



*“Empowering people through
finance”*

<http://www.abts.mn>

**ANNUAL
REPORT**

2016

Message from the CEO



Mrs. Tsolmon E

ABTS NBFI was honored as the “Best Investor Institution 2016” by the Mongolian Non-Bank Financial Institutions Association.

2016 has been another challenging year with economic downturn, country’s credit downgrading by international rating agencies, weakened national currency, and diminished foreign investment inflows. However, we have successfully received foreign investment around USD 4 mln, and have been awarded the Golden Star by the MNBFI Association.

ABTS NBFI celebrated its 15th anniversary last year. We are extremely proud that we have achieved this milestone. Since its establishment, total assets have soared 224 times, while total loans have increased 185 times, and equity has risen 182 times. We have played a pioneering role in the microfinance sector for a long period. ABTS NBFI has received "TOP-10 NBFI" award from the Mongolian Government and Mongolian National Chamber of Commerce and Industry in 2009-2013. Today, ABTS NBFI is one of TOP NBFIs in Mongolia. And we will continue to keep the leading pace in the future.

We have fruitfully participated in various programs and projects that facilitated developments in the micro finance sector and benefited our customers, in particular SMEs, entrepreneurs, households and individuals which have not been able to access financial services provided by banks. Presently, we are implementing the Sustainable Livelihood Project of the Mongolian Government and the World Bank for the 6th time. Within the project framework, we provided 317 loans worth MNT 3.1 billion in total. Out of which, loans to poor and low income households and individuals comprised MNT 1.5 billion.

Since customers are at heart of our work, we will support them in financial needs and provide a flexible range of products. We will continue to enrich the lives of all our customers.

I would like to thank our shareholders, partners and customers for support and trust as well as our team for productive work and dedication.

ANNUAL REPORT 2016

Table of Contents

	Page #
1. Message from the CEO	<u>2</u>
2. About ABTS NBFI	<u>4</u>
3. Financial highlights	<u>6</u>
4. Mongolian Economy	<u>7</u>
a. Economic prospects	<u>7</u>
5. National economic indicators	<u>8</u>
6. Performance in 2016	<u>9</u>
7. Loan services	<u>10</u>
8. Loan products	<u>11</u>
9. Social responsibility	<u>12</u>
10. Audit opinion	<u>13</u>
11. Audit report	<u>15</u>

ABOUT ABTS NBFI

ABTS NBFI was established on 4 October 2001 as one of pioneer micro finance institutions in Mongolia. Since its establishment, the ABTS NBFI has granted total loans of MNT 50.7 billion to around 3600 clients. Total assets soared 224 times, while total loans increased 185 times and the equity rose 182 times.



As end of 2016, our total assets reached MNT 20.7 billion, while loans surged to MNT 12.1 billion. Equity equaled to MNT 7.3 billion, and net income generated to MNT 1.9 billion, respectively.

ABTS NBFI has already built the reputation of reliable financial partner. The backbone of our business is experienced staff, strong management team, and shareholders support.

As an outcome of our hard work and client based activities ABTS NBFI had steady performance in 2016, even though Mongolian economy was slowing down.

Mission

Our mission is to support and financially assist people wishing and willing to act for improving their life and the lives of loved one.



Vision



ABTS is founded to support and assist people to make their dream for a good life comes true. We believe that only people can make things truly better, and our efforts focused on them will actually improve their well-being.

Value

Most of all we care about is helping people to improve their life as well as we work with them. This has been our driving force since we started our activity and has already brought us great success as an industry leader.



Partners



We have proved ourselves as an effective and reliable partner. ABTS NBFI has successfully collaborated with certain number of other organizations, including the Mongolian Government institutions, Mongolian and foreign private entities, and international financial organizations. And we are welcoming anyone willing to cooperate with us.

Business Goals



Our Non-Bank Financial Institution aims to:

- provide financial assistance to individuals and legal entities which are unable to get needed financial support from banks
- help small and medium-sized businesses to reduce unemployment and poverty
- support the social and economic development of Mongolia through well-organized cash transmission channels
- become one of the best Micro Financial Institutions of a New Generation

Clients

We provide services focusing heavily on our clients' perspectives and reviewing our procedure to meet various needs. In such a way, we promote a highly flexible set of policies which are designed to help everyone in different situations and difficulties.

