



**2019 SEMI-ANNUAL OPERATIONAL
REPORT**

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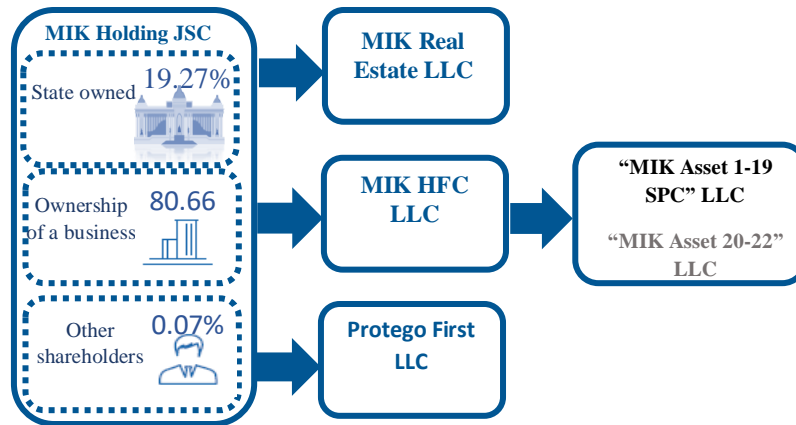
7.3 Purchase with recourse

1. COMPANY’S BUSINESS OPERATIONS

1.1 BRIEF INTRODUCTION

MIK group company consists of MIK Holding JSC, Mongolian Mortgage Corporation (MIK) HFC LLC, its subsidiaries that are established with the purpose of issuing Asset backed securities, 19 Special Purpose Companies (SPC), and with MIK Real Estate LLC, Protego First LLC that were both established in 2018.

1.1.1 COMPANY STRUCTURE



1.1.2 COMPANY 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.

1.1.3 COMPANY CREDIT RATINGS



In 2018, MIK Holding JSC and its subsidiary MIK HFC LLC was rated on par with Mongolia’s sovereign rating by international rating agencies. Later that year, on the 9th of November, Standard and Poor’s Global Ratings upgraded Mongolia’s sovereign rating from “B-” to “B” that entailed the matching upgrade to MIK HFC LLC’s credit rating.

2. INFORMATION ABOUT MANAGEMENT

2.1 MANAGEMENT STRUCTURE, AND KEY CHANGES

As of June 30th 2019, MIK Holding JSC operates with 7 full-time employees, as shown in the following table:

MIK Holding JSC employees and titles:

Title	Number of the employees
Chief Executive Officer (CEO)	1
Director of internal audit division	1
Internal auditor	1
Secretary of the BoD	2
Lawyer of the Board secretariat	1
Advisor of the Board secretariat	1
TOTAL	7

These officials ensure the coordination of activities between MIK Holding JSC, MIK HFC LLC and its subsidiaries MIK Asset One-Nineteen SPC and MIK Real Estate LLC, Protego First LLC.

2.2 BOARD OF DIRECTORS (BoD)

In accordance with the Company Law of Mongolia, the BoD shall be responsible for the company management and its policies without infringing on the authority granted to the shareholders. On April 30th, 2018, under Clause 75.4 of Article 75 of the Company Law and Company charter, Shareholders' resolved to appointed the BoDs for a tenor of 3 years.

2.2.1 MEMBERS OF BoD

M.Munkhbaatar Chairman of the Board of MIK Holding JSC and Chairman of the Nomination and Remuneration Committee. He is an Advisor of the Ulaanbaatar City Bank and re-elected as a Chairman of the Board of MIK Holding in accordance with BoD meeting on 14th of May 2018.

D.Ayush Director of the Board of MIK Holding JSC and Chairman of Operational and Legal Committee and Member of the Risk Management Committee. She is Director of Legal Department of Bank of Mongolia (BOM).

T.Davaajav Director of the Board of MIK Holding JSC and Chairman of the Risk Management Committee and Member of the Finance and Audit Committee. He is a Director of the Treasury Department at the Trade and Development Bank.

B.Choijiljabuu 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 Development Bank of Mongolia.

