



Mongolian Mortgage Coporation
Group Company

2022 ANNUAL REPORT

ABBREVIATIONS

ABS	Asset-Backed Securities
AHFP	Affordable Housing Finance Program
Board	Board of Directors
BoM	Bank of Mongolia
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
DBM	Development Bank Of Mongolia
FRC	Financial Regulatory Commission
GDP	Gross Domestic Product
GoM	Government of Mongolia
HAI	Housing Affordability Index
IAD	Internal Audit Division
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IPO	Initial Public Offering
ISMMA	International Secondary Mortgage Market Association
KfW	German Credit Institute of Reconstruction
KYC	Know Your Customer
MBA	Mongolian Banking 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
MoF	Ministry of Finance
MOU	Memorandum of Understanding
NBFI	Non-banking Financial Institution
MSE	Mongolian Stock Exchange
NSO	National Statistical Office
PWOR	Purchase without recourse
PWR	Purchase with recourse
RMBS	Residential Mortgage-Backed Securities
SPC	Special Purpose Company
WHO	World Health Organization

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MESSAGE FROM THE MANAGEMENT

MESSAGE FROM THE CHAIRMAN

Dear valued shareholders and partners,

We are pleased to present our company's annual report for 2022. The pandemic has resulted in transport logistics crises, geopolitical issues, and shortages of goods, causing interruptions in production not only in Mongolia but also in the global economy. Despite the challenges posed by the Covid-19 pandemic, our company, the MIK Group, has continued to improve its corporate governance. In line with recommendations from the IFC, we are working towards bringing our governance standards to an international level, thereby attracting global investors.



In the reporting year, we issued MNT 661.3 billion in mortgage-backed securities under the Affordable Housing Finance Program. We took measures to ensure that mortgage loans were not interrupted, even for a day during the pandemic. To achieve this, we delayed the payment of MNT 10 trillion for 32 months, with no interest accrued. In addition, we mobilized all our strength and resources to ensure customers can continue receiving the support they need at challenging times.

Moving forward, we plan to expand the range of mortgages and return them to pre-Covid levels. We also intend to finance more green buildings and develop a green mortgage financing system by raising green bonds. We are committed to supporting the goals of sustainable development goals and have many activities within the framework of the corporate social responsibility efforts.

We would like to express our sincere gratitude to you for your continued support. We wish you the best of health and prosperity.

Sincerely,

CH. KHASCHULUUN
MIK Holding JSC
Acting Chairman of the Board of Directors

MESSAGE FROM THE CEO

In 2022 the government's measures to curb the spread of the Covid 19 pandemic significantly impacted the company's operations, as it did in the previous year.

To mitigate the effects of the pandemic, the Parliament extended the validity of the "Law on preventing and combating the spread of the coronavirus infection and reducing the negative impact on society and economy," which allowed borrowers to defer mortgage payments until December 31, 2022, without accruing interest. Under the Bank of Mongolia's direction, MIK collaborated with commercial banks to organize this initiative. As a result, it benefited 87% of the total loan package, or 57,032 borrowers who changed their loan repayment schedules.

The company prioritized corporate social responsibility by assisting more than 100,000 households with mortgage loans to overcome financial difficulties and eliminate debt burdens in unstable economic conditions. Additionally, the financing of these loans was repaid to investors on time, without any violations, demonstrating the company's commitment to its obligations.



The company also succeeded in paying the remaining USD 87.6 million of the USD 300 million bonds issued in the international capital market in 2019. In 2022, we actively worked to increase housing financing by purchasing 9,333 mortgage loans under the government's Affordable Housing Finance Program, resulting in a total of MNT 661.3 billion residential mortgage-backed securities issued, an increase of 80% compared to the previous year. Furthermore, a loan portfolio with a market interest rate of MNT 109.6 billion was purchased from banks and financial institutions, funded by the bonds issued in the international capital market.

The company also implemented a three-tier risk management system and obtained certification for the international ISO31000 standard for the first time. Additionally, the company received certification for the ISO27001:2013 international standard for information security management systems, maintaining the confidentiality and integrity of borrowers' data.

As a member organization, MIK participated in two prominent events in the housing finance industry, namely the "Green Housing Development and Financing" conference and the "Energy-Efficient Mortgage Initiative (EEMI) - International Sustainable Country" symposium. These events were organized by the Asian Mortgage Secondary Market Association and the International Mortgage Secondary Market Association, respectively. During these events, representatives from MIK discussed the future trends in housing financing and exchanged views with industry leaders worldwide.

In 2023, the Mongolian government drafted a budget to implement public savings, support the "New Recovery Policy," reduce import pressure, and stabilize the macro economy through optimal resource distribution. The Ministry of Finance and ADB estimate that inflation rate will be between 5.0 to 5.6

percent. However, despite the improvement of the pandemic situation, there is a risk of difficulties arising for the socio-economic situation of Mongolia to return to normal due to the neighboring country's geopolitical situation.

In 2023, the company plans to expand its activities in the secondary mortgage market and increase the availability of housing financing. We also aim to intensify our cooperation with international financial institutions and increase our involvement in the government's Affordable Housing Finance Program, which will cover up to 60% of the downpayment and offer an interest rate difference of 3% to citizens who have moved from the capital to local areas or who live in local areas for their first mortgage loan.

I express my gratitude to all employees, the Board of Directors, and related committees for their guidance, as well as our partners, including domestic and foreign companies and investors, the Bank of Mongolia, the Ministry of Finance, and the Financial Regulatory Committee, for their support and cooperation. We wish them all great success in their future endeavors.

Sincerely,

B. GANTULGA

Chief Executive Officer

MIK Holding JSC and MIK HFC LLC

CORPORATE GOVERNANCE

VISION, MISSION, AND VALUES

VISION

Establish a housing finance ecosystem to support the well-being of Mongolian households.

MISSION

Increases access to mortgages by ensuring the continuity of housing financing.

VALUES

Ethics:

We will uphold ethics in all our activities, promote responsible action, and maintain stakeholder trust.

Sustainable growth:

We will work for environmental, social, and economic stability.

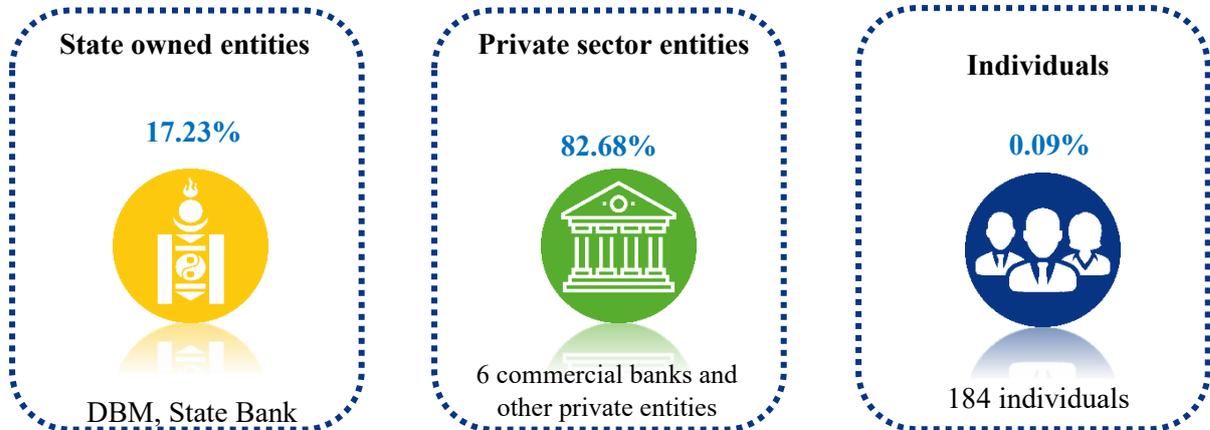
Professionalism:

We value the knowledge and experience of our employees.

SHAREHOLDER STRUCTURE

17.23 percent of the total shares of "MIK Holding" JSC are owned by state-owned entities, 82.68 percent by banks and private sector companies, and 0.09 percent by citizens, and as of December 31, 2022, there are a total of 213 shareholders.

"MIK Holding" JSC



Source: "MSCD" LLC /12.31.2022/

MEETING AND RESOLUTION OF SHAREHOLDERS

According to resolution No. 22/09 dated March 18, 2022, of the Board of Directors of "MIK Holding" JSC, the Annual Meeting of Shareholders was organized and convened electronically at 11:00 am on April 29, 2022. The board of directors discussed and approved several important issues during the meeting. Firstly, the board presented and sought approval for the conclusions made regarding the operational and financial reports for the year 2021. Secondly, the board announced its decision regarding the company's dividend. Thirdly, the board of directors were presented the performance report for the year 2021. Additionally, there was a discussion on proposed amendments to the company's charter, followed by approving the budget for salaries and expenses for board directors.

DIVIDEND DISTRIBUTION

The company has decided not to distribute dividends based on the conditions stipulated in the contract and the clause "Dividends may not be distributed for a certain period by the decision of the board of directors" under the obligations to international investors related to the issuance of bonds in the international market.

BOARD OF DIRECTORS AND COMMITTEES

<i>No</i>	Board of Directors	Name	Position
1	Acting Chairman of the Board of Directors (Independent Member)	Khashchuluun Chuluundorj	Associate Professor of the National University of Mongolia
2	Regular member	Munkhbaatar Myagmar	Consultant of “Asia Diversified Real Estate Fund One” LLC
3	Regular member	Temuujin Lkhagvasuren	Director of Asset Management Department of Development Bank of Mongolia
4	Regular member	Enkhjin Atarbaatar	Director-General, Reserve Management Financial Markets Department at Bank of Mongolia
5	Regular member	Davaajav Tovuudorj	Director of Treasury Department at Trade and Development Bank of Mongolia
6	Regular member	Sergelen Nyamdorj	TDB Securities LLC
7	Regular member	Uurtsaikhbaatar Battsengel	Chief Executive Officer of Capitrone Bank
8	Independent Member	Shijir Enkhbayar	Leader of the mining and metallurgical complex project
9	Independent Member	Ganzorig Ulziibayar	Chairman of the Board of Directors of "Mandal Insurance" JSC

Board meetings

"MIK Holding" JSC has full rights to hold shareholder and board of directors meetings for its subsidiary "MIK HFC" LLC, "Protego First" LLC. It is also mandated to hold shareholder meetings for "MIK Real Estate" LLC. Accordingly, the board of directors of "MIK HFC" LLC is exercising the powers of the shareholders meeting of the Special Purpose Companies by the company charter.

"MIK Holding" JSC held 11 meetings to discuss various issues such as approving the company's governance documents, reviewing financial statements, signing an audit service contract, convening regular shareholder meetings, approving the company's business plan, and making relevant decisions.

"MIK HFC" LLC held an ordinary meeting of shareholders and approved the opinion of the board of directors given in the company's annual operating and financial report. In addition, the board of directors of "MIK HFC" LLC held 14 meetings. It made decisions on issues such as establishing a SPC, setting conditions for securitization deals, convening regular shareholder meetings, and concluding a general agreement for housing mortgage financing.

Shareholder meetings of SPCs convened nine times. It approved the opinion of the board of directors given in the company's annual operations and financial report, elected members of the board of directors, revised and approved the company's rules, and made the decision to trade mortgage-backed securities worth MNT 661 billion as a part of the government's Affordable Housing Finance Program.

"MIK Real Estate" LLC held a meeting of shareholders to discuss and approve the board of directors in the company's annual report.

Salary of the Board of Directors

The shareholder meetings determine the remuneration for members of the board of directors. It consists of a fixed monthly basic salary and additional compensation for attending meetings, paid every quarter. The basic salary is a predetermined amount paid to each appointed board of directors member. In contrast, the additional salary is calculated based on the number of meetings each member attends.

Committees under the Board of Directors

There are (3) standing committees under the board of directors.

- Finance and Audit Committee
- Nomination and Remuneration Committee
- Risk Management Committee.

Finance and Audit Committee

According to the company law and charter, the chairman and majority of the committee consist of independent members of the board of directors.

Chairman: E.Shijir

Members: T.Davaajav, Ch.Khaschuluun, U.Ganzorig

Functions:

The finance and audit committee is responsible for helping the board to effectively and creatively carry out its management and review duties, overseeing the company's financial budget and reports, interacting with external auditors, and ensuring internal audit policies and procedures.

Committee meeting:

The committee issued a total of 16 conclusions on the following:

- Company's financial budget and plan
- Internal audit annual action plan and report
- Internal audit work program and report
- Quarterly financial performance news and reports
- Issues such as the selection of an independent audit firm

Nomination and Remuneration Committee

Committee Chairman: Ch.Khaschuluun

Members: M.Munkhbaatar, E.Shijir, U.Ganzorig

Functions:

The nomination and remuneration committee supervises policies and regulations, their changes, updates, and implementation, except for documents related to the company's governance system, finance, and internal control. In addition, the committee is responsible for the selection, determination of requirements

and nominations of members of the Board of Directors, the Executive management and the officials who report directly to the Board of Directors, the development of contract terms with them, the organization and evaluation of the activities of the Board of Directors and the Executive management.

Committee meeting:

The committee issued a total of 21 conclusions on the following:

- Changes in the structure and composition of the board of directors
- Salaries and bonuses for board members
- Executive management report, salary, and bonus
- Issues such as bonuses for employees of the board secretary

Risk Management Committee

Chairman: A.Enkhjin

Members: L.Temuujin, B.Uurtsaikhbaatar, N.Sergelen

Functions:

The risk management committee is responsible for monitoring risk policies, risk aptitude level, and monitoring and evaluating potential business operations risks.

Committee meeting:

The committee issued a total of 6 conclusions, including:

- Acceptable risk-level policy
- Risk Management Report
- Compliance action plan and report
- Issues such as operational procedures to combat money laundering and terrorism financing.

Other activities of the Board of Directors

Board training

On November 2, 2022, the Nomination and Remuneration Committee, in collaboration with the Corporate Governance Development Center, organized a training on "Effective Board Activities" and "Board Dynamics and Communication" for Board directors and executive management team. We aim to establish a regular training program for the Board of Directors.

Board discussion

On November 19, 2022, the board members discussed the current social and economic situation and the impact and challenges affecting the company's operations. The meeting aimed to map out a strategic plan for 2022-2026.

Board evaluation

Following the evaluation procedure of the board of directors, as per resolution No. 23/01 dated January 13, 2023, the board decided to evaluate its activities in 2022. The evaluation was conducted electronically from January 16-20, 2023, and covered the following categories:

- Evaluation of the overall performance of the Board of Directors
- Evaluation of individual board members
- Evaluation of the activities of the board committees
- Evaluation of committee chairs
- Evaluation of committee members

The evaluation report was discussed during the board meeting on February 6, 2023, where the results were presented. The overall rating averaged 4.4 points, indicating the performance was more than satisfactory. The report also identified areas for improvement and development, with the lowest-rated question being clarified.

BOARD OF DIRECTORS OF SPECIAL PURPOSE COMPANIES

The boards of directors for SPCs are elected annually during the shareholder meeting. Board members are selected based on their ability to meet the requirements outlined in the "Law on Asset-Backed Securities," focusing on choosing independent members who can efficiently control SPC activities. The board is responsible for fairly and equitably resolving any potential of interest, remaining independent from the owners, and providing them with recommendations and advice when necessary. Additionally, the board is expected to exercise the rights and duties regulated by relevant laws, regulations, and rules.

Currently, the board of directors for SPCs comprises of 34 members across 32 SPCs, of which 22 are independent and 12 are ordinary members.

INTERNAL AUDIT

The Internal Audit Department operates under the jurisdiction of the Finance and Audit Committee under the Board of Directors, conducting internal audit activities by the International Professional Practice Framework (IPPF). The department works independently from the Executive Management Team and other units, and its audit results are reported to the Finance and Audit Committee of the Board. The Executive Management Team is also informed of the results, and the department provides recommendations for relevant process improvements to the person responsible.

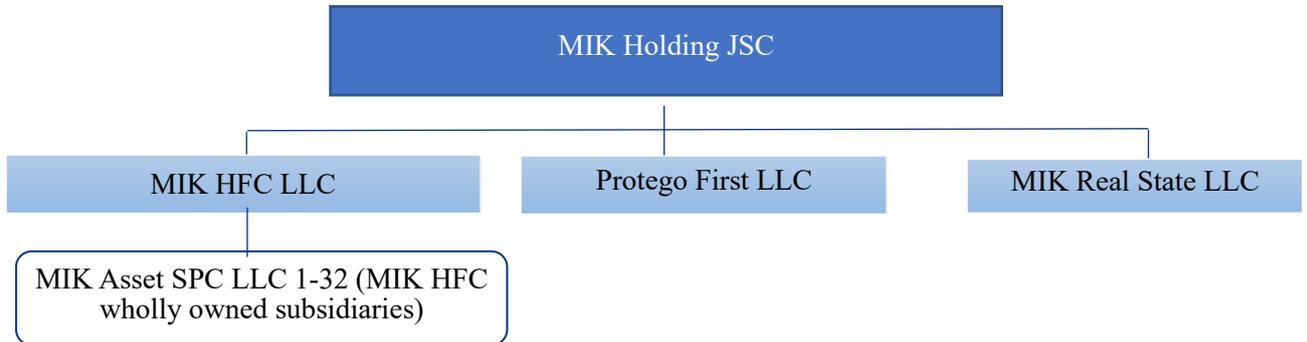
Using a risk-based approach and the audit plan approved by the board of directors, the internal audit department performs compliance and process audits of the company's operations in the reporting year. It aims to prevent and reduce potential risks while increasing the effectiveness and efficiency of internal control and operations through its audit report, which is reported to the executive management team.

Furthermore, the Internal Audit Department is a member of The Institute of Internal Auditors Global and strives to receive the latest best practices, news, and information issued by the institution at a high-quality level.