Our borrower has recently opened branch of Friendly Mart grocery store after receiving our loan.



FINANCIAL HIGHLIGHTS

Some main financial indicators of ABTS NBFI as end of 2016:

Indicator	2015	2016
Total loans	10 707 179,8	12 161 939.3
Total assets	12 268 999,4	20 672 124.7
Project financing	4 941 364,5	10 570 630,0
Equity	4 347 797,3	7 293 212.9
Net income	1 095 773,3	1 924 658.9
NPL/Total loans ratio	2,6%	4.9%

Clients and loan products:

Indicator	2015	2016
Total number of clients	320	299
Number of loans	277	255
Number of loan products	15	15
Female borrowers	49%	49%
Male borrowers	51%	51%

Year 2016 had been a challenging year for financial institutions in Mongolia due to the economic slowdown, and political uncertainty associated with parliamentary election in mid-June. However, our 15-years' experience in financial intermediation and reputation as a competent partner resulted in our clients rising demand for our loan products. Thus, we intensified our activity on attracting additional resources and succeeded to raise financing of around USD 4 million.



MONGOLIAN ECONOMY

Economic performance



The Mongolian economy is stuck in a swamp of large fiscal deficit, exhausted international reserves and weakened currency. Mongolia is challenged with huge debt repayments in the next two years.

The new government formed after parliamentary election in June, was struggling to tackle the country's fiscal deficit, holding negotiations to obtain long-term loans with low interest for refinancing.

Mongolia's annual GDP growth was expected to slow to 0.3% according to ADB and 0.1% according to World Bank. However, IMF showed more pessimistic forecast with annual GDP growth of 0.04% in 2016. According to the National Statistical Office (NSO), the economy grew by 1%.

In 2016, state budget revenues dropped by 2.1%, while expenditures grew by 33.4%. As a result, the state budget deficit tripled to MNT 3,667.8 bln. Unbudgeted government programs financed by the Bank of Mongolia mainly contributed into the rise in expenditures. The new government took corrective measures terminating some programs, cutting expenditures and seeking new sources of revenues. The Mongolian government ensured that it will not raise taxes.

Exports rose by 5.3% to USD 4.9 bln, while imports declined by 11.6% to USD 3.4 bln that led to about twofold rise in foreign trade surplus. Drop in imports, in particular import of investment goods and oil, added to foreign trade surplus.

However, foreign reserves diminished to USD 1.2 bln.

Togrog exchange rate depreciation against US dollar reached its peak at MNT 2490.34 on 22 December 2016. Year-on year weakening of Togrog was 24%.

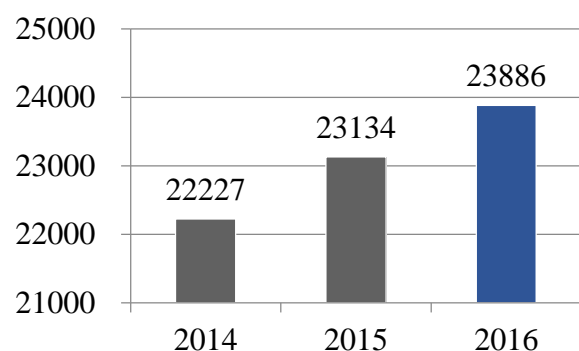
Economic prospects



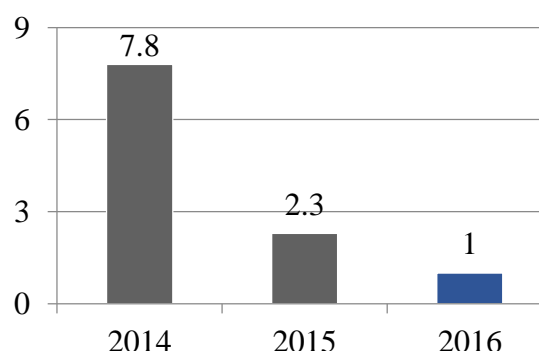
It is expected that the dominating position of the Mongolian People's Party in parliament would smooth the path for more efficient policymaking. Anticipated expansion of the massive Oyu Tolgoi mine and development of other mega projects should lift economic growth back into positive territory. An IMF bailout in 2017 would help to strengthen the Mongolian balance of payments. However, the government needs still to struggle to contain the fiscal deficit to a reasonable size.