S.Batchimeg Director of the Board of MIK Holding JSC, a Member of the Operational, Legal and Risk Management Committee. She is the CEO of the TDB Capital LLC.

B.Gantulga Director of the Board of MIK Holding JSC, a Member of the Operational and Legal Committee and the Risk Management Committee. He is a CEO of the MIK HFC LLC.

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.

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. He is a Project Manager of Mining Metallurgy complex project.

Ch.Otgonchuluu An independent Director of the Board of MIK Holding JSC and a Member of the Finance and Audit Committee, the Risk Management and the Nomination and Remuneration Committee. He is a Consultant of the Economic Policy and Competitiveness Research Center.

2.3 EXECUTIVE MANAGEMENT

On 19th of May 2017, Mr. Gantulga Badamkhatan was appointed as CEO in accordance with a resolution of an irregular BoD meeting of MIK Holding JSC.

About the CEO:

Mr. Gantulga serves as CEO for MIK Holding JSC, its subsidiaries MIK HFC LLC, MIK Real Estate LLC, and Protego First LLC. He is an economist, graduated from the School of Economics of the Mongolian National University with a Bachelors in Finance and Economics, from 1997-2001. Later on, he moved on to graduated from the Australian National University with a Masters of Commerce and Finance. His previous experience includes employment at public, private entities and an international institution.

The CEO shall exercise the following rights within the scope of daily operational activities. Herein:

- As CEO of the Company, he shall be responsible for proposing business development policy issues to the BoD, receiving guidelines and overseeing the implementation to company operation.
- When representing the Company, and performing large or conflict of interest transactions in compliance with legislation he shall be limited to the authority granted by the BoD.
- When performing investment management activities, to invest, procure or sell company assets aside from daily business activities, the CEO will perform these actions within the authority granted by the BoD.

2.4 INTRODUCTION OF THE AUTHORIZED OFFICIALS OF THE COMPANY

№	Name	Position	Country of residence
1	B.Gantulga	CEO	Mongolia
2	G.Saruul	Secretary of the BoD	Mongolia
3	Ts.Altantuya	Secretary of the BoD	Mongolia

3. SHAREHOLDER INFORMATION

3.1 SHAREHOLDERS' MEETING AND ITS RESOLUTIONS

According to MIK Holding JSC Board of Directors meeting, 2019 resolutions No. 19/08, the plenary shareholders' meeting took place on April 29th 2019, with 90% attendance. During this meeting, shareholders reviewed and approved the 2018 Annual and Financial Report, made amendments to the Company's charter and approved the BoD operational budget.

3.2 INFORMATION OF CHANGE IN INFLUENTIAL SHAREHOLDERS

As of June 30th 2019, a total of 191 shareholders own MIK Holding JSC's shares. 19.27% shares are held by state-owned entities, 80.66% by businesses and 0.07% by individuals.

Shareholders with more than 5 percent shares. Herein:

№	Name of the organizations	Shares held
1	Ulaanbaatar City Bank	17.1%
2	Development Bank of Mongolia	14.9 %
3	Trade and Development Bank	9.9 %
4	Asia Diversified Real Estate Fund One LLC	9.1%
5	TDB Capital LLC	7.5 %

Source: MCSD /2019.06.30/

4. DIVIDEND INFORMATION

Based on the BoD resolution No.19/04 approved on February 18th 2019, MIK Holding JSC will not distribute dividends to the shareholders from it's net profits of 2018.

5. FINANCIAL INFORMATION

In the first half of 2019, MIK HFC LLC, solely owned entity of MIK Holding JSC, made principal payments to the senior tranche holder MIK Asset One through MIK Asset Eighteen SPC LLCs, in the amount of MNT137.5 billion and executed coupon payments to senior and junior tranche holders of MIK Asset One through MIK Asset Eighteen SPC LLCs in the amount for MNT74.1 billion.

