit rating system that uses the borrowers credit risk history was implemented to the company.

Counterparty Risk Management

Counterparty risk is the risk of financial losses incurred by the company due to the failure of counterparties to fulfill their obligation.

A methodology to define acceptable levels of risk, based on international best practices was introduced to the company to limit any unmanageable levels of financial loss due to counterparty risk.

Furthermore, MIK HFC assesses counterparty risk of each counterparty, based on rating methodology used by credit rating agencies, within the framework of IFRS9 and disclosed in the financial statement.

Operational Risk Management

Operational risks are risks that may occur due to the intentional or unintentional mistake by employees, inadequate or failed internal process, system lapse or external factors that may affect negatively on the company's status and result in financial loss. Our operational risk management framework is compliant with ISO/IEC31000:2018.

Internal or external factors that may cause operational risks have been recorded within the operational risk framework. Future transparency of operational risk will be conveyed through an information dashboard that all employee can access and monitor.



Information Technology

Maintenance to increase the capacity of the equipment at our company's remote backup center has been performed, coinciding with improvements in network systems to prohibit the loss of confidential material during the data transfer process between local servers and the backup center. System recovery plans have been improved in accordance with the Information Security Management System ISO/IEC27001:2013 standards.



Financial Indicators

Financial Management

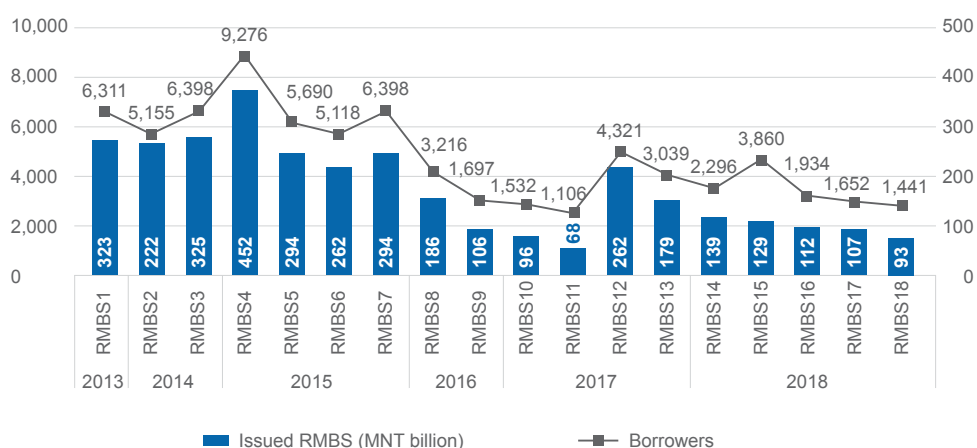
MIK HFC manages daily financial activities of MIK Holding JSC, MIK HFC, and SPCs in accordance with accounting policies that comply with IFRS9 and Mongolian legislation, in the following four main areas:

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

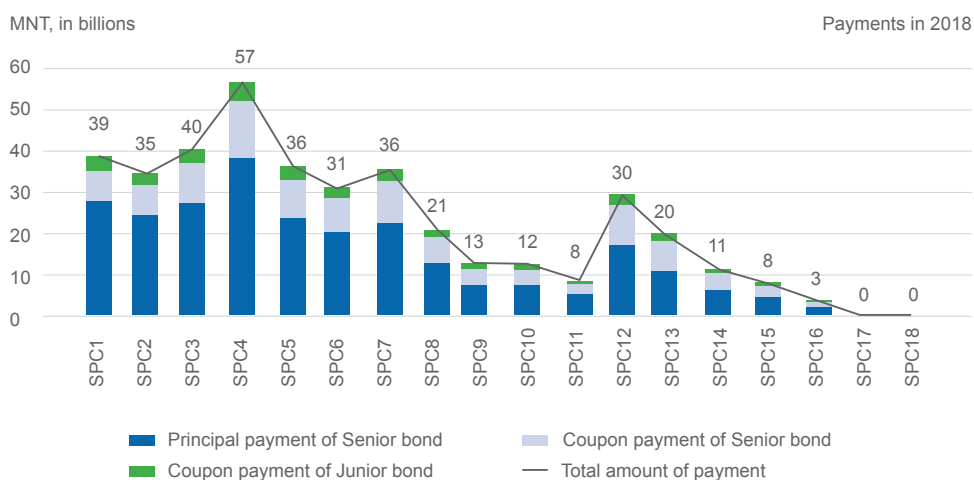
RMBS performance

As of 2018, the company has issued RMBS in the amount of MNT3.6 trillion through the 18 SPCs kept payment accounts for 70,440 borrowers and provided the accounting of each corresponding party.