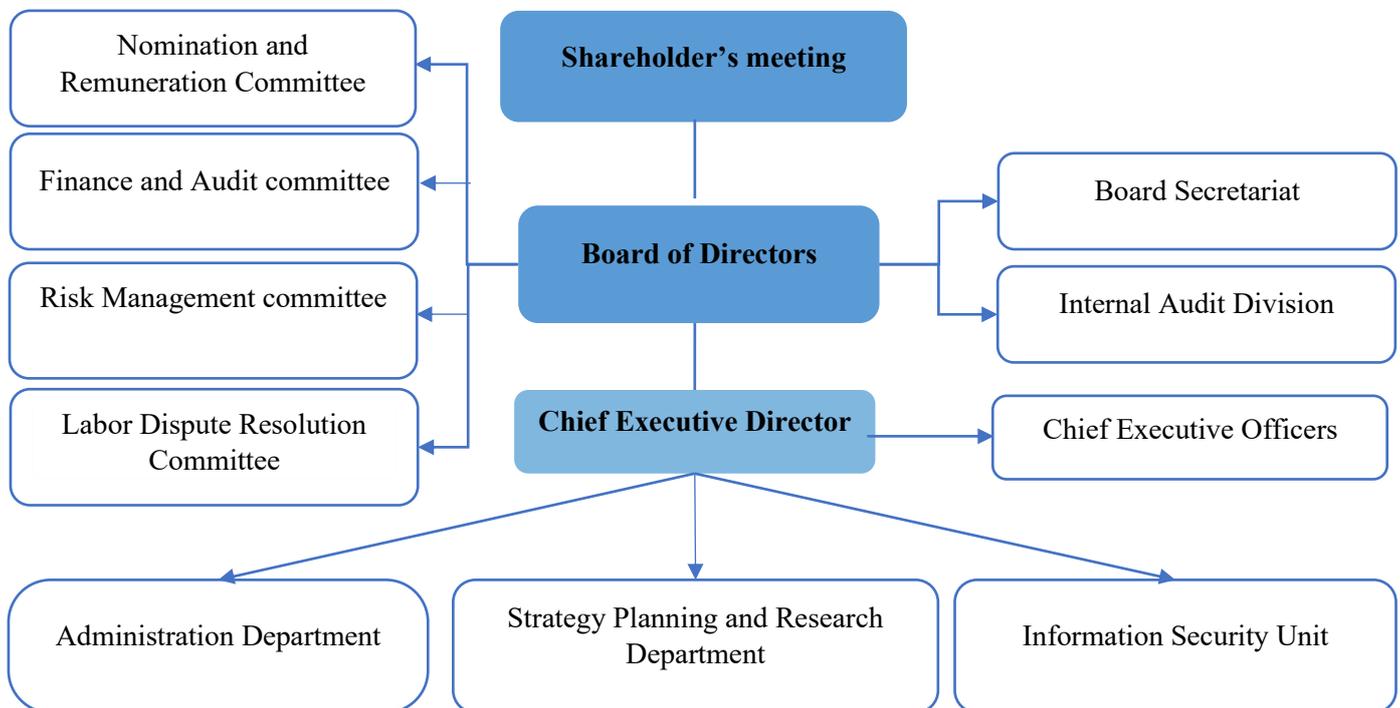
ABOUT THE COMPANY

COMPANY STRUCTURE

THE ORGANIZATION STRUCTURE OF MIK GROUP COMPANY STRUCTURE

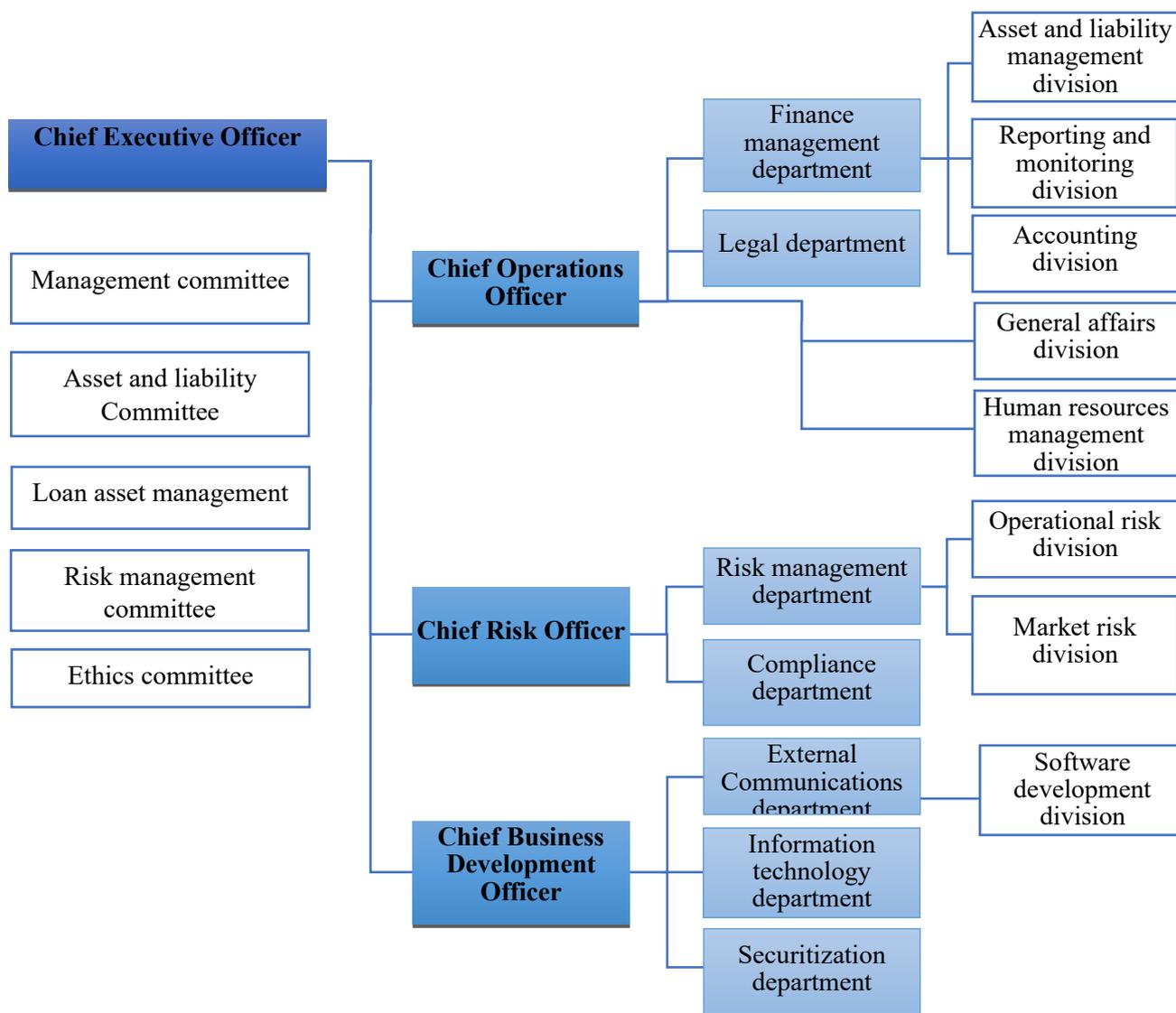


THE ORGANIZATIONAL STRUCTURE OF MIK HOLDING JSC



"MONGOLIA MORTGAGE CORPORATION HFC " LLC

Organizational structure of MIK HFC LLC



Ownership information of shareholders (Influential shareholders)

No	Names of shareholders	Number of shares	Percentage
1	Development Bank of Mongolia	3,081,955	14.88 %
2	CNB Consulting LLC	2,608,480	12.60%
3	Asia Diversified Real Estate Fund One Private PAIR	2,312,500	11.17%
4	Trade and Development Bank	2,070,932	10.00 %
5	" TDB Capital" LLC	1,232,785	5.95%
6	" TDB Securities " LLC	1,097,953	5.30 %

MANAGEMENT TEAM



Gantulga Badamkhatan

Chief Executive Officer

Mr. Gantulga has a bachelor's degree in finance and economics from the School of Economics at the National University of Mongolia (NUM) and a master's degree in finance from the Australian National University (ANU).



Batbayar Tseveenregzen

Chief Business Development Officer

Mr. Batbayar has a bachelor's degree from the School of Economics at the National University of Mongolia (NUM), and a master's degree in economics from the International University of Japan.



Sansar Ganbaatar

Chief Operations Officer

Mr. Sansar has a bachelor's degree in accounting and a master's degree in business management from the University of Finance and Economics, Mongolia.



Otgonbileg Demchigjav

Chief Risk Officer

Ms. Otgonbileg has a Bachelor's degree in economics and a master's degree in business administration from the School of Economics at the National University of Mongolia (NUM).

HISTORY OF THE COMPANY

HIGHLIGHTS	
2006	BoM and 10 commercial banks jointly established “MIK HFC” LLC to develop secondary mortgage market in Mongolia.
2007	An MoU between the Ministry of Finance, BoM and MIK was signed for the implementation of a German Bank for Reconstruction and Development (KfW) project.
2008	Became a member of IUHF /International Union for Housing Finance. The German Bank for Reconstruction and Development (KfW) and the Ministry of Finance of Mongolia have signed an agreement to provide technical assistance and cooperation to MIK.
2009	The Financial Regulatory Commission approved MIK’s request to issue its first bond.
2011	The Law on Asset-Backed Securities passed.
2012	MIK obtained a special permission to issue ABS, and the company status was changed to the Housing Finance Company (HFC).
2013	The program to create a stable housing mortgage financing system was launched. The Bank of Mongolia, “MIK HFC” LLC, and commercial banks signed a “General Agreement on Mortgage Financing,” MIK issued its first RMBS through its wholly owned subsidiary MIK Asset One SPC LLC.
2014	Joined the Asian Mortgage Secondary Market Association when it was founded.
2015	MIK Holding was established as a “MIK HFC” LLC parent company and transformed into JSC. MIK Holding has raised MNT 37.2 billion through an IPO on MSE and was listed as a Tier 1 company.
2017	MIK introduced the ISO/IEC 27001:2013 system and became the first entity in Mongolia to get the certificate. MIK Holding JSC’s market capitalization reached 216 billion MNT and became a part of the TOP 20 index of the MSE.
2018	MIK was rated on par with Mongolia’s sovereign rating by international rating agencies Fitch, Standard & Poor’s, and Moody’s. MIK hosted the 5th Asian Fixed Income Summit. “MIK HFC” LLC signed an MOU with Korea Housing Finance Corporation, Korea Land and Housing Corporation, and the National Mortgage Corporation of Malaysia.
2019	MIK issued Oelun bond on the international market US\$ 300 million 9.75% Senior Notes due in 3 years. “MIK HFC” LLC signed an MOU with Japan Housing Finance Agency, emphasizing the Green Bond.
2020	The "General Regulation of Housing Financing" was amended by the Bank of Mongolia, and the mortgage interest rate was reduced to six percent. Following the announcement of the “COVID-19” pandemic preparation, “MIK HFC” LLC facilitated the deferral for up to six months and then for eight months in cooperation with the Bank of Mongolia and the Ministry of Finance.
2021	MIK issued the Borte bond on the international market for USD \$ 250 million, 8.85% Senior Notes due in three years. The international rating agency "Moody's" upgraded the company's credit outlook to "stable." MIK Holding JSC joined the Mongolian Sustainable Finance Association as a primary member. Organized a “Housing and Finance” forum in cooperation with the Ministry of Construction and Urban Development.

HIGHLIGHTS OF 2022

In 2022, amidst the ongoing pandemic and economic challenges, our company achieved several significant milestones, including:

- **On February 1**, we successfully repaid the remaining amount of the USD 300 million bond we raised on the international market in 2019, fully complying with the payment schedule.
- **On March 30**, "MIK Holding" JSC joined the Billion Trees national movement, initiated by the President of Mongolia, and committed to planting one million trees.
- **On March 30**, Our company also participated as a panelist in the "Revival of Green Development" sub-discussion at the Mongolian Economic Forum.
- **On April 15**, our CEO B. Gantulga participated as a panelist in the discussion on "Bond market development, regulatory environment, and issues to be considered for bond issuance" at the "IPO Mongolia 2022 Forum".
- **On April 29**, we held our regular shareholders' meeting, discussing and approving the company's 2021 operational and financial report and amendments to the company's charter.
- **On June 24**, we welcomed representatives of banking and finance led by the Deputy Minister of Finance of the Kyrgyz Republic, who visited us to learn about our company's activities and exchange experiences.
- **On July 7**, the Mongolian Stock Exchange confirmed that "MIK Holding" JSC had fully fulfilled its obligations.
- **On August 4**, MIK Asset SPC 29 made its mortgage loan purchases, becoming the most significant transaction ever.
- **On September 10**, MIK participated in the "Sustainable Development Goals" open day organized by the United Nations.
- **On September 15**, we sponsored a discussion event in cooperation with the Association of Securities Traders and the FRC, celebrating the 1st anniversary of the over-the-counter market.
- **On September 21-23**, our representatives attended the Asian Conference on "Development and Financing of Green Housing" and the regular meeting of "ASMMA" member organizations held in Kuala Lumpur, Malaysia.
- **On October 3-5**, we participated in the "International Sustainable Housing Financing Symposium" organized by the International Secondary Mortgage Market Association (ISMMA) in Venice, Italy.
- **On October 6**, October 6th marked the company's 16th anniversary.
- **On November 28**, the Emergency Department of the First Central Hospital received a donation of eight pieces of the latest and most powerful "Mindray eMP12" patient monitor.
- **On November 30**, MIK handed over the restored valuable works from the Mongolian Art Gallery's repertoire, including "Camel White Clouds" (1977) by the Honored Artist M. Butemj and "Leap to Capitalism" (1961) to the National Art Gallery of Mongolia.
- **On November 30**, SPC 30 made purchases.
- **On December 16**, SPC 31 made purchases.

CREDIT RATING

MIK HFC LLC has maintained its credit rating with leading international agencies since 2018.

During the reporting year, the international rating agency S&P upgraded Mongolia's credit rating to "Stable" on June 29th, and international rating agency Moody's confirmed the Company's credit rating to "Stable".

Company's credit rating:

MIK HFC LLC's credit rating

MOODY'S

B3
Stable

S&P Global
Ratings

B-
Stable

KEY FINANCIAL RESULTS

At the end of the reporting year, MIK Holding JSC's total assets reached MNT 4.5 trillion, an increase of 7.8% or MNT 328.8 billion from the previous year.

In 2022, three new special purpose companies were established that issued RMBS worth MNT 661.3 billion, which reached MNT 3.6 trillion at the end of the reporting year, representing 80.3 percent of total liabilities. In addition, USD 87 million was paid to repay the principal of bonds issued in the international market during the reporting period.

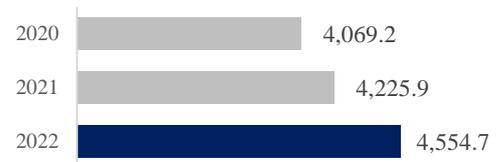
Net interest income was MNT 80.9 billion, down 8.8% from the previous year. This was mainly due to lower interest income on current deposits and interest income on loan portfolios.

To reduce the negative impact of the "COVID-19" pandemic on society and the economy, the Mongolian government made its 4th and 5th decisions to defer mortgage borrowers in 2022, and a total of 57,032 borrowers were asked to defer their payments.

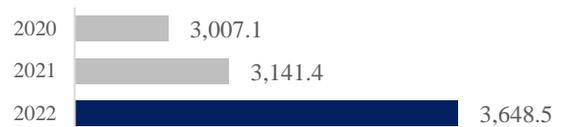
Modification loss on deferral of Mortgage loan payment of MNT 110.8 billion and modification gain on deferral of RMBS payment as per the decision of RMBS Bondholders of MNT 53.5 billion were recognized in the financial year.

In 2022, the company made a profit of MNT 6 billion and at the year's end, the equity capital amount increased to MNT 10.2 billion.

Total asset (₮ bln)



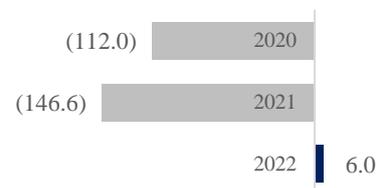
RMBS (₮ bln)



Total equity (₮ bln)



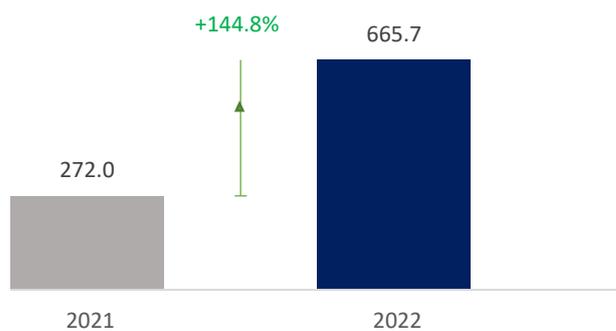
Net income (₮ bln)



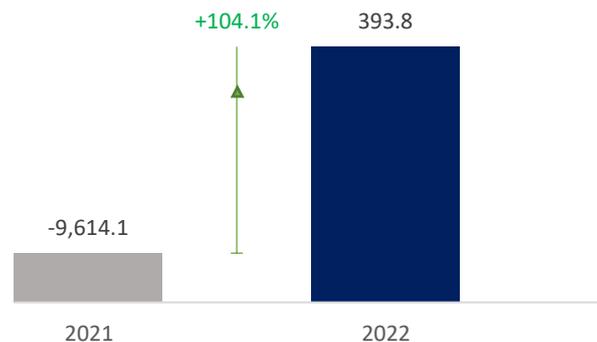
Key financial ratios

	2022	2021	Change %
Total liabilities/ total assets	99.8%	98.1%	↑ 1.7%
Total liabilities/ total equity	613.2	52.6	↑ 1066.6%
Return on total assets (ROA)	0.1%	-3.5%	↑ 3.7%
Return on equity (ROE)	84.0%	-189.3%	↑ 273.3%
Book value per share (BVPS)	665.7	272.0	↑ 144.8%
Earnings per share (EPS)	393.8	-9,614.1	↑ 104.1%

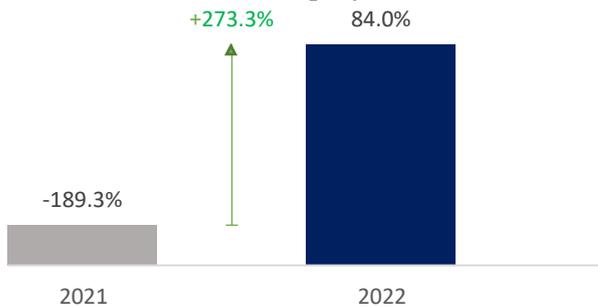
Book value per share (BVPS)



Earning per share (EPS)



Return on equity (ROE)



Return on total assets (ROA)



HUMAN RESOURCES

MIK Group's human resources policy is to develop human resources policy and strategy within the framework of the company's mission and goals, make the company an employer of choice in the banking and financial industry, and form and strengthen highly competent personnel. Furthermore, resources to compete in the industry to motivate them to work productively and develop human resources are aimed at optimal resource management organization.

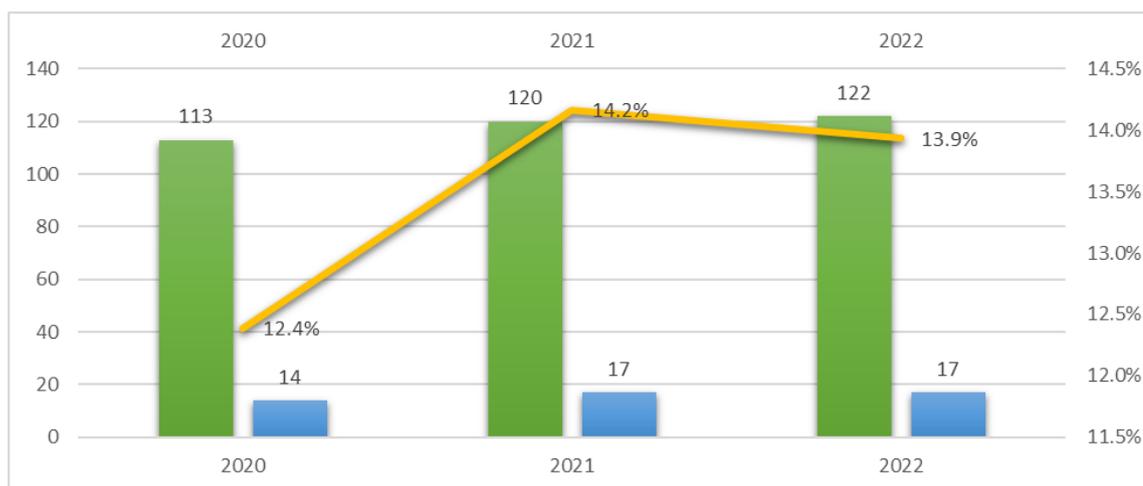
Throughout 2022, we have focused on building a team of talented and qualified employees, increasing productivity, and increasing employee satisfaction were defined. We also outlined our long-term human resource strategy, goals, and objectives related to the new strategy.

To ensure our employees continue effective career development, we have established a balanced gender ratio and objectives related to the new strategy.

Recruitment

In 2022, the MIK planned to increase the number of employees to 151 within the framework of the organization restructuring as part of its goal to increase funding for housing. Although the post-Covid-19 pandemic reduced the negative impact on the socio-economic, we had 122 staff. The average age of employees is 33.6. In the reporting year, the turnover rate was 13.9%.

Human Resources and labor turnover 2020-2022



Training and development

Based on the company's strategy and employee training and development needs, 814 employees participated in more than 62 training courses of 15 types in overseas and domestic courses and improved their knowledge and skills. In addition, training programs were developed in line with the strategy, and 44% of all employees were enrolled in those programs.

As a part of the company's long-term strategic goals, four percent of all employees received module training from an international organization.

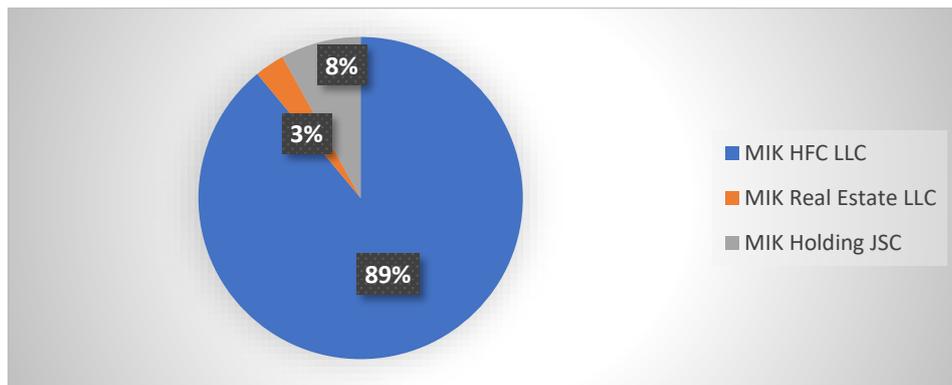
Recruitment and selection

A total of 15 vacancies were advertised in the labor market in the reporting year, followed by the selection of employees, and 19 were selected. Among them, five employees are recent graduates, and 14 employees have previous work experience in banking and financial sector.

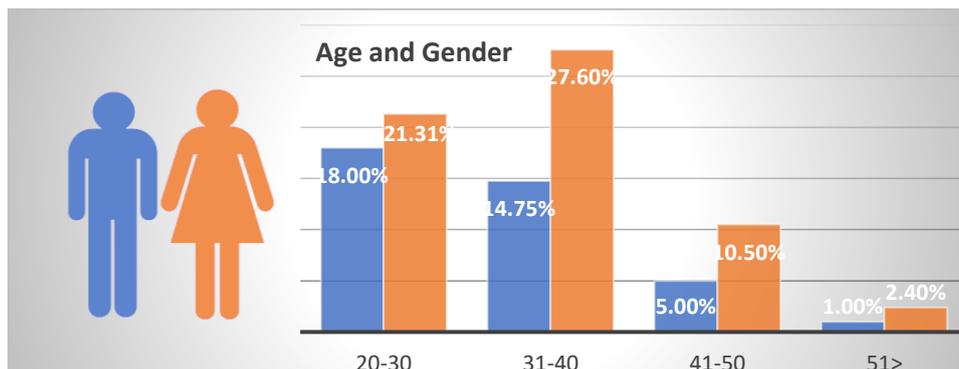
Within the company, nine employees have been promoted to positions of senior specialists, heads of departments and divisions, and successfully implemented the career development policy.