**CONDOLIDATED STATEMENT OF FINANCIAL POSITION OF MIK HOLDING JSC,
GROUP FOR THE PERIOD ENDED 30TH JUNE 2019**

ASSET	MNT million
Cash and cash equivalence	511,644.10
Account receivable	51.14
Investment	251,061.51
Other financial assets	3,204,943.67
Other non-financial assets	7,393.72
Property and equity	33,010.46
Intangible asset	119.07
TOTAL	4,008,223.67
LIABILITIES	
Accounts payable	693.42
Tax liability	6,590.82
Interest payable	76,005.29
Unearned revenue	1.71
Other short term liabilities	108,475.59
Short term loan	-
Long term loan	49,515.25
Other long term liabilities	3,552,995.34
TOTAL LIABILITIES	3,794,277.42
EQUITY	
Ordinary shares	20,709.32
Treasury shares	(62,143.13)
Premium shares	52,225.11
Reserve capital	197,660.13
Profit for the year	5,494.82
TOTAL EQUITY	213,946.25
TOTAL EQUITY AND LIABILITIES	4,008,223.67
Interest income	165,032.19
Interest expense	(132,521.37)
NET INTEREST INCOME	32,510.82
Non-interest income/expense	(27,016.00)
Net income	5,494.82

As of June 30th 2019, the Company's total assets reached MNT4,008.2 billion, during the reporting period the Company earned MNT32.5 billion in net interest income while incurring MNT27.0 billion in total operating costs leaving an MNT5.5 billion in net profits, after taxes.

Financial ratios

Profitability ratio

Return of asset (ROA)	0.3%
Return of equity (ROE)	5.2%

Change in percent (from the beginning of the year)

Total asset change	25.8%
Mortgage portfolio change	11.2%

Asset ratio

Equity/Total asset	5.3%
Mortgage portfolio/Total asset	79.4%
Oelun bond/Total asset	19.9%

As of June 30th 2019, ROA is 0.3% and ROE is 5.2%. Compared to the beginning of the year, total assets increased by 25.8%, which is related to the issuance of “Oelun” bond on the international capital market in the first quarter. Due to the use of proceeds from Oelun bond under the Purchase with recourse (PWR) model, at the end of the second quarter, our total portfolio increased by 11.2% compared to the beginning of the year.

By the end June, total equity made up 5.3%, total mortgage portfolio made up 79.4%, and the newly issued “Oelun” bond made up 19.9% of total assets.

6. SIGNIFICANT EVENTS THAT OCCURRED DURING THE REPORTING PERIOD

MIK HFC LLC, solely owned entity of MIK Holding JSC, in support of the Mongolian housing market and to increase housing finance for mortgage loans initiated its plan to raise funds on the international capital market in 2018. On the 14th of February 2019, MIK HFC LLC successfully priced an inaugural 144A/RegS, USD300.0 million, 3-year tenor, unsecured “Oelun” (SGX:MGMTGE) bond on the international capital market at 9.75 percent through the Singapore international stock exchange.

MIK HFC LLC became the 3rd Mongolian private entity to raise a bond on the international capital market.

7. COMPANY OPERATIONS, PLANS AND PERFORMANCE

MIK Holding JSC is a publicly traded company, where its shares are listed as Tier 1 on the Mongolian Stock Exchange. It provides its subsidiaries MIK HFC LLC, MIK Real Estate LLC and Protego First LLC with management services. Protego First LLC and MIK Real Estate LLC were established in 2018 and are currently non-operation.

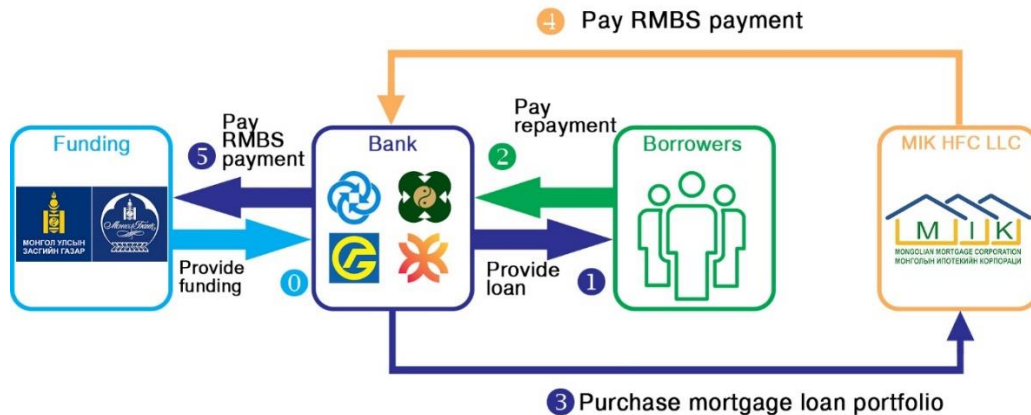
MIK HFC LLC operates under two business models: (1) Purchase without recourse (PWOR) and (2) Purchase with recourse (PWR).