Total numbers of borrowers /per RMBS/



Total bond payments for the year /per RMBS/



During 2018, MIK HFC has transferred principal payments in the amount of MNT258.4 billion, senior bondholder coupon payment of MNT106 billion, and junior bondholder coupon payments of MNT 34.7 billion through MCSD, amounting to a total of MNT399.1 billion.

Total bond payments for the year /per SPCs/

Subsidiaries	Total payment			Senior bondholders						Junior bondholders		
	2016	2017	2018	Principal payment			Coupon payment			Coupon payment		
				2016	2017	2018	2016	2017	2018	2016	2017	2018
MIK ASSET ONE SPC LLC	38.5	38.8	38.6	25.2	26.6	27.7	9.9	8.7	7.6	3.4	3.4	3.4
MIK ASSET TWO SPC LLC	27.2	27.2	34.8	17.4	18.0	24.5	7.5	6.8	7.3	2.3	2.3	2.9
MIK ASSET THREE SPC LLC	39.7	40.1	40.2	24.7	26.3	27.6	11.6	10.4	9.2	3.4	3.4	3.4
MIK ASSET FOUR SPC LLC	53.9	54.9	56.5	32.6	35.0	38.2	16.6	15.2	13.6	4.7	4.7	4.7
MIK ASSET FIVE SPC LLC	33.7	34.8	36.2	19.5	21.6	23.9	11.1	10.2	9.2	3.1	3.1	3.1
MIK ASSET SIX SPC LLC	29.4	30.1	31.3	16.6	18.1	20.0	10.1	9.3	8.5	2.7	2.7	2.7
MIK ASSET SEVEN SPC LLC	33.6	33.2	35.7	19.0	19.5	22.8	11.5	10.6	9.8	3.1	3.1	3.1
MIK ASSET EIGHT SPC LLC	15.6	20.7	21.1	8.6	11.9	12.8	5.5	6.9	6.3	1.5	2.0	1.9
MIK ASSET NINE SPC LLC	5.7	12.2	12.7	3.0	7.1	7.9	2.1	4.0	3.7	0.6	1.1	1.1
MIK ASSET TEN SPC LLC	-	7.8	12.1	-	4.1	7.5	-	2.9	3.5	-	0.8	1.0
MIK ASSET ELEVEN SPC LLC	-	5.8	8.3	-	3.3	5.2	-	2.0	2.5	-	0.5	0.7
MIK ASSET TWELVE SPC LLC	-	14.7	29.5	-	8.0	16.9	-	5.3	9.9	-	1.4	2.7
MIK ASSET THIRTEEN SPC LLC	-	-	19.9	-	-	11.0	-	-	7.0	-	-	1.9
MIK ASSET FOURTEEN SPC LLC	-	-	11.4	-	-	6.2	-	-	4.1	-	-	1.1
MIK ASSET FIFTEEN SPC LLC	-	-	7.6	-	-	4.3	-	-	2.6	-	-	0.7
MIK ASSET SIXTEEN SPC LLC	-	-	3.3	-	-	1.8	-	-	1.2	-	-	0.3
Total amount	277.2	320.3	399.1	166.6	199.4	258.4	85.9	92.2	106.0	24.6	28.6	34.7

Key Financial Performance

In 2018, the MIK's total assets increased by MNT408.8 billion to MNT3.2 trillion, a 14.7% increase compared to the previous year. 89.8% of the MIK's total assets are made up of the receivables from mortgage pools. At the end of 2018, mortgage pool receivables made up to 89.8% of total assets. The total outstanding balance of RMBS payables increased by 12.5% to MNT2.9 trillion compared to the previous year, while total equity increased by MNT45.9 billion to MNT208.5 billion, a 28.3% increase. Interest income and interest expense grew by 10.5% and 14.6% respectively, resulting in a MNT94 billion of net interest income, which has increased by MNT4.3 billion compared to the previous year. In 2018, MIK earned a net profit of MNT57.6 billion while total operating expense was MNT13.5 billion.