Human resources statistics

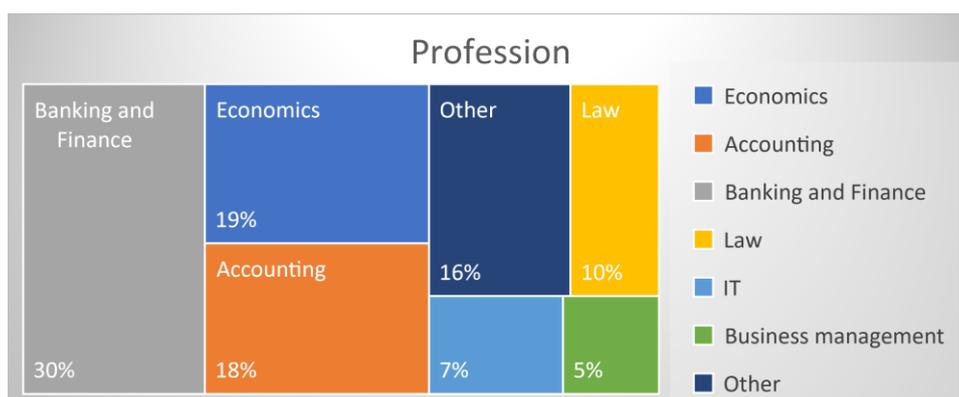
Percentage of employees



Average age of employees



Profession of employees



Company culture

Corporate culture and employee engagement positively impact the competitiveness and success of any organization. In the reporting year, MIK Group Company implemented activities to promote positive culture and enhance the team spirit. For example, in July and August of 2022, the “Start with Yourself” internal campaign was organized with a professional attitude and positive atmosphere among employees. The company started the ‘Knowledge Sharing Club’ to freely exchange information. In the reporting year, 15 sessions were organized, and guests were invited to discuss topics such as books, art, sports, statistics, and healthy eating.

To support the health and well-being of the company’s employees and strengthen the company’s culture, we successfully organized sports competition “MIK CUP 2022” throughout the year. A series of events were organized in 10 sports, in each category announced the champions and a champion team was selected based on the overall results.



CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Corporate social responsibility activities and investments

Mortgage payment deferral

To reduce credit pressure on citizens with mortgage loans and support them during the COVID-19 pandemic, the Mongolian government decided for the first time to defer loan repayment for citizens participating in the AHFP in April 2020. As a result, the commercial banks and MIK jointly implemented the mortgage payment deferral program.

The Parliament of Mongolia extended the "Law on preventing and combating the spread of coronavirus infection

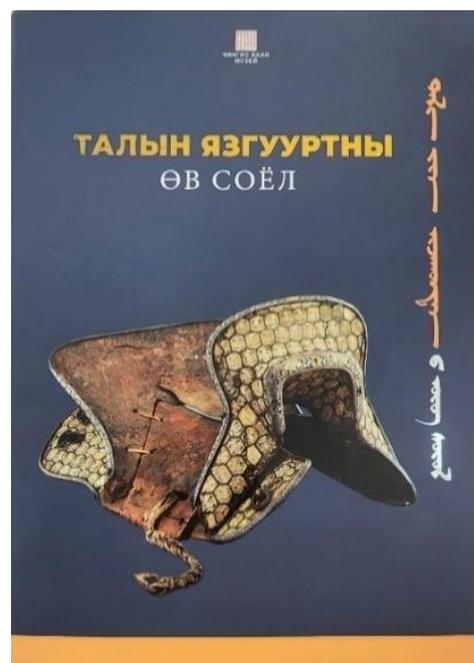
/Covid-19/ and reducing the negative impact on society and the economy" five times until December 31, 2022 without increasing accruing the principal and interest payments, and the loan agreement was extended for the same period.

According to these resolutions, the company deferred loans of 57,032 borrowers worth MNT 2.9 trillion for 32 months without accruing interest. On the other hand, timely repayment of RMBS helped more than 100,000 households with mortgage loans to overcome financial difficulties.



Contribution to the Chinggis Khan Museum

Chinggis Khan Museum launched the first series titled "Heritage and Culture of the Steppe Nobles," uniting rare and exotic relics relating to the history of kings and nobles from treasuries of individual collectors and art organizations. Chinggis Khan Museum's Legacy and Culture of the Steppe Nobles series will continue. The MIK has funded the publication costs of the first edition of the series issued as part of its social responsibility efforts.



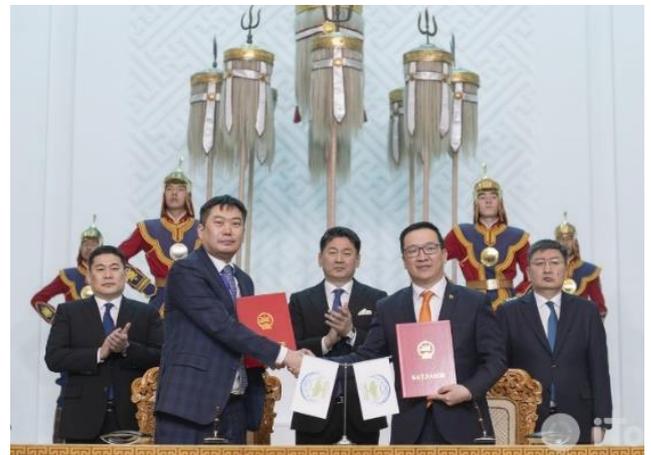
Restoration of art pieces

MIK HFC LLC, a subsidiary of MIK Holding JSC, planned to carry out corporate social responsibility activities in 2021 to celebrate its 15th anniversary. “Camel White Clouds” (1977) by the Honored Artist M. Butemj and “Skip Capitalism” (1961) by the People’s Artist, Laureate of the State Prize B. Amgalan began to be restored. The restored works of the project were handed over to the National Art Gallery of Mongolia at the end of 2022.



Billion Trees movement

MIK Holding JSC joined the national Billion Tree Movement initiated by the President of Mongolia and committed to planting one million trees by 2030. Specifically, the financial sector and professional associations support the goal of reducing climate change impacts, combating desertification and land degradation, increasing forest area and forest reserves, protecting water sources and resources, and ensuring ecological balance.



Landscaping

MIK Holding JSC supported the Capital Governor’s order and removed the fence, planted elm, and conducted landscaping work. The decision is to improve the passing capacity of streets, pavements, and roads by removing fences, walls, or any barriers that create obstacles to pavement, exit or entrance of public places, and auto roads will be removed to free public spaces.

SUSTAINABLE DEVELOPMENT

In line with our mid-term strategic plan, “MIK Holding,” JSC has identified sustainable financing as a key strategic theme, “sustainable development” as one of the company’s values, and has taken significant steps towards implementing sustainable financing principles and strategies. Over the reporting year, our focus was on identifying and assessing risks related to environmental and social issues and determining the material issues and scope of sustainable development goals that align with our materiality.

Our efforts in this regard will drive the adoption of policies and procedures geared toward managing and mitigating environmental, social, and governance-related risks while aligning our products and operations with sustainable financing policies and objectives. We remain committed to our sustainability goals and prioritize sustainable financing as a key strategic theme.

Materiality matrix

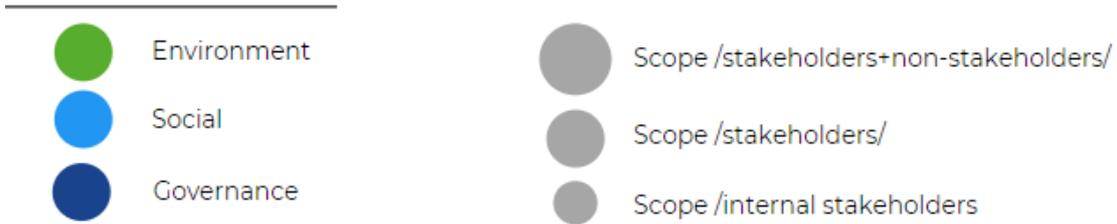
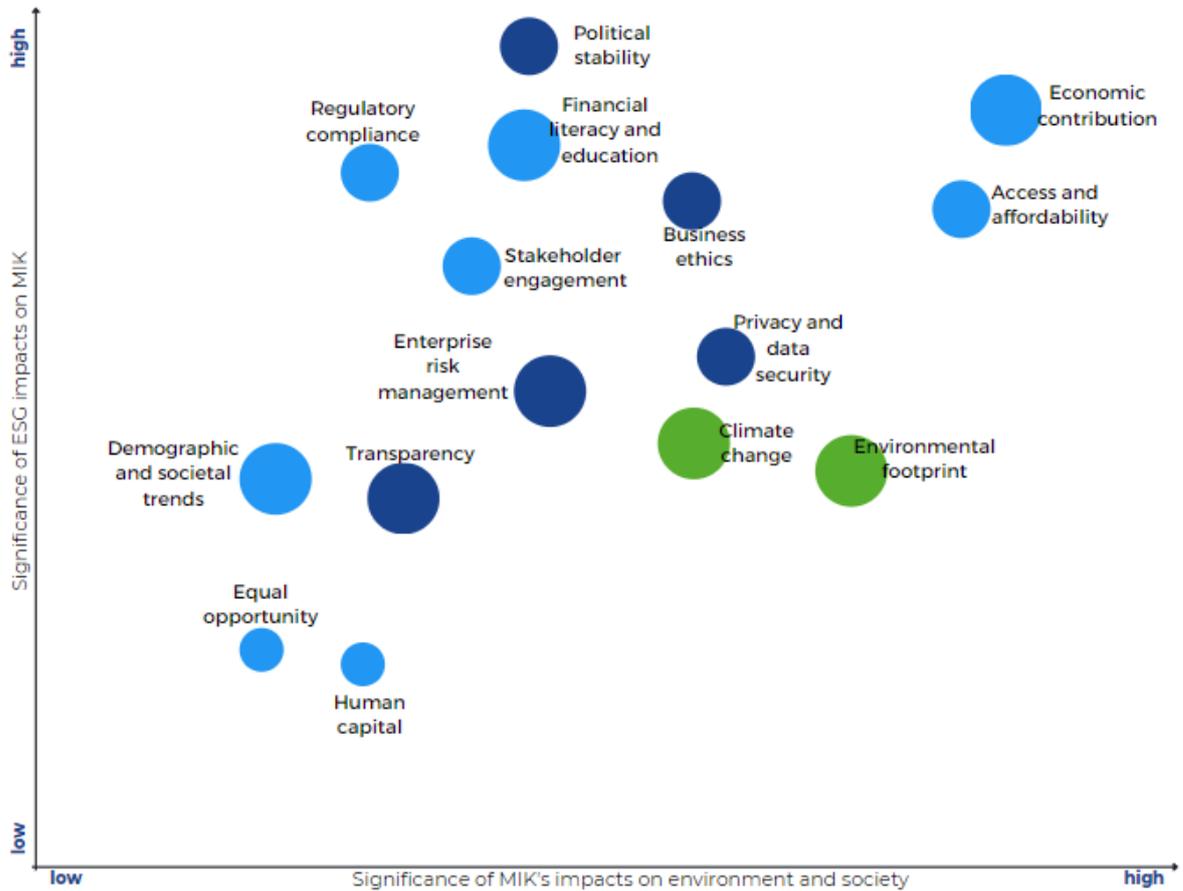
In 2022, "MIK HFC" LLC conducted its first materiality assessment to identify the most material environmental, social, and governance issues that could impact our business operations and stakeholders. These material issues impact the company's value creation and competitiveness and could affect our short, medium, or long-term prospects if not addressed effectively.

We recognize that various factors, including our business model, our responses to the risks and opportunities, our policies and strategies, and the expectations and needs of our stakeholders, influence our ability to create value. To ensure that we address the most material topics, we ensured stakeholder engagement by conducting surveys and applied the concept of double materiality, which considers both the inward and outward impacts. Moving forward, we are committed to addressing these material issues and creating value in a sustainable and responsible manner while continuing to engage with our stakeholders and adapt to evolving trends and challenges.



Double Materiality "Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information, European Commission

Materiality Matrix:



MIK's contribution to Sustainable Development Goals

Through our assessment, we identified the priority and secondary sustainable development goals (SDGs) that are most relevant to our business and stakeholders. By aligning our policies and strategies with these SDGs, we aim to promote sustainable financing, recognize and measure our impact on the planet and society, and potentially mitigate our negative footprint. We are committed to making progress towards these sustainability goals and contributing to a more sustainable future for all.

Primary SDGs



- Improves housing affordability
- Increases housing financing by creating a self-sustaining cycle of financing with mortgage repayments.



- Improves liquidity in the banking sector
- Supports economic growth through job creation related to the construction and real estate industry and additional demand for materials and services
- Leads to better economic opportunities by allowing households additional time for productive activities

Secondary SDGs



- Promotes inclusive people-public-private partnerships, through housing-focused initiatives.



- Strengthens resilience and adaptive capacity to climate-related disasters and extreme weather conditions

We were able to categorize material issues into product and operational impact categories as follows:

	ENVIRONMENTAL	SOCIAL
Product	Climate change	Access and affordability Economic contribution Demographic and societal trends
Operational	Environmental footprint	Equal opportunity Human capital development Financial literacy and education

Product Impact

Housing Finance in Mongolia and Sustainable Development

Housing is an important component of the 2030 Agenda for Sustainable Development and an essential driver for achieving many of the Sustainable Development Goals, or SDGs. Improving housing conditions leads to benefits in health, education and economic opportunities. Housing often functions as a ladder out of poverty for families, and this improvement can contribute to reducing inequality and enhancing the capacity for resilience in the face of natural disasters and economic hardships for the broader community.

Existing research and analysis of the 17 SDGs with their 169 targets and more than 200 corresponding indicators show that¹:

- Housing contributes directly or indirectly to the implementation of most of the SDGs.
- Housing is a platform for household resilience and sustainability, driving Human Development Index¹ and Multidimensional Poverty Index² outcomes in health, education and standard of living, including indicators in nutrition; child mortality; school enrollment; energy; water; sanitation; and durable, healthy construction.
- Housing as a process can create a sense of place and dignity, building community cohesion as well as one's social and financial network and assets.
- Housing is a prerequisite for inclusive, equitable, safe, resilient and sustainable cities.



As a housing finance company, MIK plays a critical role in the housing finance market by purchasing and securitizing mortgage loans issued by commercial banks. As of the 4th quarter of 2022, "MIK HFC" LLC purchased and securitized residential mortgages totaling MNT 5.3 trillion for a total of 96,810 households, which 37 percent was provided to households that moved from the ger-districts to apartments.

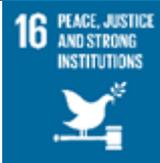
For those who previously resided in ger areas, having ensured access to adequate housing reduces their vulnerability to risks related to health, crime and environment; as well as ensures their adequate basic needs such as heating, water, sanitation, waste management facilities, and accessible location with regard to basic social facilities like work, hospital, schools and public transportation. Housing finance can have a positive systemic impact on the community and society by promoting urban development, reducing poverty and social inequality, improving public health and safety, and helping to create a more equitable and stable housing market.

Source: The assessment of the impact of the housing financing program implemented by "MIK HFC" LLC to the SDGs was based on the Housing and SDGs booklet published by UN-Habitat in 2021.

Source: UN Habitat

¹ Housing and SDGs, Habitat for Humanity

SOCIAL		
	<p>“MIK HFC” LLC purchased and securitized residential mortgages totaling 5.3 trillion MNT for a total of 96,810 households as of the 4th quarter of 2022 through the program.</p> <p>Access to housing affordability has been substantially improved:</p> <ul style="list-style-type: none"> • 75.8% of borrowers got apartments up to 60 sq.m. • 78.4% of borrowers pay their loans only with salary income. • The average monthly payment is 528,000 MNT. <p>In cooperation with the Bank of Mongolia and the Government, several measures were implemented to improve access to housing for specific target groups. Some of these measures include:</p> <ul style="list-style-type: none"> • In 2014, herders were included in the program. • In 2016, the program was directed towards low-and-middle-income households and the loan term was extended from 240 to 360 months. • In 2017, it was ensured that borrowers who received a loan through the program would not be eligible for re-enrollment. • In 2020, in response to the negative impact of Covid-19, the interest rate was reduced to 6% per annum. • In 2022, in response to rising housing prices, the maximum mortgage loan amount was increased. • In 2022, the regulations were updated to include provisions for obtaining loans from for the credit guarantee fund for mortgage prepayments. This means that individuals can now access funds from the credit guarantee fund to make prepayments on their mortgage loans. 	<p>11.1</p>
	<p>35,799 loans (37%) were provided to households which relocated from ger-areas to housing.</p>	<p>1.4 1.5</p>
	<p>53,923 loans (55.7%) were provided to male principal borrowers, while 42,887 loans (44.3%) were provided to female principal borrowers.</p>	<p>5a</p>
	<p>Helps communities overcome inequality.</p>	<p>10.2</p>
<p>Potential direct and indirect impacts to 35,799 households that previously lived in ger areas:</p>		
	<p>Adequate living conditions enable access to education and better education outcomes.</p>	<p>4.1 4.2</p>

	<p>Slum upgrading may contribute to the reduction of violence and other criminal activities.</p> <p>Tenure security and informal settlement recognition promote the participation of vulnerable groups in decision-making.</p>	<p>16.1</p>
<p>ECONOMIC</p>		
	<p>Increases liquidity in the banking sector.</p> <p>As a result of the affordable housing finance program: The loan interest rate decreased from 20% to 7.69%, the term of the loan increased from 7.5 years to 30 years, and the monthly repayment decreased from MNT 2.15 million to MNT 528 thousand. The characteristics of mortgage loans issued by the bank with its own resources have changed to a lower interest rate of 13.3 percent and a longer loan term of 14.1 years.</p> <p>Banks have successfully implemented the following risk transfer measures:</p> <ul style="list-style-type: none"> • Reduced the risk associated with differences in the duration of assets and liabilities • Decreased the risk related to housing loans faced by the bank • Increased credit resources, providing banks with greater liquidity and capacity to originate more loans. <p>Increased maturity of long-term debts in financial market:</p> <p>Before affordable housing finance program:</p> <ul style="list-style-type: none"> • W.A. interest rate 20% • Maturity up to 7.5 years • Average monthly payment 2.15 million ₮ <p>By 2022:</p> <ul style="list-style-type: none"> • Interest rate 6% • Maturity up to 30 years • Average monthly payment 528 thousand ₮ <p>The construction and real estate industry experienced significant growth and turnover:</p> <p>Construction and major repair work:</p> <ul style="list-style-type: none"> • Pre affordable housing finance program: MNT 452 billion • 2022/04: MNT 6.3 trillion <p>Residential buildings:</p> <ul style="list-style-type: none"> • Pre affordable housing finance program: MNT 181 billion • 2022/04: MNT 2.4 trillion <p>Number of residential buildings and apartments in use</p> <ul style="list-style-type: none"> • Between 2003 and 2013, an average of 6,000 housing units were constructed per year. • Since 2013, housing construction has significantly increased, with an average of 18,700 units built each year from 2013 to 2022. <p>Construction sector GDP:</p>	<p>8.1</p> <p>8.10</p>

	<ul style="list-style-type: none"> • Prior the affordable housing finance program: MNT 979 billion • 2022/04: MNT 1.9 trillion <p>Real estate sector GDP:</p> <ul style="list-style-type: none"> • Prior the affordable housing finance program: MNT 1.2 trillion • 2022/04: MNT 2.3 trillion 	
	<p>Promotes inclusive people-public-private partnerships.</p> <p>Deferring mortgage payments during the pandemic has positively affected reducing the economic stress on households and ensuring financial stability. At five times of loan deferrals, MNT 9.6 trillion loan payments for 183,660 accounts were deferred, and the repayment schedule was revised.</p>	17.17
ENVIRONMENTAL		
Potential direct impacts to 35,799 households that previously lived in ger areas:		
	Reduced vulnerability to respiratory infections and diseases related to water and sanitation, poor ventilation, overcrowding, air, and soil pollution.	3.9
	Ensured access to clean water and sanitation.	6.1 6.2
	Ensured access to clean and safe energy.	7.1
	Strengthened resilience and adaptive capacity to climate-related disasters and extreme weather conditions.	13.1

BUSINESS ENVIRONMENT

ECONOMIC INDICATOR

Mongolia's economy grew by 4.8 percent in 2022. Economics is higher than expected due to the easing of China's "Zero Covid" policy measures and higher activity in sectors other than energy and trade. According to IMF, Mongolia's economy would recover and grow by 5.0 percent in 2023.

In 2022, state budget resulted in an income of MNT 18.6 trillion and total budget expenditures were MNT 18.2 trillion in 2022; the MoF estimates that the budget revenues are planned at MNT 19.0 trillion and the total expenditures are projected at MNT 20.5 trillion.