7.1 PURCHASE WITHOUT RECOURSE

Within the framework of PWOR, MIK HFC LLC purchases mortgage loan portfolios from commercial banks, under the Affordable Housing Finance Program (AHFP) implemented by the Government of Mongolia and BoM, to exchange with RMBSs.

This transaction is completed under *True sale* conditions where all rights to the underlying asset such as property rights, benefits, and potential risks are transferred

Picture 1: Structure of PWOR

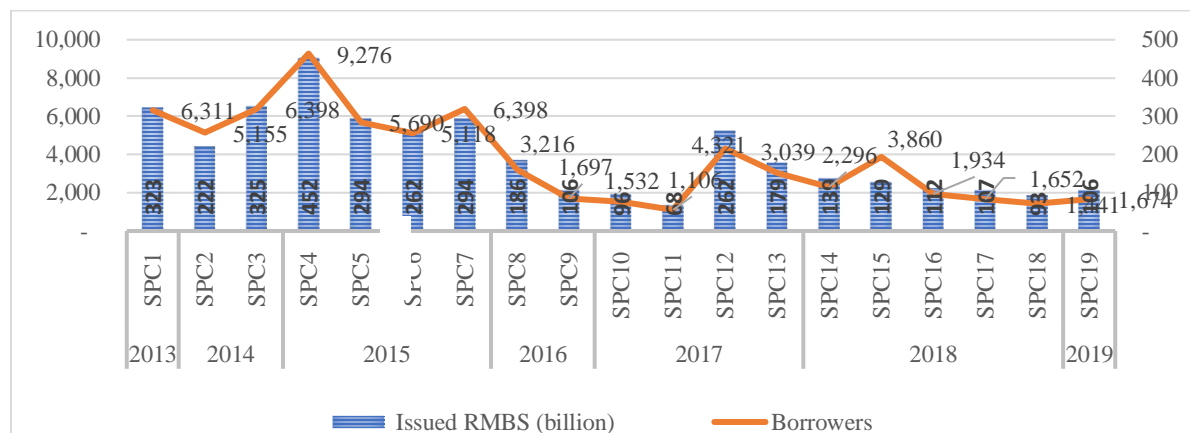


7.2 RESIDENTIAL MORTGAGE BACKED SECURITIES (RMBS)

Within the framework of the PWOR model, mortgage loans are required to meet the criteria set forth in the *Mortgage loan operation procedure*, the *Housing finance* procedure approved by the BOM and the *Affordable housing loan finance* procedure approved by the Government of Mongolia. Within the reporting period, MIK HFC LLC successfully purchased MNT106.9 billion in mortgage loans through RMBS 19 and is scheduled to be securitized on the 9th of June 2019. Furthermore, plans to execute RMBSs 20 and 21 are underway, with an estimated aggregate portfolio of MNT234 billion.

Under the AHFP, MIK HFC LLC plans to issue a total of 4 RMBSs in 2019. Currently, the Company has performed secondary analysis of 10,719 mortgages that were provided by commercial banks. 48 percent of these loans were registered in the purchase list under the Loan Risk Committee decision.