Key financial indicators (MNT, in billions)

	2017	2018	Change (%)
Total assets	2,776.3	3,185.0	14.72%
Total equity	162.5	208.5	28.28%
Net interest income	89.7	94.0	4.83%
Mortgage pool receivables	2,547.9	2,860.4	12.27%
RMBS payables	2,576.0	2,898.3	12.51%
Net profit	59.2	57.6	-2.67%

Financial ratios

	2015	2016	2017	2018
Total liabilities/ Total assets	94.78%	94.46%	94.16%	93.78%
Net interest margin	3.24%	3.55%	3.54%	3.18%
Return on Assets (ROA)	1.98%	2.26%	2.32%	1.93%
Return on Equity (ROE)	38.03%	40.82%	39.76%	31.04%
Financial leverage	19.17	18.06	17.13	16.07
Book value per share, MNT (BVPS)	6,514.72	6,740.72	8,735.41	12,589.17
Earnings per share, MNT (EPS)	1,744.32	2,530.97	3,180.32	3,477.51

Total liabilities / Total assets

2015	94.78%
2016	94.46%
2017	94.16%
2018	93.78%

Net interest margin

2015	3.24%
2016	3.55%
2017	3.54%
2018	3.18%

Return on assets (ROA)

2015	1.98%
2016	2.26%
2017	2.32%
2018	1.93%

Return on equity (ROE)

2015	38.03%
2016	40.82%
2017	39.76%
2018	31.04%

Financial leverage

2015	19.17
2016	18.06
2017	17.13
2018	16.07

Book value per share, MNT (BVPS)

2015	1,744.32
2016	2,530.97
2017	3,180.32
2018	3,477.51

Earnings per share, MNT (EPS)

2015	6,514.72
2016	6,740.72
2017	8,735.41
2018	12,589.17



Internal Operations

On an ongoing basis, MIK HFC continues to support the AHFP and strives to increase the availability of housing finance from domestic and international capital markets. In preparation of the latter, we have made improvements to our internal structure, amended governing internal rules and procedures, and shaped our human capital to absorb the extensive responsibilities to come. To initiate the company intends to become a first-time bond issuer on the international capital market, the company obtaining credit ratings from the Big Three rating agencies.

While day-to-day operational efficiency was increased through the amendment of 13 internal procedures, the company introduced innovative add-ons to its core software programs, by improving the effectiveness of making changes in loan repayment schedule, collateral loan registration, borrower employment analysis, and loan information gathering add-ons.

Beginning this year, the MIK has also adopted IFRS9, promulgated by the International Accounting Standards Board, financial accounting standards to its operations. In adopting this standard, the company has decreased risk exposure and made it easier for our stakeholders and investors to make a risk-based decision.

In assessing the optimal moment to raise bonds from the international capital market, MIK HFC continuously coordinated with Credit Suisse Ltd, Mayer Brown Pte. Ltd, Shearman & Sterling LLP, Batbayar and Partners LLP, GTs LLP to maintain the company's to enter the international bond market.

Human Resource Management

MIK's human resources policy is aimed at the following three main goals:

- To provide professional, creative and ethical human resource, necessary to achieve the company's mission and objectives;
- To create a favorable and stable working environment for employees through providing training and the development of a competitive environment, supporting leadership, and transparent career succession plans;
- To introduce an effective salary and compensation system based on performance.

During the reporting period, MIK HFC has hired a total of 31 employees, of which 20 were from a background of economics and finance, while the remaining 11 met specific qualifications required by the company.

Within the outline of our HR policy, the company has effectively established a salary scheme to compensate our employees based on their respective responsibilities and years employed at the company. Additionally, an Objectives and Key Results framework was introduced at the level of departments, divisions and individuals to track the effectiveness of achievements and interlace the result to the company's bonus structure.