At the end of 2022, the inflation rate was 13.2 percent, down by 0.6 % from 2021. The Bank of Mongolia aims to stabilize the inflation rate by around six percent between +/- 2 percentage points from 2022 to 2024.

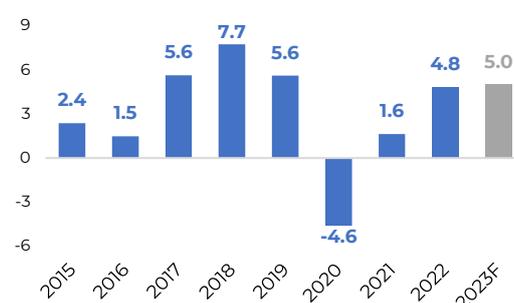
In 2022, the Bank of Mongolia gradually raised the policy rate to 13 percent in the medium term as a part of policies such as stabilizing inflation expectations and increasing the yield of the national currency.

Due to the increase of the policy rate, as of December 2022, the weighted average interest rate on loans by banks is 15,7 percent, and the weighted average interest rate on deposits is 10,9 percent, an increase of 1,4 percentage points, and 5,2 percentage points respectively, then than those of the previous year.

During the reporting year, "Standard and Poor's Global Rating" and "Fitch Ratings" international rating agencies reaffirmed that Mongolia's long-term credit rating remained "B stable."

The government debt GDP ratio in 2022 was 59,7 percent and is expected to increase to 60,1 percent in 2023.

Real GDP Growth /percent/



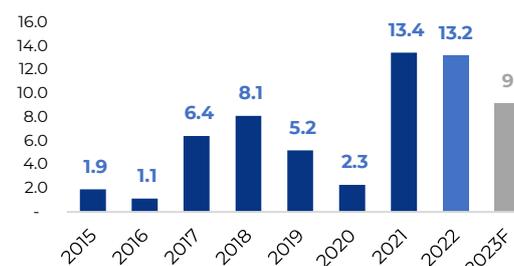
Source: IMF, NSO

Government budget performance /MNT Trillions/



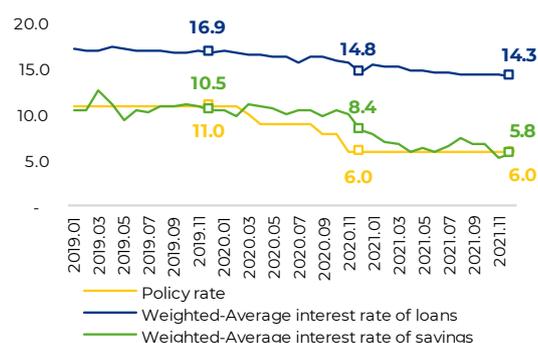
Source: NSO

Inflation rate /percent/



Source: BoM, IMF

Interest rate /percent/



Source: BoM

FINANCIAL MARKET INDICATORS

Money market

At the end of the year, the total loan outstanding in the banking sector was MNT 22,5 trillion MNT, of which 28,8 percent were mortgage loans. As of December 2022, the banking sector's total assets reached MNT 46 trillion, while MIK HFC LLC total assets reached MNT 4,6 trillion, equal to 9,9 percent of the banking sector.

Despite the trend of increasing dollarization of deposits in the banking system, the dollarization of deposits stabilized in the last months of 2022, excluding the exchange rate impact. Total loans had been increasing continuously since the 1st quarter of 2021 and slowed from the 2nd quarter of 2022.

As of December 2022, 85.7 percent of the credit balances were conventional loans, 5.1 percent were delinquent loans, and 9.2 percent were non-performing loans. The share of non-performing loans decreased by 0.86 percentage points from the previous year. Overdue loans increased by 0.59 percentage points.

Capital market

In 2022, Mongolian stock market capitalization declined in the TOP-20 index, and market value continued downward. In particular, the TOP-20 index, which overgrew in 2021, has declined continuously since the beginning of 2022, reaching an average of 36,176.8 units in December 2022, down 13.2 percent from the beginning of the year.

Market capitalization in December reached MNT 6.9 trillion, associated with a major IPO or initial public offering at the end of the year; State Bank JSC, Mon Beef JSC, Golomt Bank JSC, Sendly JSC, Mongolian Stock Exchange JSC raised MNT 169.1 billion from IPO on the MSE. In 2022, MNT 134.1 billion bonds of companies, MNT 343.4 billion shares, and MNT 98.9 billion ABS were issued, respectively.

Statement of Financial Position of banks/MNT Billion/

Indicators	2021-12	2022-12
Total Assets	41,011.7	46,003.0
Bank Reserves	4,467.0	8,325.9
Central bank notes and government bills	10,356.5	7,318.9
Foreign Assets	2,844.2	3,429.2
Loans	21,222.0	22,505.9
Total Liabilities	37,586.3	41,549.5
Current account	7,311.3	10,928.4
Saving account	18,373.9	16,671.0
Foreign liabilities	3,929.5	5,041.1
Government deposits	1,466.9	1,531.1
Equity	3,425.5	4,453.5

Credit quality of banks



Source: BoM

MSE market cap /MNT Trillion/



Source: MSE

Capital market indicators.

Indicators	2021-12	2022-12
Listed Companies	179.0	183.0
Trading Companies (average)	97.1	106.2
Total Transactions (MNT, billion)	1,414.2	580.5
Government bond	0.0	0.0
Corporate bond	1,048.2	134.1
Stock	304.9	343.4
ABS	4.2	98.9

Source: MSE

MORTGAGE MARKET ENVIRONMENT

At the end of the reporting year, the total balance of mortgage loans reached MNT 6.5 trillion, and the number of borrowers reached 108.6 thousand. MNT 4.7 trillion or 73 percent, are loans provided under the Affordable Housing Finance Program (AHFP), while MNT 1.8 trillion or 27.0 percent, are non-program loans. As of December 2022, "MIK HFC" LLC bought 52.9 percent of mortgage loans without a recourse agreement.

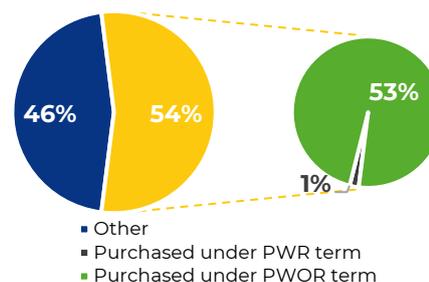
As of the end of 2022, MNT 1.3 trillion loans from AHFP and MNT 1.7 trillion loans are funded by commercial banks. In 2020, the mortgage loan interest rate decreased to 6 percent. The amount of financing increased in 2021 within the "10 billion programs to restore the economy and protect health", leading to an increase in mortgage loan issuance. However, this trend decreased in subsequent years.

In 2022, MNT 1.4 trillion in new mortgage loans were issued, comprising of MNT 712.5 billion loans from AHFP and MNT 683.4 billion loans from banks and other sources. This figure shows a decrease of MNT 117.9 billion compared to the amount issued in 2021.

By the end of 2022, the age classification of mortgage loan recipients indicate that borrowers aged between 25 to 35-occupy the largest bracket, with 48,600 individuals in this category. In 2021, 45.5% of Mongolia's population comprised of 0-25-year-olds, with 15.1% of them aged 20-24, which means that 234,000 people in this age group may be potential mortgagors in the near future.

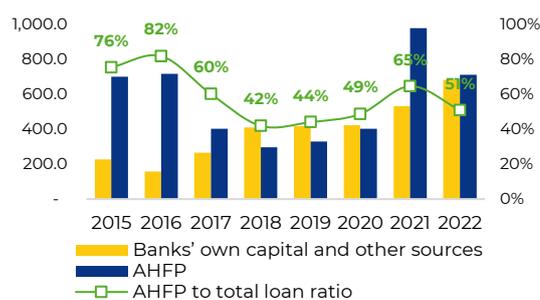
As of December 2022, housing price index growth slowed and reached 1.263, a 1.7% decrease from last year. The housing price index reached 1.416, its maximum point in October 2021 and since then has gradually declined and stabilized. The decline in prices is due to the tightening of financial conditions of the population, the continued reduction in mortgage financing compared to last year, and the decline in real incomes of the population.

Outstanding mortgage loans



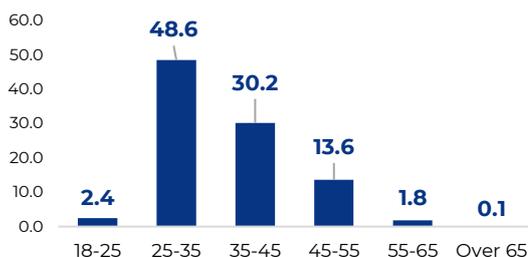
Source: BoM

Mortgage loan issuance /MNT billion/



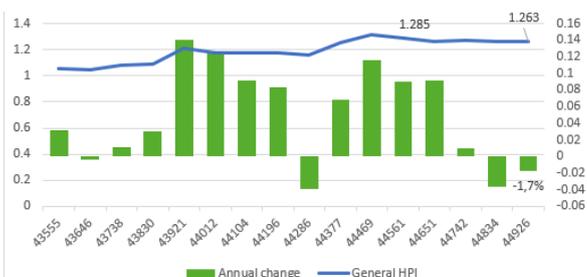
Source: BoM

Age structure of mortgagors /thousand/



Source: BoM

Housing Price Index



Source: Tenkhleg Zuuch LLC

LEGAL ENVIRONMENT

“MIK Holding” JSC and its subsidiaries “MIK HFC” LLC, “Protego First” LLC, and “MIK Real Estate” LLC are operating under the Company Law.

MIK HFC LLC and its subsidiary SPCs are issuing asset-backed securities according to the Law on Asset-backed Securities and other relevant legislation to develop the secondary mortgage market and support the Government’s Affordable Housing Finance Program.

The RMBSs issued by the SPCs of MIK HFC LLC are held by the Bank of Mongolia, the Ministry of Finance, and commercial banks. The FRC supervised and participated in issuing the RMBSs as a regulatory body. The Bank of Mongolia, the Ministry of Finance, commercial banks, and the Board of the SPCs monitored and participated as an investor.

The following are the primary laws and regulations with which MIK HFC complies:

Legislation	Procedure
<ul style="list-style-type: none">• <i>The Constitution</i>• <i>Civil law</i>• <i>Law on the Securities Market</i>• <i>Law on the Asset-backed securities</i>• <i>Company law</i>• <i>Tax Law</i>• <i>Corporate Income Tax Law</i>	<ul style="list-style-type: none">• <i>Procedure for mortgage financing</i>• <i>Regulation on mortgage loan procedure</i>• <i>Regulation on issuing, registering, and licensing of asset-backed securities</i>

PERFORMANCE

BUSINESS PERFORMANCE

Types of Acquisition of mortgage loans portfolio

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

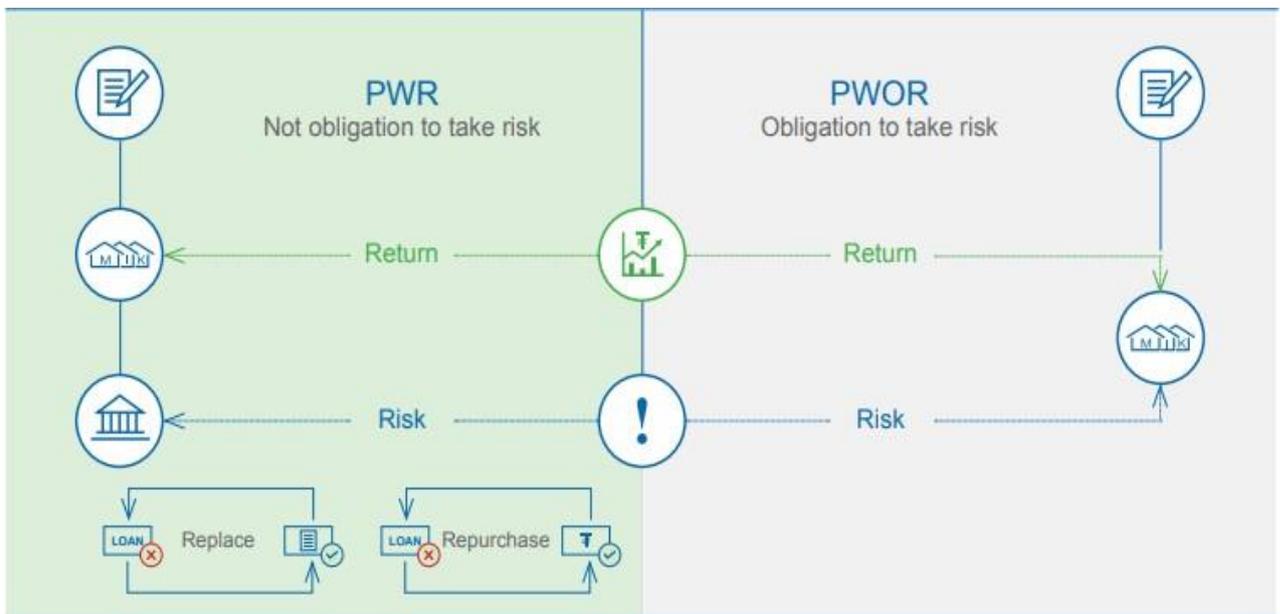
1. Purchase without recourse (PWOR)

The transaction allows the transfer of both mortgage returns and potential risks. This transaction is only used for trading and securitizing subsidized interest-rate mortgage loans under the AHFP implemented by the Government of Mongolia and BoM.

2. Purchase with recourse (PWR)

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

Types of purchase

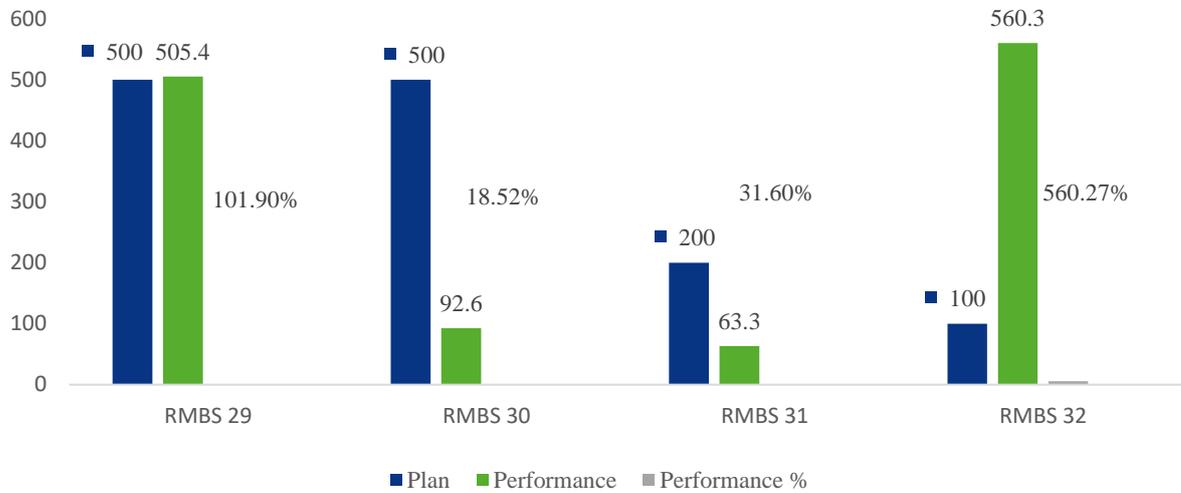


Source: "MIK HFC" LLC

Purchase without recourse (PWOR)

In 2022, MIK HFC LLC successfully purchased and securitized MNT 661.3 billion in mortgage loans under the PWOR model. This indicates a 180.2% increase compared to the portfolio securitized the previous year.

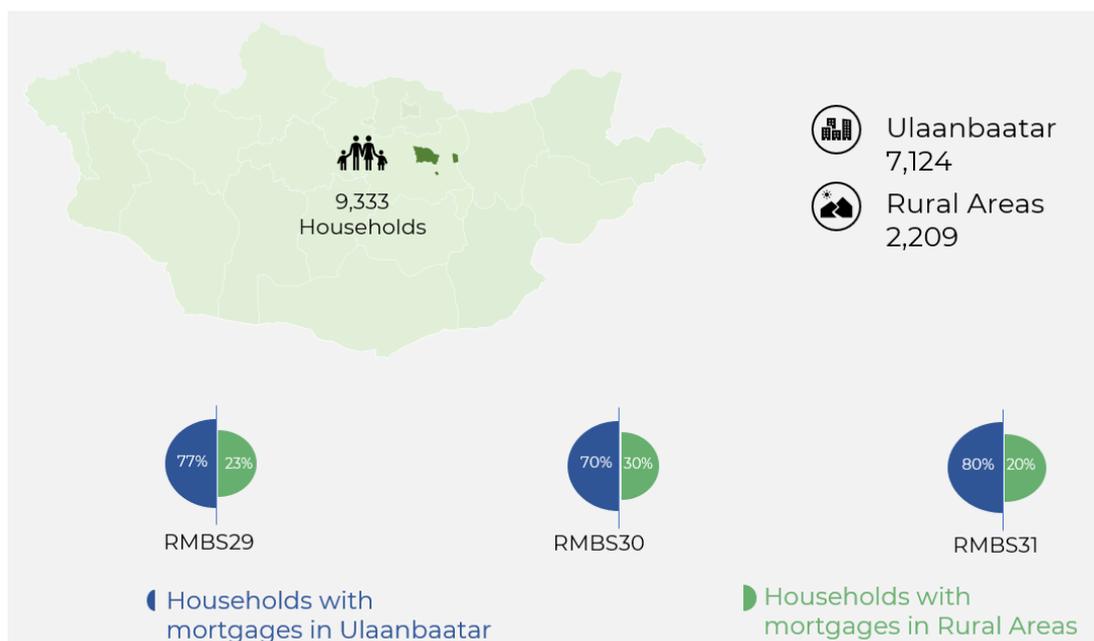
The following graph compares the PWOR purchase plan and purchase performance for 2022.



Source: "MIK HFC" LLC

During the reporting period, 9,333 mortgage loans have been purchased and securitized under RMBS 29 to RMBS 31. Among the total mortgage loans securitized, 7,124 loans originated in Ulaanbaatar city, and 2,209 were disbursed in rural areas.

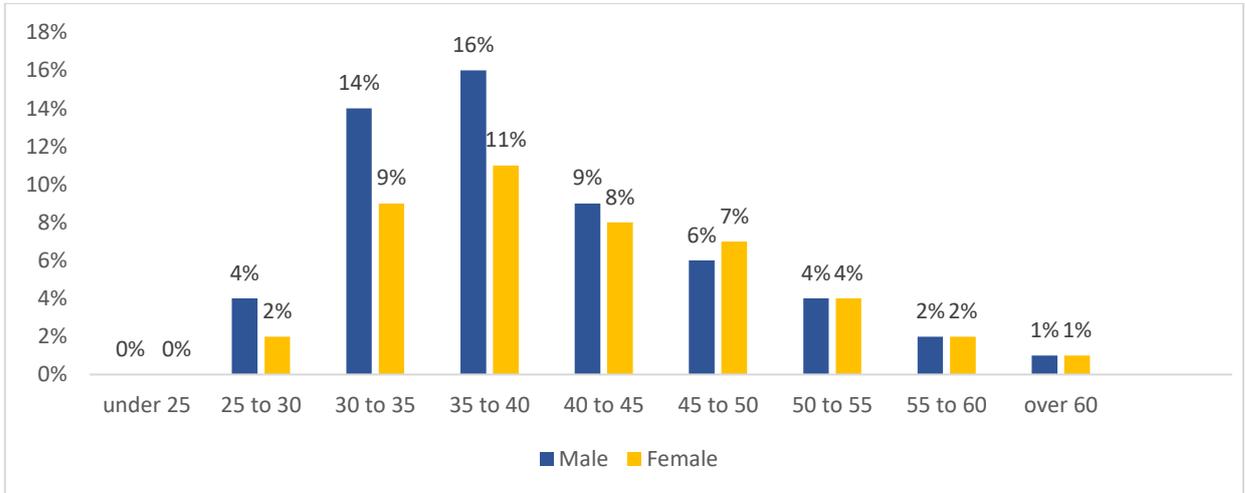
Geographical Distribution of Mortgage Loans Purchased in 2022



Source: "MIK HFC" LLC

Looking at the age and gender structure of borrowers under the AHFP purchased loan portfolio, borrowers aged 30 to 40 accounted for 51 percent of all residential mortgage borrowers with subsidized interest rates in the RMBS 1-31 portfolio.

Age and gender of the borrowers in portfolio



Source: "MIK HFC" LLC

At the end of the year under AHFP, 44.84 percent of citizens who received mortgage loans with a subsidized interest rate were citizens with household incomes of MNT 1.0 to 2.0 million.