Picture 2: Total RMBS information



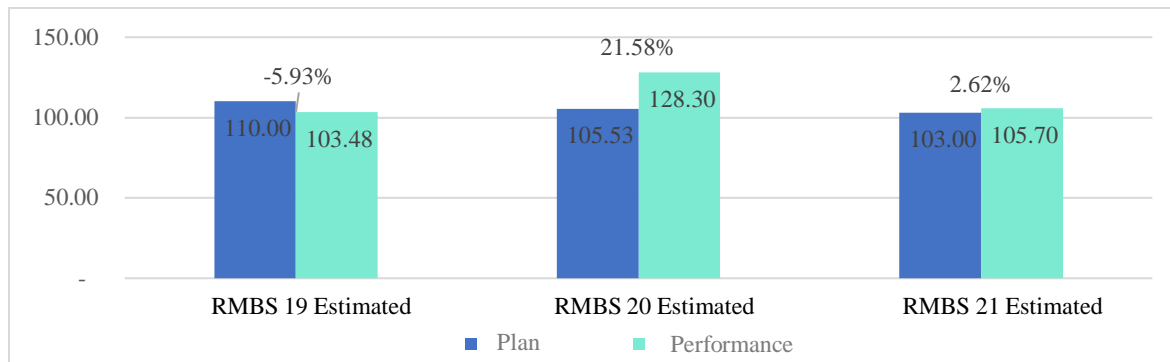
Picture 3: As of 2019H1, Mortgage loans registered in purchase list (MNT million)

	Apartment 8%	Detached house 8%	Herder segment 8%	Apartment 5%	Detached house 5%
RMBS-19	1473	2	6	210	1
Estimated	98,106.49	133.67	187.17	8,517.33	41.4
RMBS-20	1580	5	9	249	1
Estimated	117,485.11	277.66	275.06	10,249.87	13.57
RMBS-21	1381	7	1	197	2
Estimated	97,037.81	338.21	33.48	8,259.58	33.79
Percentage	92.05%			7.95%	

The secondary screening of mortgage loans for RMBS 22 began since June 22nd 2019, MNT95 billion in mortgage loans are expected to be securitized on December 10th 2019. As of 28th of June 2019, a total of MNT90.7 billion (1,657 loans) have been selected to be purchased.

In 2019, the Company plans to purchase a total of MNT427.5 billion worth of mortgage loans. In the reporting period, MNT434.3 billion in mortgage loans have been identified to be securitized through RMBSs 19, 20, 21 and 22.

Picture 4: For the first half of 2019, purchase plan for PWOR versus performance

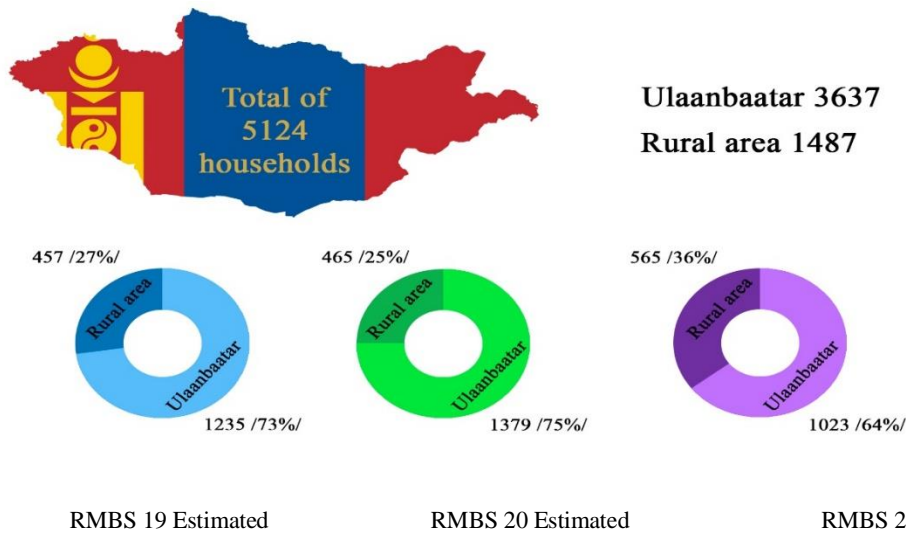


*Amounts may change during the purchase transaction.