An overall 15% increase in payroll took effect due to the company's mid-term business plan to expand funding instruments and operations, to make up for the increase in responsibilities for the group as a whole.

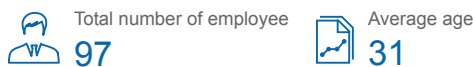
Training

Since its establishment the company has understood its core value to be its workforce, therefore we constantly invest in employee-self-development and professional skill accumulation. Over the course of this year, 60 employees were enrolled in the training organized by PwC, BFA, MBA and BOM. Special attention was given to newly established compliance department as they have been included in trainings dealing with money laundering and terrorism financing by FRC and Compliance professional council of the MBA, online "Compliance and Ethics" trainings by BFA, and proactive participation in "Compliance" forum, by Golomt Bank, and "Financial Sector Compliance 2018" forum, by FRC in cooperation with other professional associations.

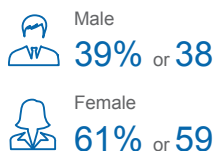
Working environment

Improvements to the working environment were made by expanding the total area of office space. A full renovation took place to incorporate a modern open space working environment, with a goal to increase communication between departments and employees. Results are positive as the company has witnessed an increase in the exchange of information and swift decision-making among employees ensuing better teamwork.

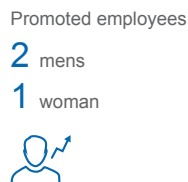
Information of employees



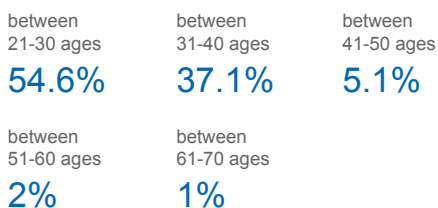
Gender ratio average



Career development



Classification by ages

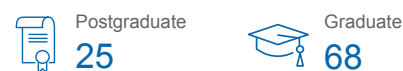


Training statistics

18 times, 174 hours of professional training were conducted overlapping 68 employees



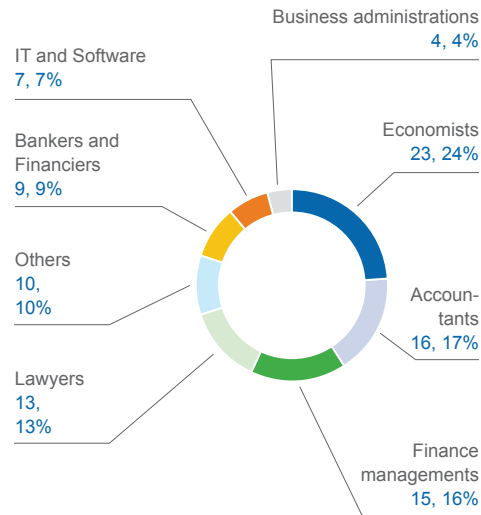
Education degree



Education level



Classification by occupations



Social responsibility

As Mongolia's first and only entity operating on the Mongolian secondary mortgage market, MIK HFC believes it is accountable for fulfilling its ethical duty to contribute to society. Our contribution revolves around social-well being and education in order to establish a long-term financing structure in Mongolia that would provide the population with affordable housing and support modern urban development.

Furthermore, the company is committed to operational transparency, this is achieved through providing reports openly and in a timely manner to regulators, stakeholders, investors, interested parties and to the public.

To ensure the longevity of the company's social responsibility, we plan to develop a corporate social responsibility policy that is based on ISO:26000 Social Responsibility Recommendations and best practices from similar international organizations.

Collaboration between stakeholders and interested parties

Our company regularly organizes "MIK and Journalist" events to provide the public with accurate information about Mongolia's housing finance system, its benefits, its challenges, and MIK HFC's role within the system. In addition, we joined the "Protection of Financial Consumer" campaign initiated by BOM to educate the public about the importance of the risks involved in financial transactions.

Feedback and complaints

Even though MIK HFC's direct interaction with the public is limited to releasing loans on mortgage collateral, we make available opportunities to provide feedback and submit complaints from the general public and customers through letters, email, call-lines as well as in person.