Classification of borrowers household income under RMBS 1 to 31

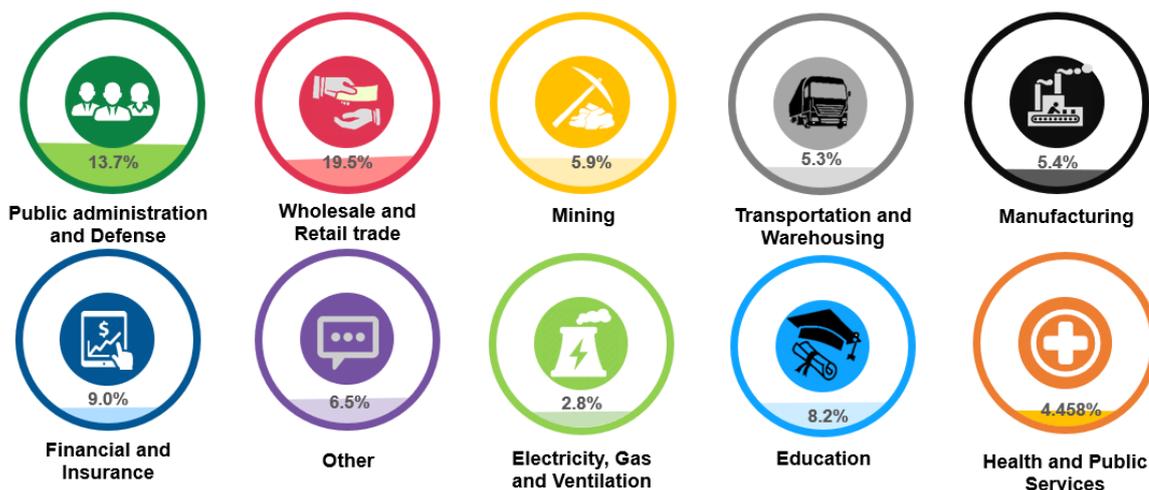


Source: "MIK HFC" LLC

Analysis of age and household income of mortgage borrowers indicate that under the AHFP, individuals with middle and lower-middle-class fixed income, namely young households with housing needs, have primarily benefited.

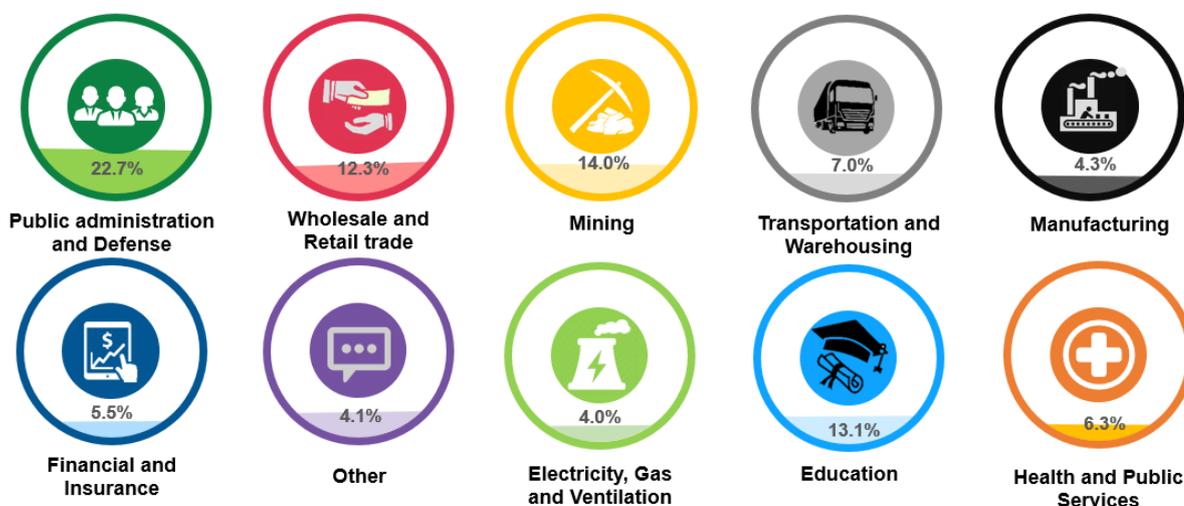
By using MIK HFC LLC's internally developed Borrowers Employment and Income Analysis software, the Company was able to identify that individuals working in wholesale and retail sectors make up most of the borrowers in Ulaanbaatar city. In contrast, most of the mortgagors in rural areas are employed in the public administration and defense sectors.

Borrowers in Ulaanbaatar by employment sector



Source: "MIK HFC" LLC

Borrowers in rural areas by employment sector

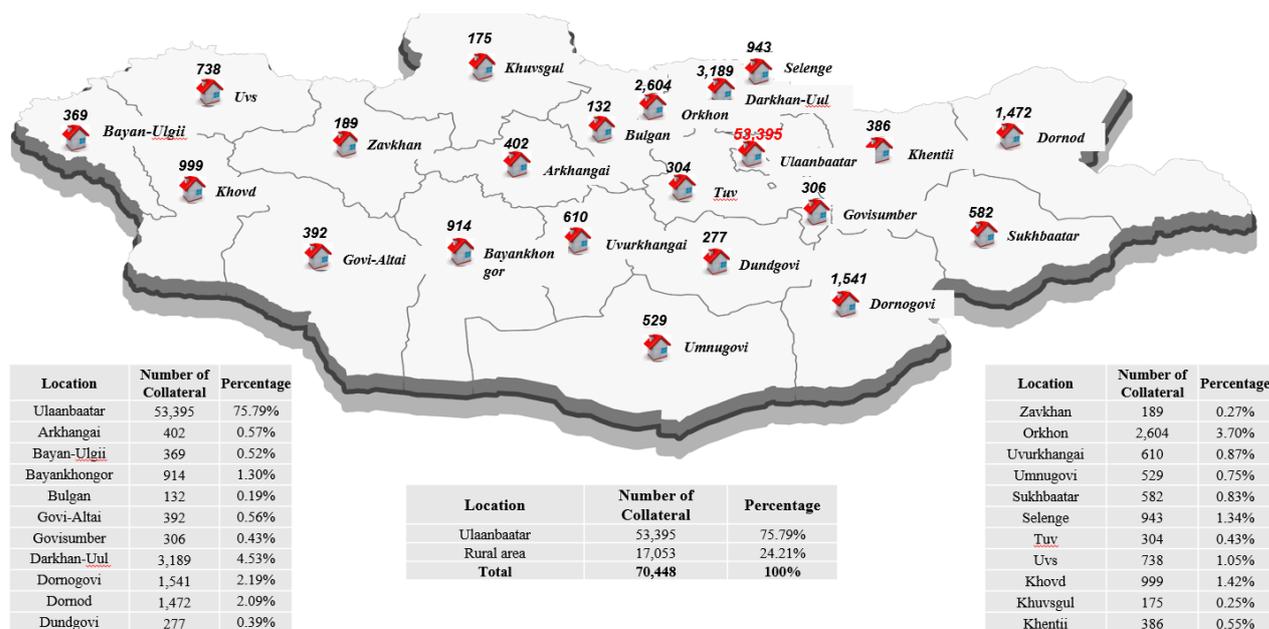


Source: "MIK HFC" LLC

As of December 31st, 2022, SPCs had recorded 76,283 collateral assets belonging to 67,103 borrowers consisting of both primary and additional collaterals. Borrowers can pledge real estate properties as collateral to reduce their down payments, meaning that a single mortgage loan can be secured by more than one asset.

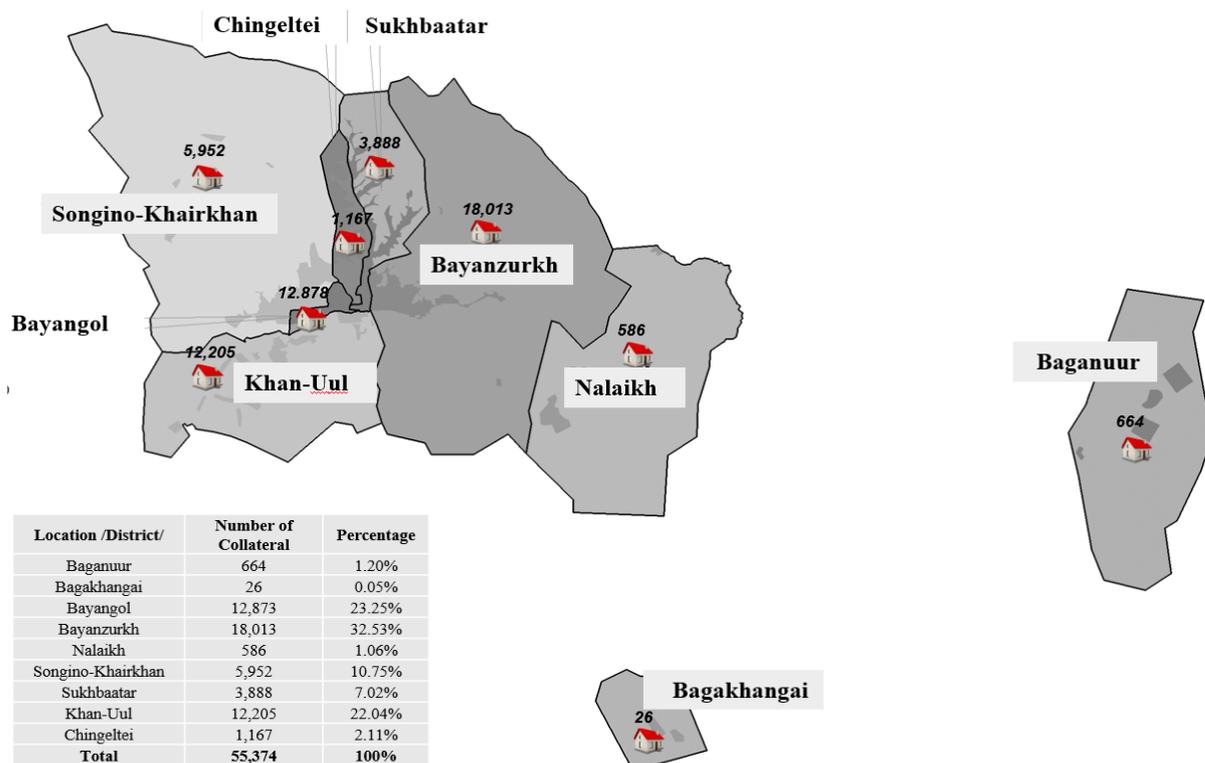
The geographical spread of collateral properties under RMBS 1-31

NUMBER OF COLLATERAL PROPERTIES



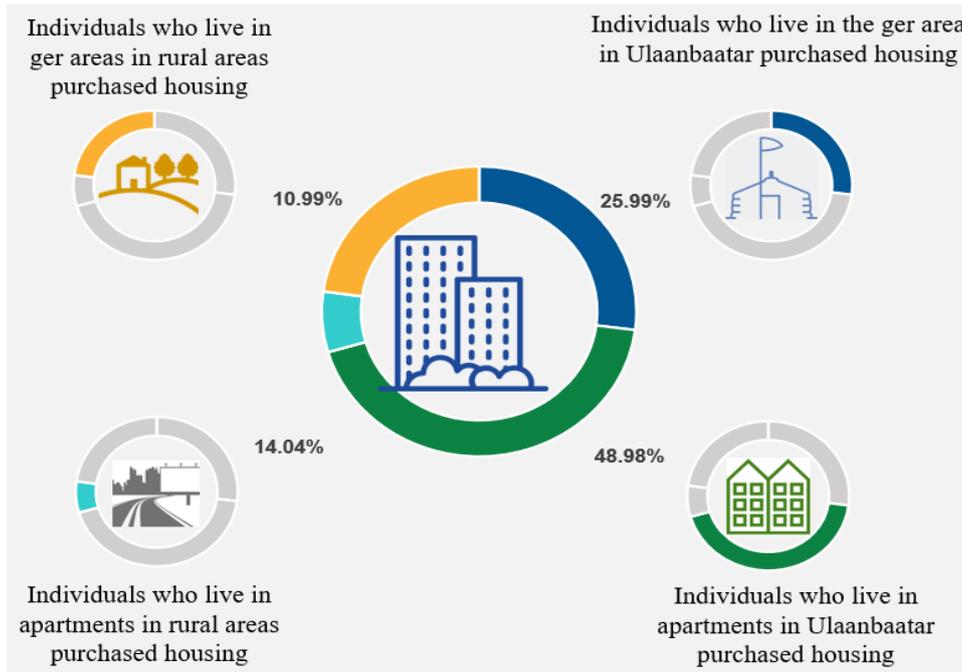
Approximately 75.90% of the total collateral is in Ulaanbaatar city, with collateral in the Bayangol and Bayanzurkh districts making up 56.19% of the total collateral by location. The following table shows the location of collateral properties in Ulaanbaatar by the district.

Geographical distribution of collateral assets located in Ulaanbaatar (by districts RMBS 1-31)



Source: "MIK HFC" LLC

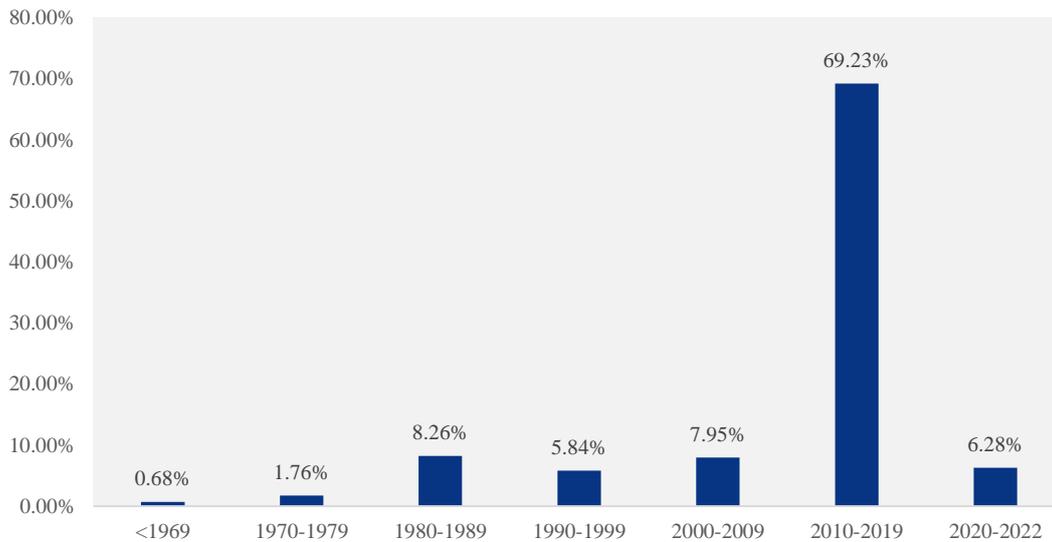
Impact on borrowers living condition (as of December 31st, 2023)



Source: "MIK HFC" LLC

As of December 31st, 2022, 69.23% of the total collateral comprises of apartment units built between 2010 and 2019.

Information on the year in which the collateral commissioned



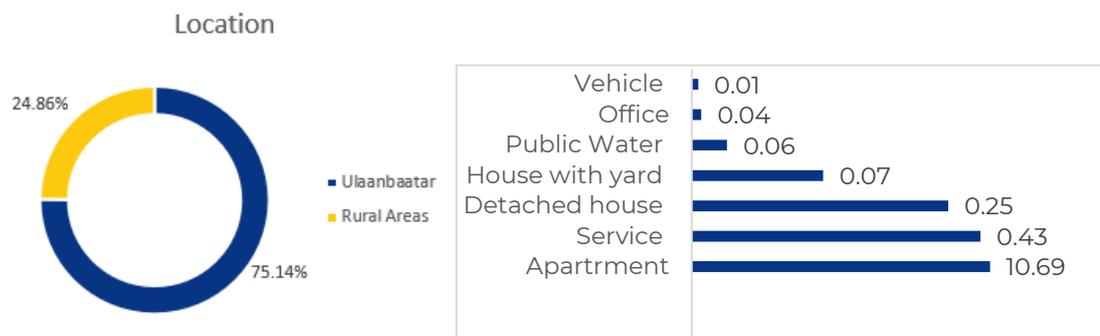
Source: "MIK HFC" LLC

PWOR portfolio of ‘MIK HFC LLC’ resource

Due to the forced liquidation of Capital Bank by the Order A-96 of the Governor of the Bank of Mongolia on April 8th, 2019, MIK HFC has registered 4 PWR portfolios on its balance sheet, which had been previously purchased by MIK HFCs Internal fund and KfW fund.

In addition, “MIK HFC” LLC has registered a loan portfolio of MNT 11.5 billion to its balance sheet as a part of receivables settlement activities from Chinggis Khaan Bank.

As of December 31st, 2021, there are 190 loans with a balance of MNT 12.94 billion registered in these portfolios.



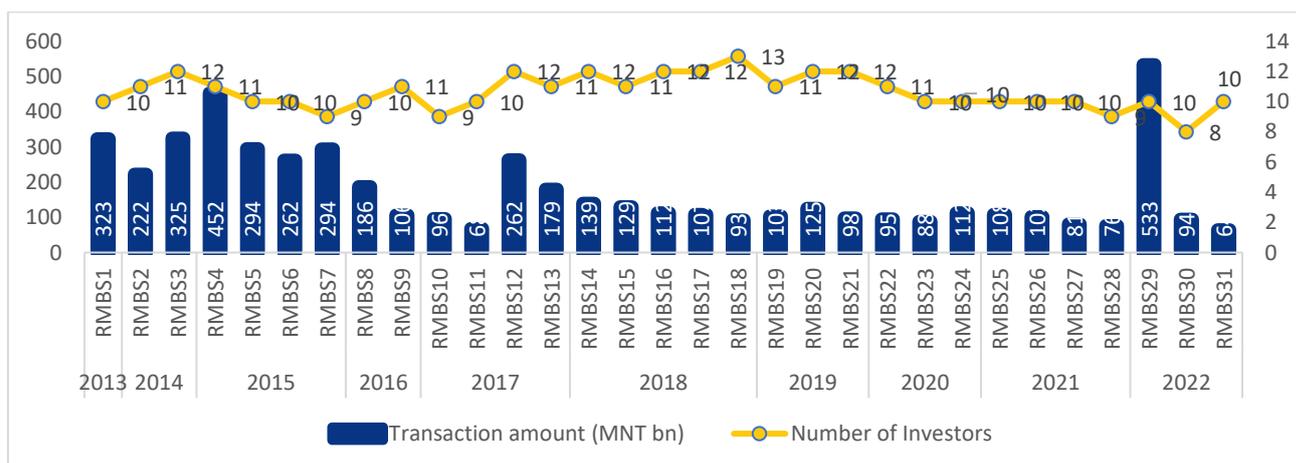
Securitization – RMBS

The balance sheet of a bank or financial institution consolidates long-term mortgages and other financial receivables, secures the assets and the markets from which they are issued, and ensures the ability to borrow financial resources that can be used to issue securities.

MIK HFC LLC is working to improve the liquidity of commercial banks by securing long-term mortgage loans in the housing finance system, thereby increasing access to mortgage loans. Under the Law on Asset-backed Securities, “MIK HFC” LLC can establish an SPC and obtain a license from the FRC to trade on the stock market.

Under the AHFP implemented by the Government of Mongolia, “MIK HFC LLC” has securitized 31 transactions and issued MNT 5.3 trillion MNT in RMBS. In 2022, a total of 661.3 MNT billion was securitized with mortgages through RMBS 29 to 31.

Information on all RMBS



Source: “MIK HFC” LLC

Fiduciary management and transaction administration

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

As of the end of 2022, 31 SPCs had been established in the Mongolian financial and issued a total of MNT 5.3 trillion in RMBS.

MIK HFC manages RMBS assets through each of the 31 SPCs, executing a trust deed agreement to protect investor rights and make securities payments. Fiduciary manager service provides the following under the Asset-Backed Security Law and Trust deed agreement conducted with SPC.

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

- Protecting the interest of investors under 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 quarterly to the Board of SPCs, Investor, and FRC.
- Transfer principal and coupon payments from RMBS issued by each SPC in a timely fashion.