Source MIK HFC LLC

A total of 5,124 loans were identified to be purchased in 2019, 3,637 loans were issued in Ulaanbaatar and 1,487 loans were issued to rural areas.

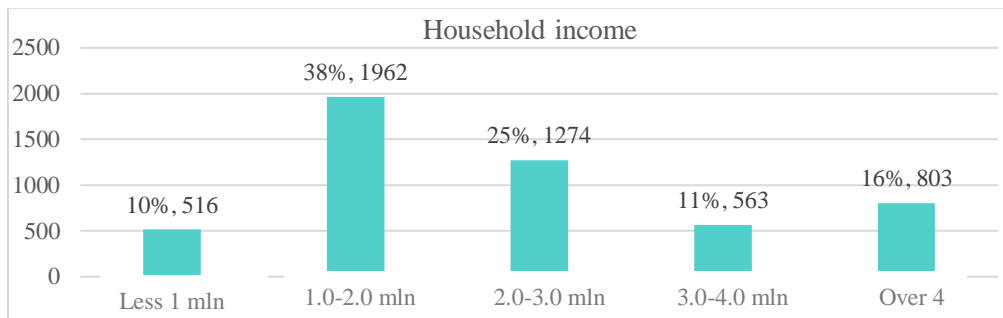
Picture 5: Geographical distribution of RMBSs 19, 20 and 21



Source MIK HFC LLC

The average monthly household income of mortgage borrowers that have been identified within the reporting period, is MNT2.7 million. The monthly household income of half of the mortgage borrowers under the AHFP is lower than MNT2.0 million.

Picture 6: RMBSs 19, 20 and 21 classification of borrowers' household income



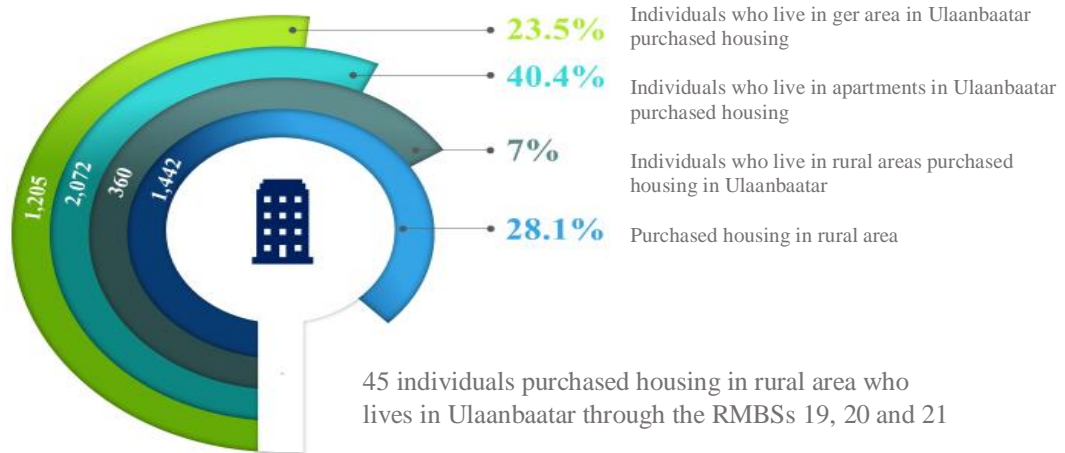
Source MIK HFC LLC

The statistics that indicates the income of borrowers, shows that most citizens with average and below-average income have utilized the AHFP implemented by the Government and BOM. This indicates that the program has reached the target segment with higher needs and demand for homes.

Beginning in 2017, MIK HFC LLC 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 retail sectors make up most of the borrowers in Ulaanbaatar, whereas in the rural areas, civil and defense sector employed mortgagors make up the bulk.

43.3% of the mortgagors' of RMBSs 19, 20, and 21 are people from the ger areas that desired to improve their living environment by moving into apartments.