While in 2017, MIK HFC resolved 3502 loan release requests directed from the public and servicing banks, in 2018 we resolved 6185 such requests. We expect this figure to increase in the future, as a result, we conducted a survey among customers that physically come to our company. The results of the survey were key in locating inefficiencies and made it possible for us to revise our internal operational procedures. As a result, loan release requests are being resolved within 1.5 days, which was previously resolved in 4 days. We are committed to further reducing this timeframe, through the help of technological advance.

Programs to support sustainable development

For the reported year, MIK HFC has implemented two main programs that contribute to social well-being, and education.

- In the scope of social well-being, MIK HFC signed a MOU with the Mongolian Special Olympics committee to support children with intellectual disabilities, through providing financial aid directed towards facilitating dental examinations. The project resulted in the successful inclusion of 480 such children over 4 examinations. During the dental examination, dentists advised the children's caretakers, on proper dental health which can be implemented continuously to improve the health of these children.
- Within the scope of education, MIK HFC co-organized the 4th Financial Management Olympiad with the University of Finance and Economy. Through this Olympiad, we were able to provide students and participants with a general understanding of the secondary mortgage market, while developing self-reliance and professional skills for Mongolia's future working capital.

Foreign Relations

MIK HFC increased regional awareness of its operations in order to elevate its reputation in preparation to enter the international bond market while expanding our relations with similar institutions with the aim to exchanging know-how and experience.

Organized the 5th Asian Fixed Income Summit

Established in 2014, ASMMA unified housing finance corporations of Japan, South Korea, Malaysia, Mongolia, Thailand, Philippines and Indonesia. Its purpose is to create a platform to exchange views and experiences in order for member institutions to contribute to each other's society and increase the availability of housing finance.

MIK HFC's involvement in ASMMA created an opportunity for it to cooperate with similar institutions and attend AFIS, an event organized by ASSMA, to increase its awareness. In 2018, MIK HFC was given

the opportunity to host the "5th AFIS", the company proudly accepted and in cooperation with MCUD, MoF and FRC held the event on 2nd July 2018.

30 foreign representatives consisting of ASSMA members, housing policy makers, international banks and financial institutions attended, as well as 250 domestic representatives comprising of policymakers, regulating agencies, private entities and the public attended.

This year's AFIS revolved around the topic of "Housing Policy and Financial Solutions", that was made up of three sections entailing "Housing policy choices", "Housing finance solutions" and "Asian capital market opportunities".



**Ananta Wiyogo,
president of ASMMA
remarks:**

"The structure of the housing finance system in Mongolia is a good joint public-private

venture that reduces risk in the financial market among other benefits.



**Chung Chee Leong,
president of Cagamas
Berhad:**

"The policy to subsidize housing loans for low-income families is a well-known structure

that is implemented around worldwide. This doesn't only have to be limited to mortgage loans for apartments, it can be implemented to renting, rent-to-own, and house ownership. There is real necessity to reduce the interest rate."

Cooperation with similar foreign functioning institutions

In 2018, MIK HFC signed a MOU with Korea Housing Finance Corporation, Korea Land and Housing Corporation and National Mortgage Corporation of Malaysia.

MIK HFC and Korea Housing and Finance Corporation

KHFC was established in 2004 to provide a supply of housing funds under the housing policy of the Government of South Korea. KHFC operates under four main activities including housing mortgages, reverse mortgages, credit guarantees for housing finance and the securitization of mortgage-backed claims.

MIK HFC signed MOU with KHFC during the "5th AFIS". The purpose of the MOU is to strengthen relationships in the fields of housing finance and housing market by exchanging information and experiences.

Within the scope of MOU, representatives from MIK HFC visited KHFC and was introduced to their core business activities





This year with the purpose of further strengthening the cooperation between of our two institutions MIK HFC signed a MOU with Cagamas Berhad on 5th October 2018. This led to the involvement of MIK HFC in the establishment of the International Secondary Mortgage Market Association, initiated by Cagamas Berhad and the World Bank.

MIK HFC LLC and Korea Land and Housing Corporation

LH was established in 1962 by the decision of Government of South Korea to promote the stable housing for the country's citizens, and development of the national economy through the efficient utilization of the national land by constructing apartments and industrial complexes and green area.