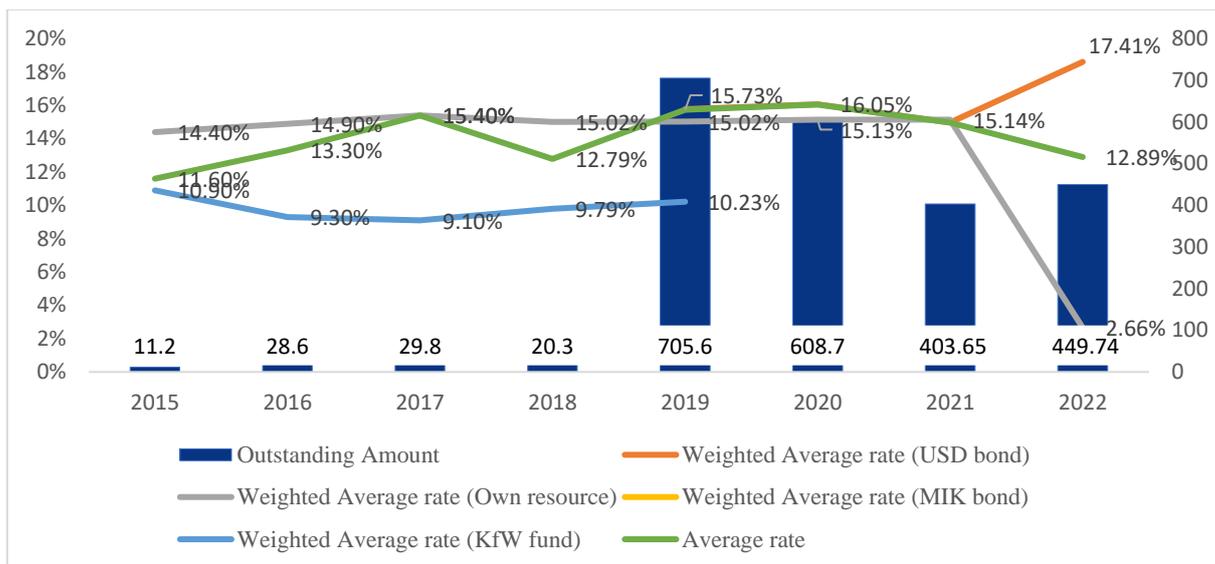
Throughout the RMBS issuing process, the MIK HFC acts as a Transaction Administrator by the agreement between MIK HFC and SPCs, among other activities. Such as:

- Provide corporate administration and secretarial services to each SPC, submit requests to FRC, and issue and register the RMBS.
- Prepare and maintain the accounting records of each SPC by IFRS and deliver the relevant person the reports.
- Review and analyze the data received from the service providers and audit the annual financial statements of the bond issuer.
- Provide legal and risk advice to the Fiduciary manager about permitted investment.
- Receive and summarize the information related to the aggregate portfolio from the participating banks, including loan status, repayment reports, quality, and financial statements to the Investors and the FRC quarterly.
- To settle the non-performing loans, interests, and other debts in the aggregate portfolio of the SPC and act immediately to secure the performance of collateral with collateral following the decisions made by the judicial or law enforcement agencies relating to non-performing loans.
- Provision of other services as agreed with the issuer.

PWR

“MIK HFC” LLC has been purchasing loan portfolios from banks and financial institutions with recourse since 2008. This improves the bank’s liquidity and creates new sources of credit, allowing the banks to reissue loans. On the other hand, it reduces banks’ capital costs, prolongs their term, and improves borrowers’ mortgage terms. Within the framework of this activity, “MIK HFC” LLC purchased a total of MNT 1,466,17 billion in 140 transactions from 11 banks and 10 non-bank financial institutions with its internal fund resources, KfW fund, and USD bond fund raised from the international market.

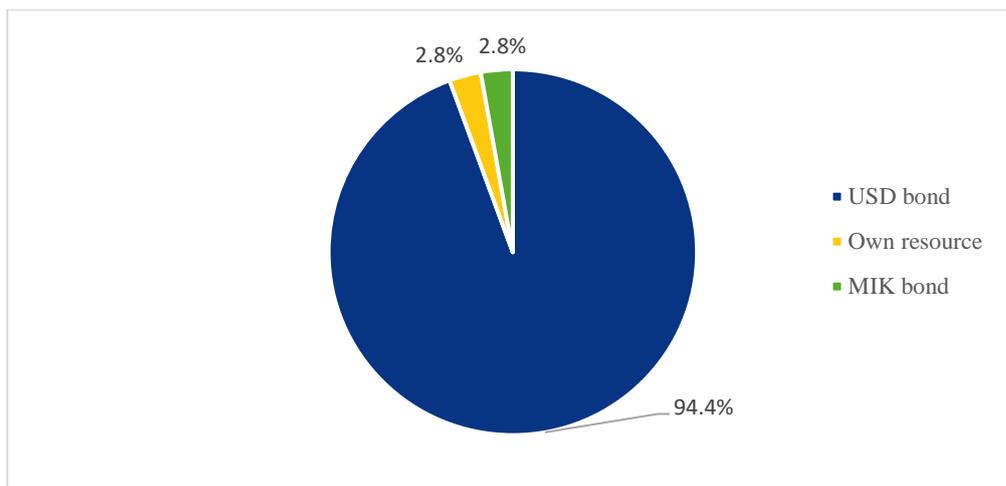
The weighted average interest rate and outstanding balance of the PWR portfolio as of December 31st, 2022



Source: "MIK HFC" LLC

As a result, at the end of the reporting period, 6,786 loan accounts with a balance of MNT 449.74 billion were registered and remained in the PWR portfolio of MIK HFC LLC.

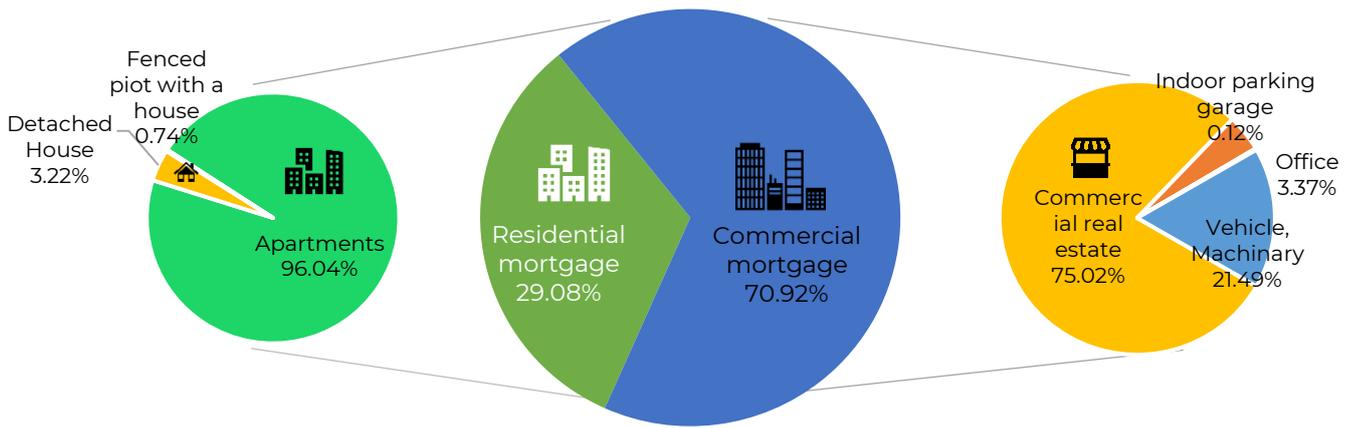
Structure of PWR purchase fund



Source: "MIK HFC" LLC

At the end of the reporting period, the Company had an outstanding balance of 449,74 billion MNT (6,786 borrowers) and remained registered in the PWR portfolio.

Information on commercial property



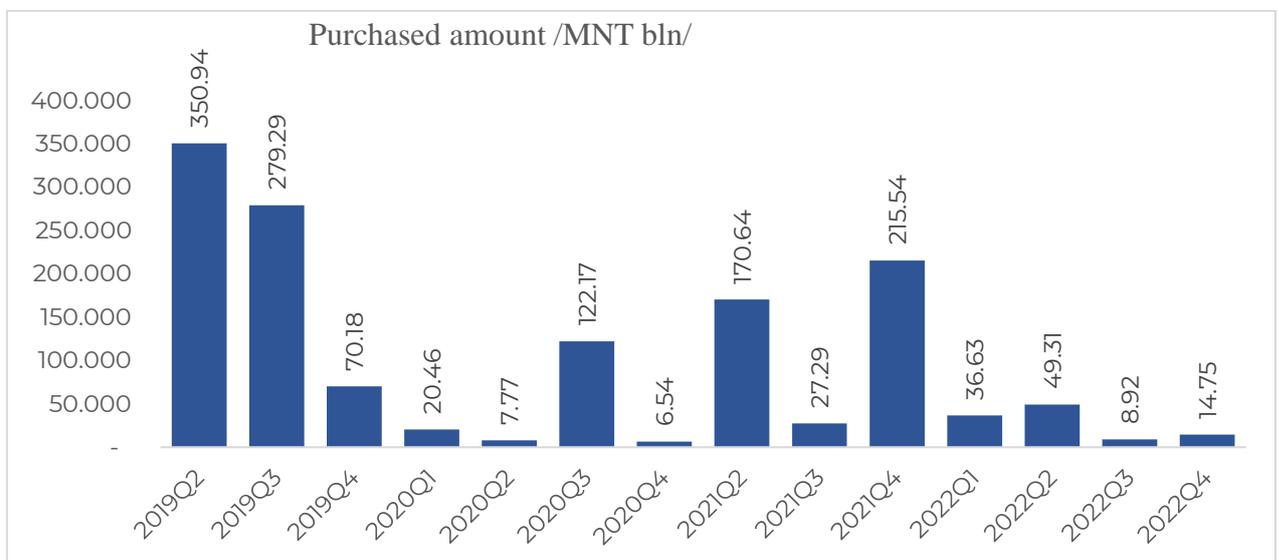
Sources of PWR purchase fund

MIK and USD bond funds raised from the international market

As of the end of the 4th quarter of 2022, MIK HFC LLC purchased 109,61 billion MNT in mortgage loans through 24 PWR transactions from 1 bank and 8 financial institutions with USD bond funds raised from the international market.

At the end of the reporting period, the USD bond-funded PWR portfolio had an outstanding balance of MNT 437,21 billion comprising of 6,595 borrowers.

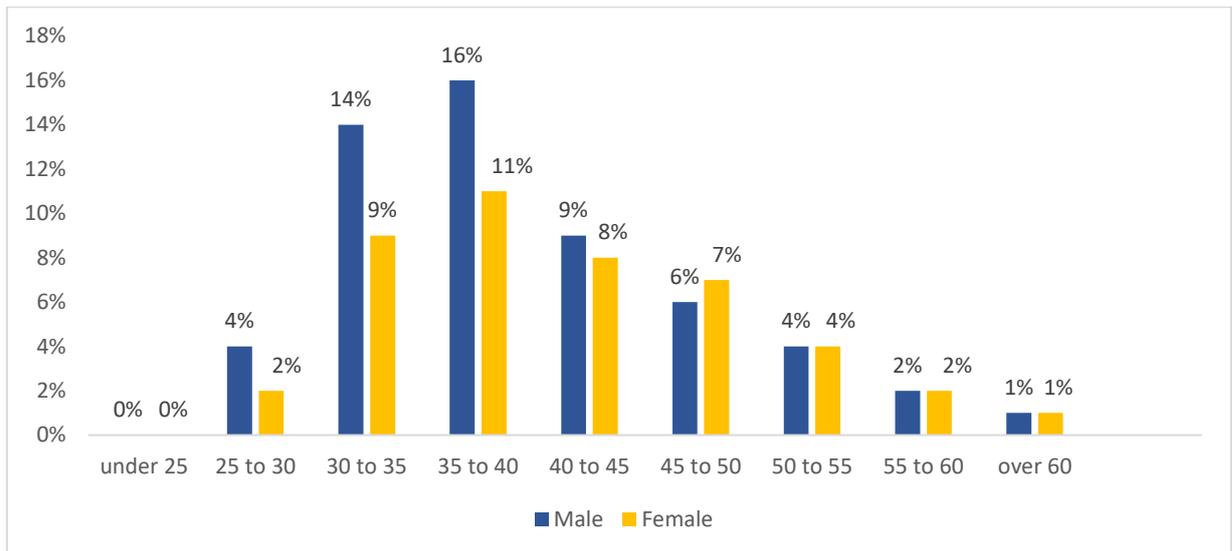
Purchases of the MIK and USD bond funding from June 2019 to December 2022



Source: "MIK HFC" LLC

Regarding the age structure, 59% of total borrowers of the mortgage portfolio purchased with USD bond funds are aged between 30 to 45.

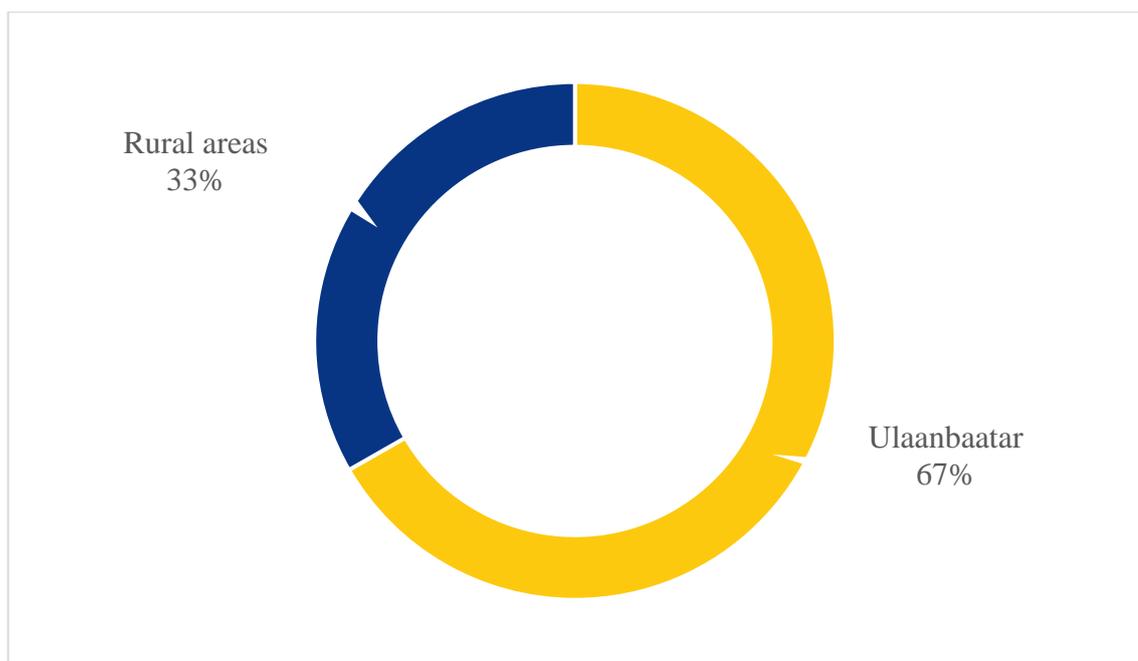
PWR portfolios purchased by USD bond funding and information on age and gender



Source: "MIK HFC" LLC

66.7% of the total collateral assets of the purchased mortgage portfolio are in Ulaanbaatar.

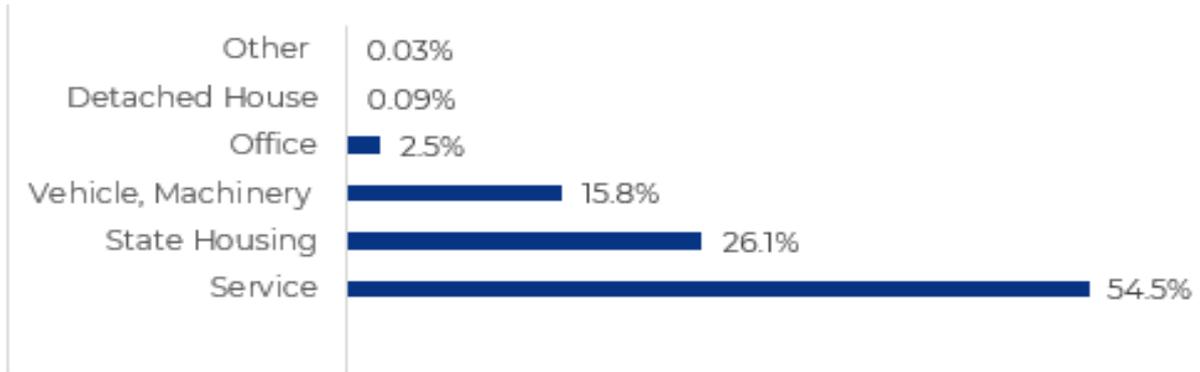
Location of collateral of PWR portfolios purchased by USD bond



Source: "MIK HFC" LLC

By collateralized assets under the PWR portfolio purchased by the MIK and USD bond fund, 54.5% comprise of commercial real estate, while 26.1% make residential apartments.

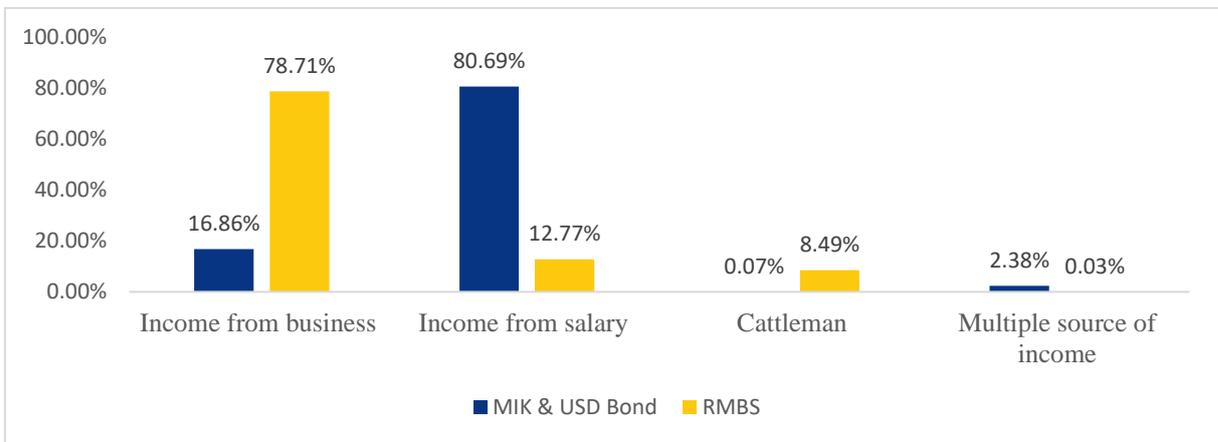
Types of collateral of PWR portfolios purchased by USD Bond funding



Source: "MIK HFC" LLC

By the source of income, 16.86 % of the borrowers produce income from their salary, while 80.69 % are self-employed.

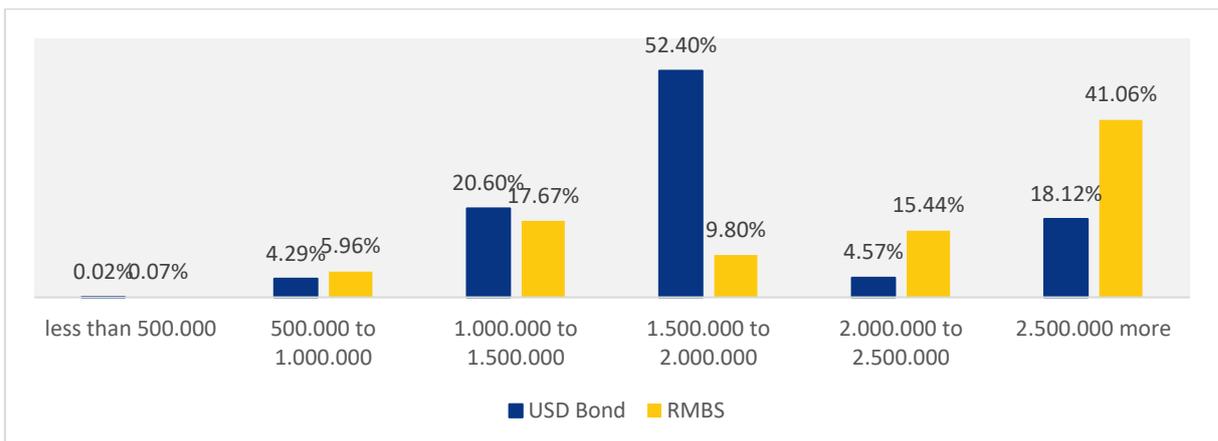
Comparison of the income source of the borrowers



Source: "MIK HFC" LLC

Borrowers with more than MNT 2,5 million per month in revenue accounted for 41.06%, while the largest share in the portfolio has 1,5-2,0 million of 52.4 % purchased from USD bond fund sources.

Comparison of borrowers household income amount



Source: "MIK HFC" LLC

Loan portfolio management

Since mortgage loans can last up to 30 years, MIK HFC LLC performs asset portfolio management activities to ensure timely repayment of mortgage loans, maintain high levels of yield from the loan portfolio, and mitigate credit risk associated with the loan portfolio for the life of the RMBS.

During the reporting year, the Company received and processed 6,078 requests of 61,530 to amend the structure of the agreement signed with the originating banks. In addition, the servicing banks approved and processed an additional 55,452 repayment rescheduling requests while providing notification of changes to the FRC under issuing residential mortgage-backed securities, registering, and issuing special license procedures.

Information on borrowers' requests

Type of acquisition	Processed	Total	Type of request			
			Repayment rescheduling	Changing borrower	Changing collateral owner	Changing collateral
PWOR	MIK	6,051	10	374	111	5,556
	Bank	55,452	55,452	-	-	-
PWOR Total		61,503	55,346	374	111	5,556
PWR	MIK	-	-	-	-	19
	Bank	-	-	-	-	-
PWR Total		-	-	-	-	19
PWOR MIK	Capital Bank	8	-	2	-	6
	Chinggis Khan Bank	19	-	-	2	17
PWOR (MIK) total		27	-	2	2	23

Source: "MIK HFC" LLC

The Company received and processed 32 collateral change requests during the reporting period, and 5,566 collaterals were partially and fully released.