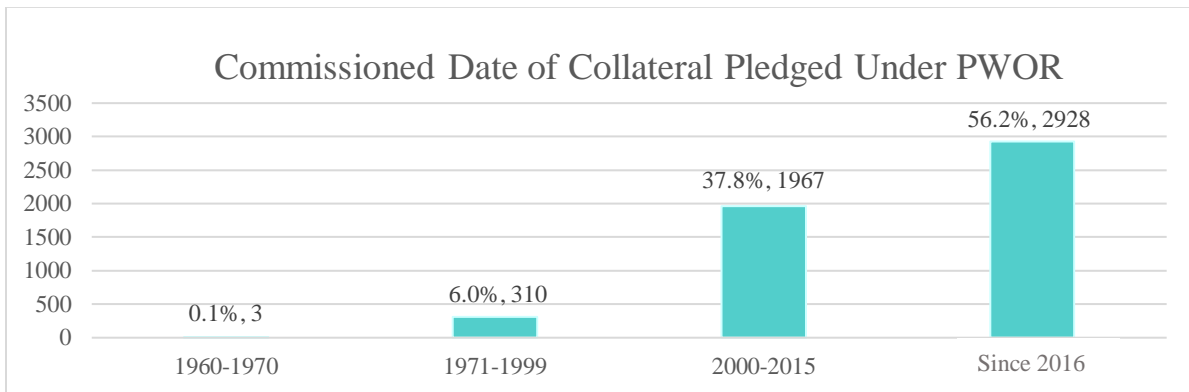
Picture 7: Borrower living condition as of 2019H1



Source MIK HFC LLC

94% of the total collateral pledged for RMBSs 19, 20 and 21 under the AHFP, constitutes apartment units that were built in 2000 or later.

Picture 8: Information of a collateral asset use of date



Source MIK HFC LLC

7.3 PURCHASE WITH RECOURSE

MIK HFC LLC purchases mortgages under PWR model from commercial banks with funding from the Development bank of German (KfW), “Oelun” bond, and MIK funds.

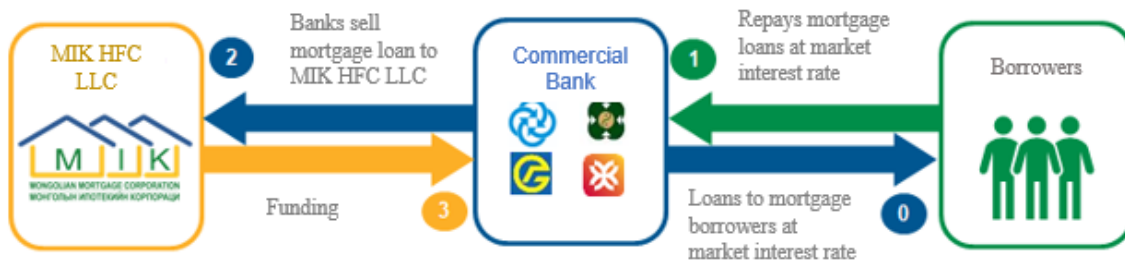
The PWR model allows for returns and exchanges of purchased mortgage loans to the underwriting bank in case of the occurrence of risk.

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.

During the reporting period, the Company has purchased MNT350.95 billion in mortgages loans over 3 PWR transactions. Out of which 2 of the PWR transactions were financed with the use of proceeds of “Oelun” bond. (1) 490 mortgage loans equaling MNT18.8 billion (2) 1854 mortgage loans equaling MNT332.1 billion. These 2 transactions make 45.2% of the net proceeds.

Additional MNT15.7 million in mortgage loans were purchased under the PWR model with KfW funding last year. Currently, KfW funded PWR mortgage outstanding balance is MNT7.99 billion. Mortgages purchased with the Company's fund outstanding balance reached MNT9.72 billion.

Picture 9: Structure of PWR





Appendix № 1. **List of Pictures**

Picture 1: Structure of PWOR

Picture 2: Total RMBS information

Picture 3: As of 2019H1, Mortgage loans registered in purchase list (MNT million)

Picture 4: For the first half of 2019, purchase plan for PWOR versus performance

Picture 5: Geographical distribution of RMBSs 19, 20 and 21

Picture 6: RMBSs 19, 20 and 21 classification of borrowers' household income

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