MIK HFC LLC signed a MOU with the LH on 12th December 2018 for the purpose of mutual interest to resolve the difficulties and challenges in the housing sector and urban planning in Mongolia.

Within the scope of MOU, representatives from MIK HFC LLC visited LH, where they were introduced to projects implemented by LH.

and their history. Going forward MIK HFC plans to further strengthen its relationship to exchange experiences and undertake in a TA advisory service from KHFC.

MIK HFC LLC and National Mortgage Corporation of Malaysia

Cagamas Berhad is a private company that was established in 1986 to promote the broader spread of home ownership and growth of the secondary mortgage market in Malaysia. Cagamas Berhad is the leading company in the region by its amount of international funding and strong

credit rating. Moody's international credit rating agency, considered the corporation's repayment of long-term bond credit rating as low risk, at A3.

The funding system of Cagamas Berhad is well regarded by the World Bank, as the most successful. The conception of AHFP in Mongolia was introduced by Cagamas Berhad through their experience sharing TA program, back in 2013.



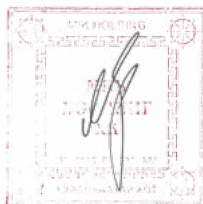


Independent Financial Audit Report

MIK Holding JSC and its Subsidiaries

Statement by Chairman and Executives

We, Munkhbaatar Myagmar, being the Chairman of the Board of Directors of MIK Holding JSC, Gantulga Badamkhatan, being the Chief Executive Officer, and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with international Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standard Board ("IASB").



Munkhbaatar Myagmar
Chairman of the Board
of Directors



Gantulga Bdamkhatan
Chief Executive Officer



Bat-Ulzii Molomjamts
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 1 Apr 2019

Independent Financial Audit Report

To the Shareholders of the 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 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for the Opinion

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

Key Audit Matters

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

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

Independent Financial Audit Report (Cont'd.)

To the Shareholders of the MIK Holding JSC (Cont'd.)

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 Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.


Ernst & Young Mongolia Audit LLC
ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by



MANDAKHBAYAR DORJBAT
Director

Approved by



ADRIAN CHU
Partner

Ulaanbaatar, Mongolia
Date: 1 April 2019

MIK Holding JSC and its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Notes	2017 MNT'000	2018 MNT'000
Interest income	4	215,043,980	237,664,203
Interest expense	5	(125,386,232)	(143,679,467)
Net interest income		89,657,748	93,984,736
Fee and commission expense	6	(9,984,700)	(11,882,019)
Other operating income	8	69,156	222,241
Total operating income		79,742,204	82,324,958
Credit loss expense on financial assets	7	(1,673,740)	(737,144)
Net operating income		78,068,464	81,587,814
Operating expenses	9	(7,027,586)	(13,467,503)
Profit before tax		71,040,878	68,120,311
Income tax expense	10	(11,877,891)	(10,539,731)
Profit for the year, representing total comprehensive income		59,162,987	57,580,580
Earnings per share (MNT)			
Basic and diluted earnings per share	11	3,180.32	3,477.51

MIK Holding JSC and its Subsidiaries

Consolidated Statement of Financial Position as at 31 December 2018

	Notes	2017 MNT'000	2018 MNT'000
Assets			
Cash and bank balances	12	212,950,606	86,438,794
Debt instruments at amortised cost	13	-	196,008,869
Mortgage pool receivables with recourse	14	29,825,565	20,317,980
Purchased mortgage pool receivables	15	2,518,056,150	2,840,112,824
Financial assets at fair value through profit or loss	16	-	5,000,000
Other assets	17	794,194	3,525,542
Property and equipment	18	14,527,014	33,479,567
Intangible assets	19	112,569	157,779
Total Assets		2,776,266,098	3,185,041,355
Liabilities			
Borrowed funds	20	15,498,844	44,907,989
Collateralized bonds	21	2,576,010,489	2,898,320,103
Other liabilities	22	4,813,595	11,171,232
Income tax payable		3,639,426	1,195,430
Deferred tax liability	23	13,800,402	20,995,169
Total liabilities		2,613,762,756	2,976,589,923
Equity			
Ordinary shares	24	20,709,320	20,709,320
Share premium	24	52,225,115	52,225,115
Treasury shares	24	(47,055,136)	(62,143,136)
Reserve		136,624,043	197,660,133
Total equity		162,503,342	208,451,432
Total liabilities and equity		2,776,266,098	3,185,041,355