Information of collateral, changed and released as of 2022

Type of acquisition	Total	Changing collateral	Releasing collateral	
			Full release	Partial release
PWOR	5,556	31	4670	855
PWOR Total		31	4670	855
PWR	19	-	19	-
PWR MIK	23	1	22	-
PWR Total		1	41	-

Source: "MIK HFC" LLC

During the COVID-19 pandemic, under the decision of mortgage loan repayment deferral, the Government of Mongolia and the Bank of Mongolia gave directions that mortgage loan repayment must be postponed by extending the loan term without accruing .

According to the mortgage loan repayment deferral (4,5), the repayment of 57,032 loans amounting to MNT 2.99 trillion of the “MIK Asset 1-31 SPC” LLC’s portfolio has been deferred, and the repayment schedule has been updated.

Information on mortgage loan repayment deferral

RMBS 1-31	Deferred loan information		
	Loans	Amount (MNT tn.)	% portfolio
Mortgage loan repayment deferral (4,5)	57,032	2.99	87%

Source: "MIK HFC" LLC

The Company returned loans amounting to MNT 67,428.49 billion in mortgages back to the originating banks due to the trigger of the recourse clause.

Information of loans repurchased by banks (MNT, millions)

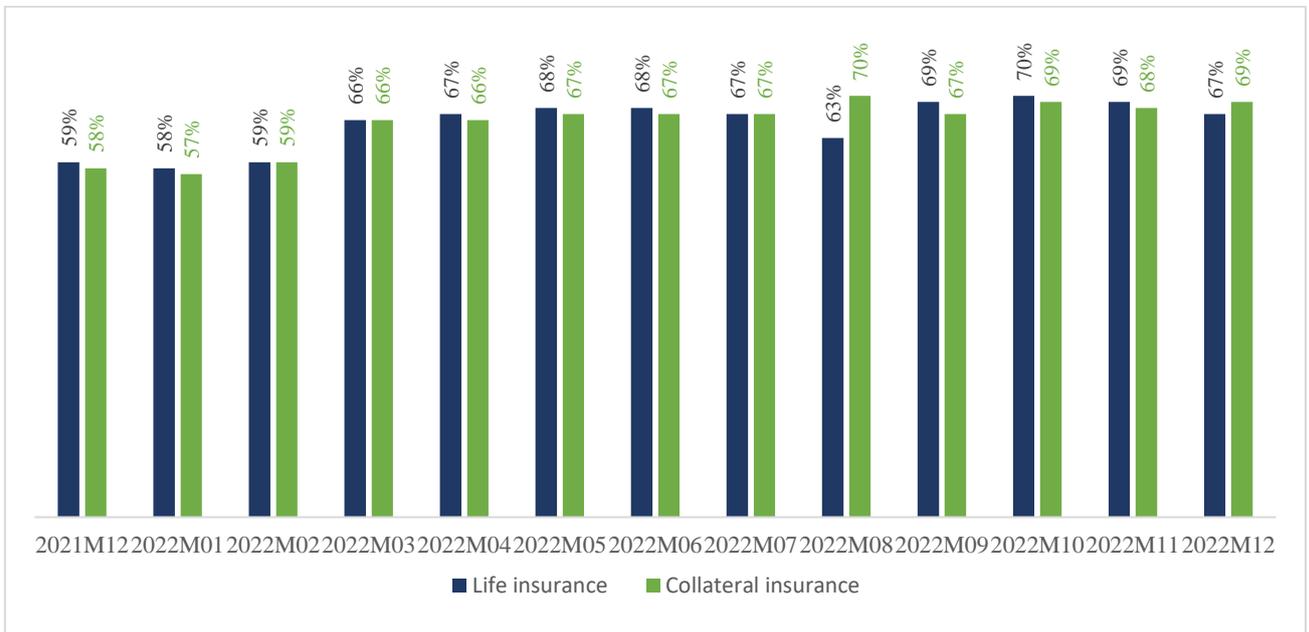
Type of acquisition	Repurchased amount (MNT. mln)
PWOR	34.40
PWR	68,216.94

Source: "MIK HFC" LLC

Mortgage Insurance

MIK HFC adheres to the FRC's Mortgage Insurance Procedure, amended on June 6th, 2018. This procedure mandates that mortgagors maintain life and collateral insurance throughout the duration of their loan. MIK HFC continuously monitors the validity of life and collateral insurance coverage in the mortgage portfolio of its SPCs through servicing banks. Compared to the end of last year, the validity rate for life insurance coverage has increased by 8 percent, and collateral insurance coverage has increased by 11 percent.

Insurance coverage of the loan portfolio



Source: "MIK HFC" LLC

In 2022, there were 261 cases of life and collateral insurance claims, which were caused by the following factors:

Life and collateral insurance claims

Insurance type	Causes of insurance	Cases	Insurance claim, MNT	Received insurance indemnity, MNT
Life Insurance	Loss of workability-Household accident	13	63,115,013.60	77,956,339.00
	Death illness	11	521,261,935.96	186,207,218.33
	Death-Accident	7	272,338,051.74	197,266,394.00
	Loss of workability-Profession related	3	11,125,968.10	11,125,966.72
	Loss of work ability-Natural Disaster related	2	1,798,774.00	3,597,548.00
	Loss of workability-industrial accident	1	-	-
	Loss of workability caused by the third party	1	1,898,000.00	1,961,393.20
Collateral Insurance	Plumbing	182	148,381,702.00	78,797,571.45
	Natural Disaster	20	12,130,974.00	2,954,226.00
	Caused by the third party	12	10,494,350.00	10,004,250.00
	Conflagration	4	7,938,705.00	6,226,816.00
	Household damage	3	2,480,800.00	220,000.00
	The abnormal electric current change	2	1,058,000.00	276,800.00

“COVID-19” and its impacts

In response to the unprecedented challenges posed by the COVID-19 pandemic, the government has taken a proactive approach to alleviating the burden on mortgage borrowers. To this end, the government has decided to defer repayment of subsidized mortgage loans. Thus, we implemented a mortgage payment deferral program in collaboration with BoM and participating commercial banks.

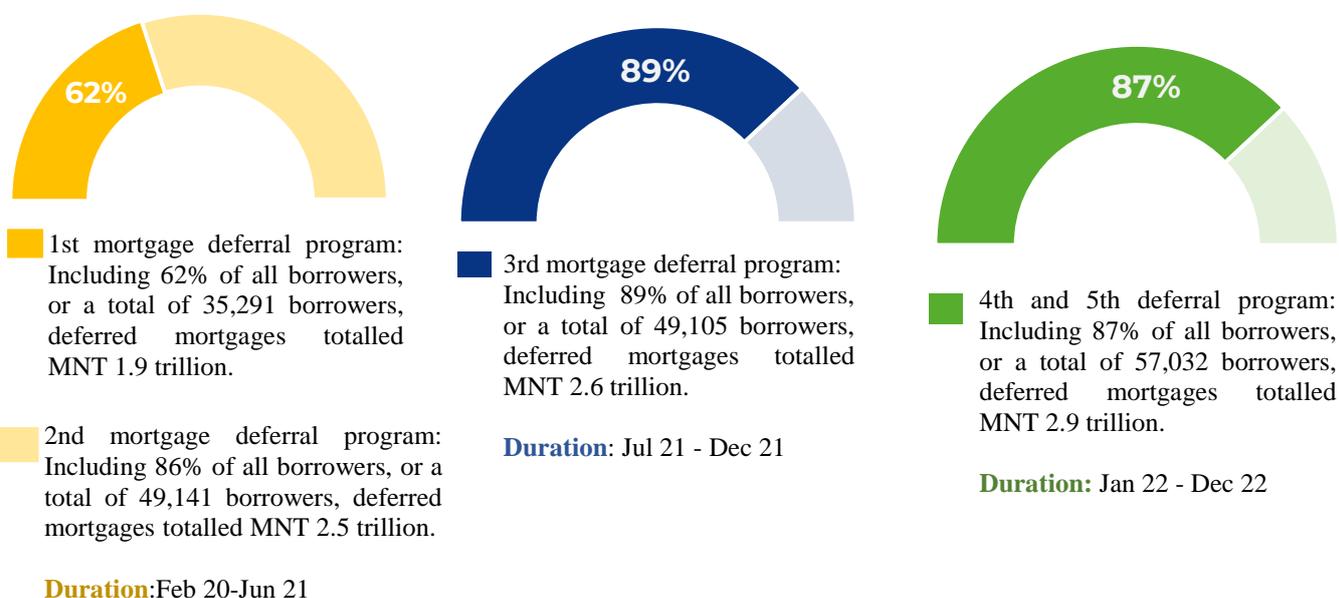
During its plenary session on 30 December 2021, the State Great Khural decided to extend the effective period of "The Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of COVID-19" until 30 June 2022. This extension also led to prolonging the mortgage payment deferral program. Subsequently, on 31 January 2022, the State Great Khural decided to further extend the duration of the law until the end of December 2022.

To carry out the requirements of "The Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of the COVID-19", the Bondholder's notable decisions of "MIK Asset One SPC LLC to MIK Asset Twenty-eight SPC LLC" were made on 10 June 2022. These decisions allowed for the deferment of subsidized mortgage payments under "the fourth" and "the fifth" deferral programs throughout the extended period of the law. Furthermore, these decisions pertained to coupon payments for bondholders as well.

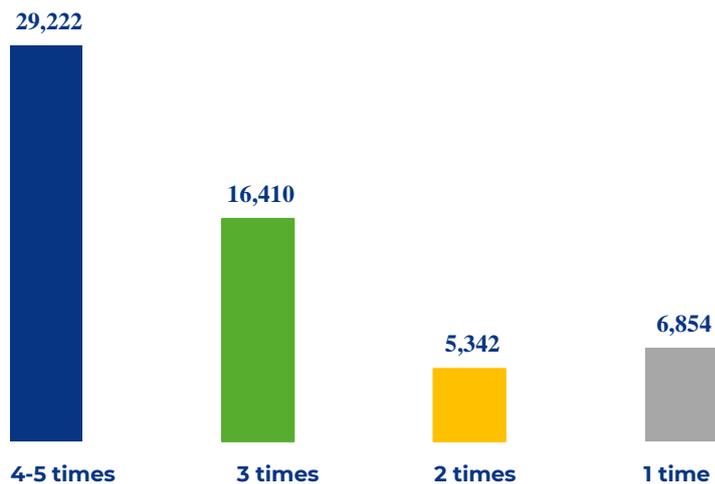
Under the fourth and fifth mortgage deferral program, we altered the repayment to 87 percent of all borrowers.

As a result, the mortgage deferral program has been in effect for 32 months, resulting in the deferral of SPCs' cash flow from mortgage payments. Nevertheless, we are pleased to report that the SPCs have fulfilled their role in stabilizing the housing mortgage financial system by paying their obligations to the bondholders from their reserve fund.

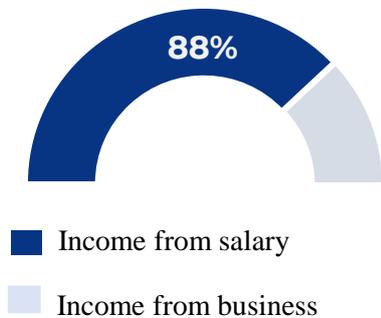
The mortgage deferral program summary



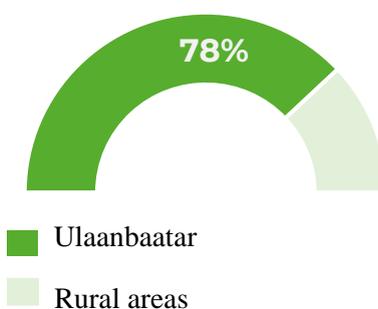
Deferred mortgage accounts, by frequency



Deferred mortgages by income source of borrowers



Deferred mortgages by location of borrowers



RISK MANAGEMENT SYSTEM

In the reporting year, the company conducted its risk management operations following international professional organization's recommendations and international best practices, such as the ISO 31000:2018 standard, IFRS9, ISO/IEC 27001:2013 standard, and the three lines of defense model.

During the reporting period, the company's implementation of the ISO 31000:2018 standard was confirmed by an international certification body and received an official certificate.

By adopting these international best practices for risk management, the company aims to improve the credibility of Residential Mortgage-Backed Security, issue new mortgages reliably and consistently, maintain long-term investor confidence, and continuously develop the secondary market for mortgage financing.



Credit risk management

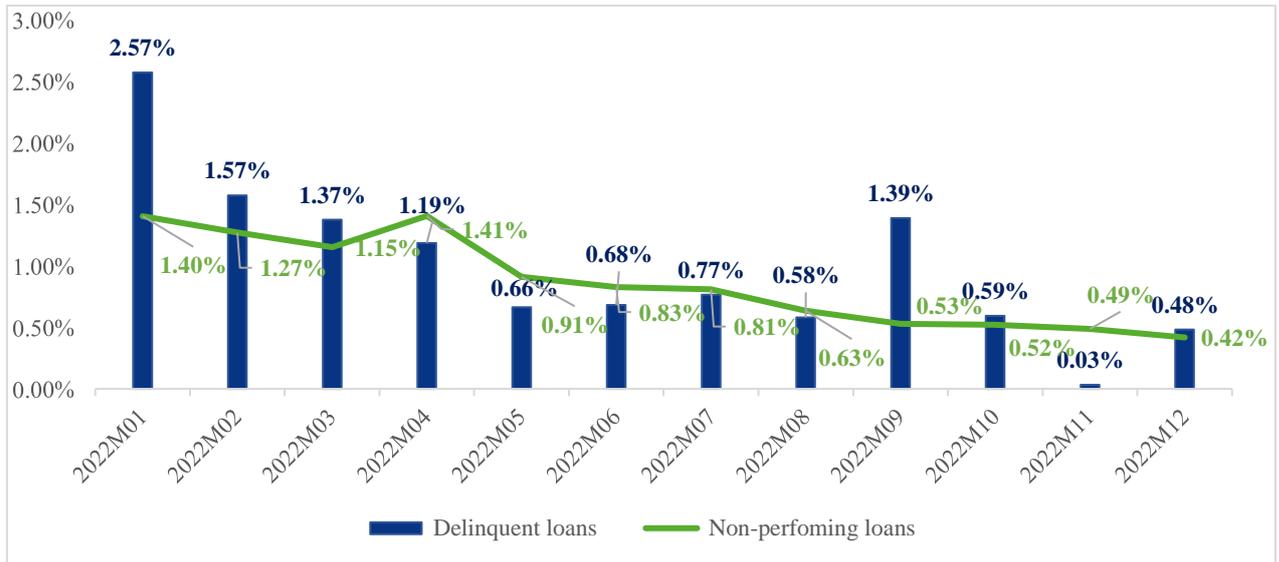
Credit risk concerns the borrowers' failure in a mortgage loan portfolio, which may incur financial losses due to default on their contractual obligations. Therefore, credit risk management involves taking measures to prevent, identify, evaluate, monitor, and report the credit risk of current and to-be-purchased loan portfolios and ensure the validity of the borrowers' life and collateral insurance coverage of loan portfolios. The following activities were implemented within the credit risk management framework during the reporting year.

- The company's decision to acquire a mortgage pool is founded on a thorough independent legal and financial secondary analysis aimed at averting credit risk and enabling RMBS holders to invest in asset portfolios with minimal risk. The company selects independent auditors through an open tendering process to ensure transparency. Additionally, all four SPCs (SPC28-SPC32) established in 2022 underwent a rigorous independent secondary analysis to assess the prudent levels for each mortgage portfolio, guaranteeing that their credit risk aligns with the company's risk appetite.
- The company has enhanced its methodology for the early identification of risky loans. It has adopted measures to minimize risk after conducting thorough research on the overdue mortgage cases in the RMBS portfolio since 2013, analyzing the quality characteristics of the mortgage loans, and assessing their dependence on macroeconomic indicators.
- To mitigate the credit risk on delinquent mortgage loans, the company, on an ongoing basis, receives information about the measures taken and planned from the servicing banks on each of the 4,183 loans that were overdue for more than 30 days, provides necessary instructions and advice and collaborates with the servicing banks to settle outstanding amounts on high-risk mortgage loans and has been kept at a prudent level of credit risk.
- To alleviate the burden on mortgage borrowers caused by the Covid-19 pandemic, the deferral of mortgage repayments was extended until the end of 2022. However, to avoid the upcoming burden on existing overdue borrowers in 2023 with the resumption of mortgage payments, the company directed its efforts toward decreasing past-due and non-performing mortgages. Furthermore, as part of its general risk management activities, the company successfully resolved 393 loans through non-court settlement

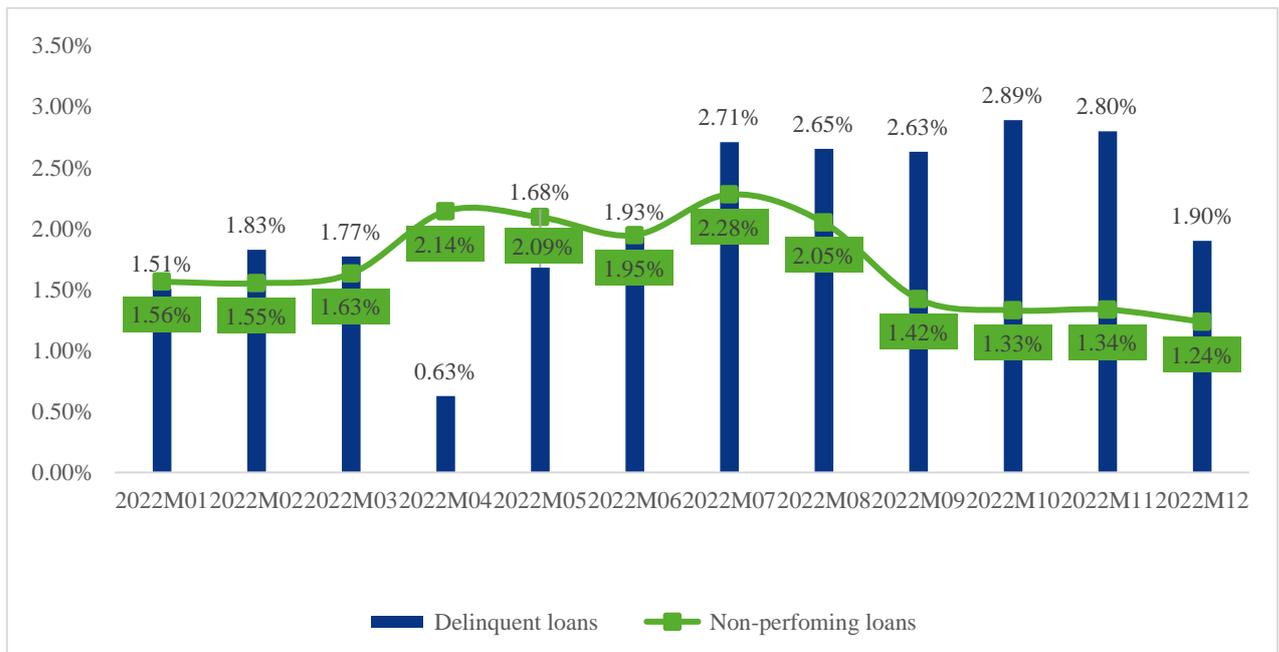
methods and 99 through court decisions. This has resulted in the closure of 285 loans with full payment, while 2,526 delinquent loans have been rehabilitated to a normal state.

- The Company conducts a counterparty risk assessment when purchasing the PWR portfolio and sets a limit based on that assessment. Every quarter, the company estimates the financial strength of counterparties, identifies possible risks, and reports findings and recommendations to company management and relevant units.
- At the end of 2022, the percentage of non-performing loans in the total PWOR pool (RMBS 1-31) was 0.42%, while the percentage of non-performing loans in the total PWR pool was 1.24%. These percentages are in line with the target level of risk appetite.

Quality of PWOR pools



Quality of PWR pools



Counterparty risk management

Counterparty risk refers to the possibility of suffering financial losses due to the counterparty's inability to fulfill its obligations or defaulting on contractual obligations. To mitigate such risks, the Company adopts internationally recognized best practices for assessing counterparty risks based on credit rating methodologies and utilizes the credit rating to set transaction limits. Limits are set on cash and deposit accounts held in banks, loan portfolios purchased with recourse from banks and non-bank financial institutions, and investments made in third-party entities. Regular monitoring and reporting are carried out to ensure the effective implementation of the counterparty transaction limit.

Market risk management

Market risk refers to the potential losses a company may incur due to fluctuations in market variables such as interest rates, exchange rates, and economic indicators such as GDP. To manage this risk, MIK regularly performs risk analysis across various areas, including foreign exchange, interest rate, liquidity/solvency, and macroeconomic factors. By monitoring these factors, the company can identify potential risks and take necessary actions to mitigate them.