MIK Holding JSC and its Subsidiaries

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Notes	Ordinary shares MNT'000	Share premium MNT'000	Treasury shares MNT'000	Retained earnings* MNT'000	Total equity MNT'000
At 1 January 2017		20,709,320	52,225,115	(24,057,436)	86,252,873	135,129,872
Total comprehensive income		-	-	-	59,162,987	59,162,987
Repurchase of shares	24	-	-	(22,997,700)	-	(22,997,700)
Dividend declared	24	-	-	-	(8,791,817)	(8,791,817)
At 31 December 2017 and 1 January 2018		20,709,320	52,225,115	(47,055,136)	136,624,043	162,503,342
Impact of adoption of IFRS 9 (Note 3)		-	-	-	3,455,510	3,455,510
Restated opening balance under IFRS9 at 1 January 2018		20,709,320	52,225,115	(47,055,136)	140,079,553	165,958,852
Total comprehensive income		-	-	-	57,580,580	57,580,580
Repurchase of shares	24	-	-	(15,088,000)	-	(15,088,000)
At 31 December 2018		20,709,320	52,225,115	(62,143,136)	197,660,133	208,451,432

* Included in retained earnings as at 31 December 2018 are restricted retained earnings of MNT 207,827,030 thousand (31 December 2017: MNT 138,004,023 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related FRC regulation.

MIK Holding JSC and its Subsidiaries

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Notes	2017	2018
Cash flows from operating activities			
Profit before tax		71,040,878	68,120,311
Adjustments to reconcile profit before tax to net cash flows:			
- Unrealised foreign exchange gain / (loss)		(70,559)	64,346
- Credit loss expense	12	1,673,740	737,144
- Loss on disposal of property and equipment	7	86	-
- Depreciation of property and equipment	7	496,718	783,571
- Write-off of property and equipment	7	-	100
- Amortisation of intangible assets	7	54,586	67,120
- Amortisation of deferred grants	6	(1,058)	(75,099)
Operating profit before working capital changes		73,194,391	69,697,493
Changes in operating assets and liabilities:			
- Due from banks – placement with original maturities of more than three months		(84,591,223)	99,826,865
- Debt instruments at amortised cost		-	(2,440,522)
- Mortgage pool receivables		211,431,147	272,583,514
- Other assets		(462,223)	(2,731,348)
- Collateralized bonds		(199,685,056)	(258,669,632)
- Other liabilities*		812,903	1,518,624
Cash generated from operations		699,939	179,784,994
Income tax paid		(3,661,865)	(5,788,960)
Net cash flows from/(used in) operating activities		(2,961,926)	173,996,034
Cash flows from investing activities			
Investment in debt instruments at amortised cost		-	(195,000,000)
Proceeds from sale of property and equipment		63,000	24,084
Purchase of property and equipment*	14	(397,531)	(14,846,196)
Purchase of intangible assets	15	(90,534)	(112,330)
Investment in financial assets at FVPL		-	(5,000,000)

Net cash flows used in investing activities		(425,065)	(214,934,442)
Cash flows from financing activities			
Dividends paid		(8,791,817)	-
Proceeds from borrowed funds		8,500,000	36,355,296
Repayment of borrowed funds**		(1,554,045)	(6,946,151)
Purchase of treasury shares		(22,997,700)	(15,088,000)
Net cash flows from/(used in) financing activities		(24,843,562)	14,321,145
Net decrease in cash and cash equivalents		(28,230,553)	(26,617,263)
Effect of exchange rate changes on cash and cash equivalents		70,559	(64,346)
Cash and cash equivalents at 1 January		140,253,713	112,093,719
Cash and cash equivalents at 31 December	10	112,093,719	85,412,110
Operational cash flow from interest			
Interest received		209,648,564	236,312,625
Interest paid		(120,750,529)	(142,814,834)

* The Group had non-cash additions of property and equipment of MNT 4,914,112 thousand during the year.

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



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