Currency exchange risk

To assess exchange rate risk, the Company employs Value at Risk (VAR) methodology and sets a limit that losses from exchange rate fluctuations must not exceed 15% of its total equity. The risk management department conducts a monthly analysis of exchange rate risk and its prediction. To mitigate this risk, the Company transfers it to a third party through SWAP agreements. During the reporting period, the Company maintained compliance with its internal requirement of not exceeding losses from FX fluctuation of 15% of its total equity.

Liquidity risk

The Company utilizes the quick ratio and liquidity gap analysis to evaluate its liquidity risk. The quick ratio is computed as the ratio of net cash outflow for the upcoming 30 days to liquid assets. By the Company's internal risk management policy, the quick ratio must be always maintained above 100%. As of the reporting date, MIK HFC LLC has maintained an appropriate quick ratio. To measure solvency risk, a liquidity gap report is utilized by MIK. The Company mandates that the cumulative net liquidity gap be greater than zero. The Company had a positive cumulative net liquidity gap at the reporting date.

Interest risk

Interest rate risk is measured by calculating the difference between the assets and liabilities with floating interest rates and between interest-bearing assets and liabilities. The Company conducts quarterly interest rate risk analyses and adheres to relevant criteria.

Prepayment risk

The prepayment risk of a mortgage loan is impacted by macroeconomic variables such as the savings rate. Recently, there has been an increase in loan prepayment amounts for purchased mortgage pools of SPCs, primarily due to the government's deferral program implemented in response to the pandemic in Mongolia.

Macroeconomic risk

Various macroeconomic factors, including inflation, GDP growth, labor market conditions, policy rate, exchange rate, CPI, savings rates, and others, can influence the repayment behavior of borrowers and the probability of default for borrowers and counterparties. In addition, these factors can directly impact the expected losses from non-performing loans and the cash flows of MIK and its subsidiaries. Therefore, the risk management and monitoring report, which includes an analysis of these factors, is provided to management quarterly.

In 2022, MIK Holding JSC's Board of Directors approved the Risk Appetite Statement. The purpose of the statement is to establish the fundamental principles of risk management for MIK Holding JSC and its subsidiaries, to enhance the company's comprehension of acceptable and unacceptable levels of risk, to foster a risk culture, and to provide guidance in strategic and day-to-day decision-making. The Risk Management Department has diligently monitored strategic, credit, liquidity, market, and operational risks, ensuring they are maintained within acceptable levels. In the event of risks reaching warning and maximum levels, appropriate actions are taken by the Risk Appetite.

In the reporting year, MIK has implemented a comprehensive stress testing framework for its mortgage loan portfolio of Special Purpose Companies (SPCs). This framework considers various stress scenarios and analyzes their potential impact on the SPCs' financial projections. The results of these stress tests are regularly reviewed and utilized to inform strategic and risk management decisions. The stress test methodology and results were developed by studying best practices from international banking and financial institutions. The methodology was then presented at an academic conference on "Practical Mathematics-2022" as part of the 80th-anniversary celebration of the National University of Mongolia.

Operational risk management

As part of the operational risk management framework, our company addresses the risk of potential loss resulting from business processes, personnel, internal information systems, and external events. We adhere to international best practices in managing these risks, such as the ISO 31000:2018 Risk Management Standard, Risk and Control Self-Assessment methodology, and the three lines of defense model.

Compliance with ISO 31000:2018 Risk Management Standard will bolster the company's risk management framework and governance, facilitating the achievement of strategic objectives. Furthermore, the Risk and Control Self-Assessment and three lines of defense model are integral components of operational risk management, enabling us to identify operational risks, effectively control them, and build a risk culture.

During the reporting period, we identified critical operational risks and established risk appetite, which was monitored and reported. Additionally, we regularly organized risk training and information dissemination to build a risk culture, improve, and enhance the risk awareness of all employees in the company.

Political risk

Political risk poses a significant threat to businesses and economies worldwide, with the potential to cause a devaluation of currencies, decreased economic growth, and a range of social problems, including unemployment, corruption, and a decline in corporate reputation.

At Mongolian Mortgage Corporation, we operate in the housing finance sector in Mongolia, providing fiduciary management, transaction administration, and mortgage loans under the AHFP implemented by

the Mongolian government and the Bank of Mongolia. The stability and favorable political environment in the country significantly impact our operations.

To mitigate political risk and strengthen the housing finance system, MIK actively engages with state regulatory institutions such as the Bank of Mongolia and the Financial Regulatory Commission. This includes the provision of relevant information, participation in the voting process for relevant laws and regulations, and recommending best practices of securitization activities in the secondary financial market.

Our commitment to risk management and collaboration with critical stakeholders reinforces our position as a trusted player in the housing finance industry in Mongolia.

During the reporting period, MIK took several measures to mitigate political risk and ensure stability in the housing finance industry in Mongolia.

1/ The validity of the “Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of COVID-19” was extended by the State Great Hural (Parliament).

The “Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of COVID-19” was amended by the State Great Khural (Parliament) on December 30th, 2021, and January 31st, 2022, and the validity of the law was extended twice until December 30th, 2021 and June 30th, 2022.

The “Deferment of mortgage loan payments under AHFP” was approved by the Order A-329 and A-64, issued by the President of the Bank of Mongolia on December 9th, 2021, and March 16th, 2022, respectively. The bondholders of “MIK Asset One - Twenty-Eight SPC” LLC held a meeting on June 10th, 2022, and decided to postpone the mortgage loan payment through Special decisions of the RMBS holders. This resulted in changes to the mortgage payment schedule and the deferral with either accumulating or non-accumulating coupon payments to the bondholders.

2/ The state's monetary policy outlook for 2023 outlines the complete transfer of the funding responsibility of the subsidized mortgage loan program from the Bank of Mongolia to the Government during the first half of 2023.

According to Article 8 of the state's monetary policy outlook for 2023, approved by the State Great Khural Resolution No. 65 dated November 10, 2022, a key objective is strengthening the mortgage finance system in line with international best practices. This will be achieved by transferring the funding responsibilities from the Bank of Mongolia to the Government in the second quarter of 2023.

The transfer of the mortgage finance responsibility has been under consideration since 2018, and necessary preparations are underway. As a result of this transfer, the holder of the senior RMBS of the Special Purpose Companies (SPCs) is expected to become a relevant government-authorized agency or institute.

This change in major investors is expected to lead to medium-term changes in the policies and strategies adopted by the SPCs regarding governance and decision-making.

The Company has prepared and submitted relevant financial calculations and proposals for the necessary procedures to support the transfer of the mortgage loan financing system from the Bank of Mongolia.

3/ Under, a decree issued by the government official and a working group was constituted to evaluate the possibility of reducing the interest rate on loan, which was initially granted at 8%. After a thorough examination, the working group determined that the interest rate could be lowered, subject to certain costs, and this decision was publicly announced through mass media outlets.

Since 2013, Mongolia's mortgage finance system has operated cyclically, whereby the Bank of Mongolia injects resources into the market by purchasing Residential Mortgage-Backed Securities (RMBS). New mortgages are then funded through bond repayments based on mortgage repayments. As of December 2022, our company has acquired 96,805 borrower loans, totaling 5.3 trillion MNT, by creating 31 Special Purpose Vehicles (SPCs) and issuing RMBS. These securities are structured to mitigate liquidity risks, both in terms of principal and interest payments to RMBS holders, by considering cash flows from the loan portfolio and the credit risk of borrowers.

However, changes in cash flows during the term of the bonds can pose various risks:

- Inability to fully repay the RMBS, resulting in investment loss for the investors.
- Losses to investors can disrupt the mortgage finance system, leading to a scarcity of mortgage finance and loss of confidence among investors.
- Disruptions to the mortgage finance system can hinder the government's goal of providing housing to citizens and have indirect effects such as reducing emissions and environmental pollution.
- Interruptions to the mortgage finance system can also lead to a decrease in sales of under-construction apartments and a collapse of the construction industry, potentially leading to shrinkage of the construction industry, small and medium enterprises, and loss of jobs.
- In reducing the interest rate on the existing loans, our company, as an experienced operator in the secondary mortgage market since 2006, has provided relevant information and made cash flow and risk factor calculations to all relevant parties.

Our company continually monitors the market and takes proactive measures to mitigate these risks, ensuring the stability and sustainability of the mortgage finance system in Mongolia.

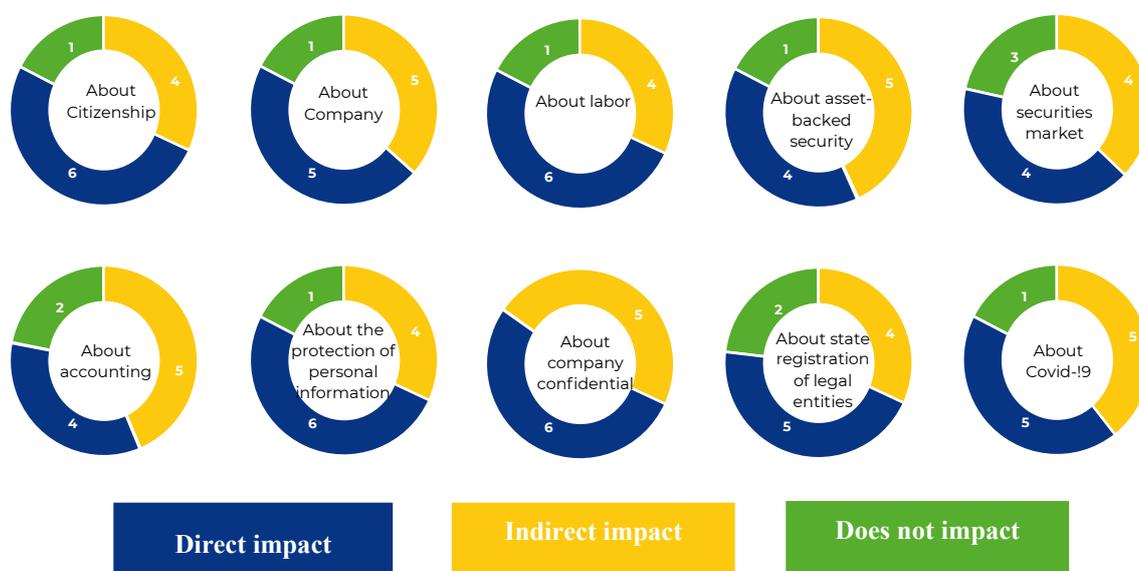
COMPLIANCE MANAGEMENT

In the reporting year, the Company complied with Mongolian legislation, regulations of authorized government regulatory bodies, contractual obligations, and other requirements to international financial advisors and investor organizations. The Company also adhered to the requirements of the international ISO standard and implemented measures to combat money laundering and terrorist financing. In addition to compliance measures, the Company undertook efforts to strengthen its compliance management system and to built a culture of compliance.

To strengthen our compliance management

- To adhere not the company’s good governance standards and International Finance Corporation’s recommendations, we ensured the Compliance Action Plan and its implementation report were independently communicated to the Risk Management Committee of the Board of Directors. This action reflects our commitment to promoting transparency and accountability throughout the organization.
- Determining the responsibilities assumed under Mongolian law, regulations of authorized government regulators, international standards, contracts with third parties, and other relevant compliance requirements related to the company’s operations, we regularly monitor and report on the implementation of these responsibilities and the company’s internal rules and regulations. Through this process, we have identified Mongolian laws directly or indirectly related to the company and made recommendations to the relevant departments. Additionally, we identified the duties assumed under Mongolian laws, regulations from authorized government regulators, international standards, contracts with third parties, and other relevant compliance requirements and monitor and report on their performance and internal company rules and regulations. Our work helped to prevent potential compliance risks within the company.

Laws generally applicable to the company’s operations



- During the reporting period, the Compliance Department identified and reduced the company’s compliance risks in cooperation with departments and divisions and planned and implemented measures to reduce and prevent compliance risks.

- All employees received compliance training to effectively implement the company's compliance culture and raise compliance awareness. Also, a compliance culture has been formed, in which the company promotes ethical behavior and adherence to legal and regulatory requirements throughout all levels of the organization.
- Through an internal system initiated by the Compliance Department, the company's divisions register their internal compliance obligations, ensure their fulfillment, and monitor and report on them.

Compliance management system ISO37301:2021 standard

- As part of the company's compliance management system, the requirements of the ISO 37301:2021 standard were analyzed to identify any gaps between the company's current compliance activities and the standard's requirement based on the result of the analysis; changes were made to the company's internal policies and procedures to ensure they align with requirements of international standards were re-approved accordingly.
- The first phase of an external audit by a professional organization for ISO 37301:2021 standard compliance was completed. According to the audit's recommendations, the company is carrying out compliance tasks to meet the standard's requirements promptly.

Anti-money laundering and counter-terrorist financing actions

Following the anti-money laundering and counter-terrorist financing act and the company's internal regulations, the company conducts customer identification analysis, monitors politically exposed persons, and cooperates with regulators and other financial institutions by providing knowledge and training to all company employees on the risks of the money laundering and terrorist financing.

Collaborate with financial institutions.

During the reporting period, the Controlled Compliance Department identifies the Group's affiliates, updates information on influential shareholders, and determines the ultimate owner in accordance with relevant regulations.

Additionally, the department collaborated with local clients and international organizations such as Moody's, Fitch, Deutsche Bank, S&P, and Ernst & Young by providing necessary documents in response to inquiries.

Controlling the politically exposed person

Regularly maintain and update the registration of politically influential persons to identify customers, maintain a list of politically influential persons, and exercise control.

Customer recognition activities

During the reporting year, we analyzed our internal requirements of the Anti-Money Laundering and Terrorism Financing Act" to ensure our Non-Bank Financial Institutions NBFIs and clients were recognized and identified in accordance with relevant regulations. We closely collaborated with our land units to meet the requirements of competent regulators.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	2022	2021
	MNT'000	MNT'000
Interest and similar income	335,990,361	363,864,023
Interest expense	(255,129,538)	(275,178,917)
Net interest income	80,860,823	88,685,106
Fees and commission expense	(7,108,262)	(9,614,343)
Total operating income	73,752,561	79,070,763
Credit loss reversal/(expense)	(11,786,965)	11,099,582
Net gain/(loss) on financial assets at fair value through profit or loss	(2,629,610)	4,502,108
Net gain/(loss) on change in fair value of derivative financial instruments	115,877,409	(15,942,190)
Modification loss on purchased mortgage pool receivables	(110,852,344)	(196,070,244)
Modification gain on collateralized bonds	53,597,740	14,484,838
Net operating profit/(loss)	117,958,791	(102,855,143)
Operating expenses	(16,755,433)	(13,101,897)
Other operating expenses	(90,766,919)	(16,778,792)
Profit/(loss) before tax	10,436,439	(132,735,832)
Income tax expense	(4,432,831)	(13,848,678)
Profit/(loss) for the year, representing total comprehensive profit/(loss)	6,003,608	(146,584,510)
Earnings/(loss) per share (MNT)		
Basic and diluted earnings/(loss) per share	393.76	(9,614.06)

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position

As of 31 December 2022

	2022	2021
	MNT'000	MNT'000
ASSETS		
Cash and bank balances	117,448,513	549,820,809
Debt instrument at amortized cost	179,880,304	80,766,979
Mortgage pool receivables with recourse	366,348,785	364,341,576
Loan receivables with recourse	80,906,907	44,840,080
Purchased mortgage pool receivables	3,432,162,229	2,901,349,797
Financial assets at fair value through profit or loss	137,419,577	145,499,187
Derivative financial instruments	160,885,601	66,638,901
Other assets	28,603,389	30,180,342
Property and equipment	36,617,422	37,709,674
Intangible assets	247,996	201,833
Income tax prepayments	1,318,076	1,566,195
Deferred tax asset	12,883,280	3,009,508
TOTAL ASSETS	<u>4,554,722,079</u>	<u>4,225,924,881</u>
LIABILITIES		
Other liabilities	9,333,568	13,194,729
Borrowed funds	36,156,514	41,581,993
Debt securities	819,963,304	1,004,976,075
Collateralized bonds	3,648,483,325	3,141,395,589
Income tax payables	56,256	25,875
Deferred tax liabilities	30,578,976	20,604,092
TOTAL LIABILITIES	<u>4,544,571,943</u>	<u>4,221,778,353</u>
EQUITY		
Ordinary shares	20,709,320	20,709,320
Share premium	52,225,115	52,225,115
Treasury shares	(62,143,136)	(62,143,136)
Reserve	(641,163)	(6,644,771)
TOTAL EQUITY	<u>10,150,136</u>	<u>4,146,528</u>
TOTAL LIABILITIES AND EQUITY	<u>4,554,722,079</u>	<u>4,225,924,881</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Ordinary shares	Share premium	Treasury shares	Retained earnings/ (Accumulat ed losses)	Total equity
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
On 1 January 2021	20,709,320	52,225,115	(62,143,13)	139,939,739	150,731,038
Total comprehensive loss	–	–	–	(146,584,51)	(146,584,50)
On 31 December 2021 and 1 January 2022	20,709,320	52,225,115	(62,143,13)	(6,644,771)	4,146,528
Total comprehensive income	–	–	–	6,003,608	6,003,608
On 31 December 2022	<u>20,709,320</u>	<u>52,225,115</u>	<u>(62,143,13)</u>	<u>(641,163)</u>	<u>10,150,136</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022	2021
	MNT'000	MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	10,436,439	(132,735,832)
<i>Adjustments to reconcile profit/(loss) before tax to net cash flows:</i>		
Interest on borrowed funds	3,969,179	4,560,553
Interest on debt securities	79,293,332	99,060,720
Amortization of deferred grants	–	(117)
Credit loss reversal/(expense)	11,786,965	(11,099,582)
Modification loss on purchased mortgage pool receivables	110,852,344	196,070,244
Modification gain on collateralized bonds	(53,597,740)	(14,484,838)
Depreciation of property and equipment	1,911,566	1,701,085
Amortization of intangible assets	186,155	138,002
Unrealised foreign exchange loss/(gain), net	98,727,150	(182,542)
Loss/(gain) on the repurchase of debt securities issued, net	(8,898,099)	17,466,238
Discount on other receivables	3,705,187	1,613,028
Loss on disposal of foreclosed property, net	21,961	36,057
Loss on disposal of property and equipment	10,871	(2,491,863)
Write-off of property and equipment	760	3,421
Net loss/(gain) on financial assets at FVPL	2,629,610	(4,502,108)
Net loss/(gain) on derivative financial instruments	(115,877,409)	15,942,190
<i>Operating profit before working capital changes</i>	<u>145,158,271</u>	<u>171,094,656</u>
Changes in working capital:		
Due from banks – placement with original maturities of more than three months	19,050,389	32,370,412
Due from banks – placement with banks classified as Stage 3	585,627	4,592,748
Debt instruments at amortized cost	(8,698,171)	14,169,639
Mortgage pool receivables with recourse	30,481,072	258,662,716
Loan receivables with recourse	(35,738,729)	(45,610,035)
Purchased mortgage pool receivables	23,719,407	131,149,489
Other assets	(13,546,035)	(29,355,919)
Collateralized bonds	(100,628,224)	(218,173,935)
Other liabilities	(3,868,080)	(1,922,203)
Cash generated from operations	<u>56,515,527</u>	<u>316,977,568</u>
Interest paid is classified as operating activities.	(86,856,103)	(92,782,015)
Income tax paid	(2,657,970)	(1,386,770)
Income tax withheld by others	(1,395,249)	(3,908,695)
Net cash flows generated from/(used in) operating activities	<u>(34,393,795)</u>	<u>218,900,088</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in debt instruments at amortized cost	(89,118,062)	(7,000,000)
Proceeds from disposal of debt instruments at amortized cost	4,000,000	–
Proceeds from disposal of financial assets at FVPL	5,450,000	–
Purchase of property and equipment	(880,470)	(4,966,807)
Proceeds from disposal of property and equipment	49,525	291,451
Purchase of intangible assets	(232,318)	(139,639)
Net cash flows used in investing activities	<u>(80,731,325)</u>	<u>(11,814,995)</u>

MIK HOLDING JSC AND ITS SUBSIDIARIES**Consolidated Statement of Cash Flows**

For the year ended 31 December 2022 (contd.)

	2022	2021
	MNT'000	MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the issuance of debt securities	–	726,006,915
Net proceeds from maturity of derivative financial instruments	21,630,709	–
Repayment of debt securities issued	(249,643,193)	–
Repurchase of debt securities issued	(64,726,956)	(574,573,423)
Repayment of borrowed funds	(5,385,965)	(334,489)
Net cash flows generated from/(used in) financing activities	<u>(298,125,405)</u>	<u>151,099,003</u>
Net increase/(decrease) in cash and cash equivalents	(413,250,525)	358,184,096
Effect of exchange rate changes on cash and cash equivalents	40,975	203,738
Cash and cash equivalents on 1 January	530,507,287	172,119,453
Cash and cash equivalents on 31 December	<u><u>117,297,737</u></u>	<u><u>530,507,287</u></u>

- Cover page: "Camel White Clouds" (1977) by the Honored Artist M. Butemj.
- Back page: "Skip Capitalism" (1961) by the People's Artist, Laureate of the State Prize B. Amgalan.

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