NATIONAL ECONOMIC INDICATORS

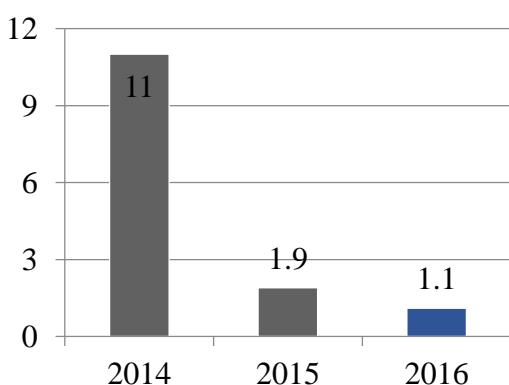
GDP at current prices (billion MNT)



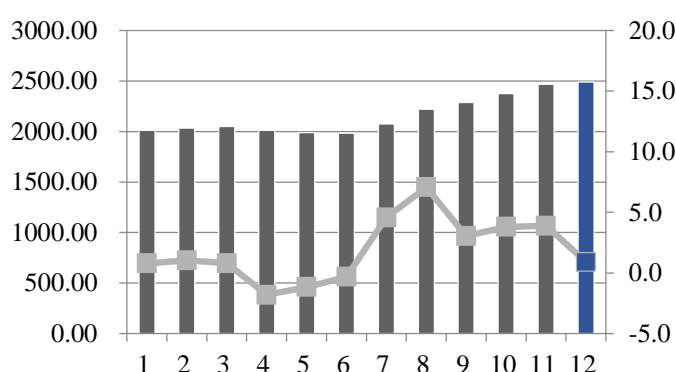
Real GDP growth (by percentage)



Inflation rate (by percentage)



Monthly average USD exchange rate and changes



Main indicators of Banks and NBFIs

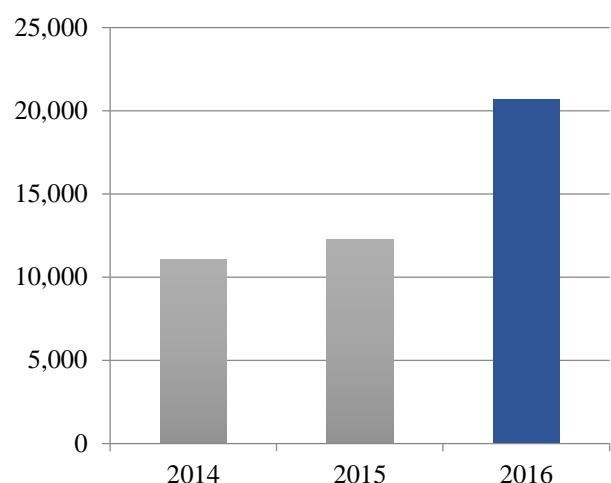
(by million MNT)

	2014	2015	2016
Banks			
Total assets	22,582,376.8	21,521,242.5	25,338,363.6
Loans	12,440,925.9	11,633,582.6	12,337,508.6
NPL	623,937.9	867,288.7	1,047,453.7
NPL/Total Loans %	5.0%	7.5%	8.5%
NBFIs			
Number	378	450	518
Total Assets	507,965	623,173	754,283
Loans	303,132	391,235	478,175
NPL	19,246	38,324	59,455
NPL/Total loans %	6.3%	9.8%	12.4%

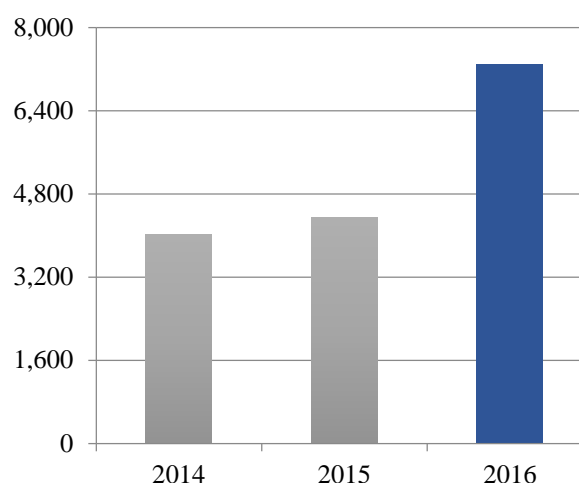
Source: Bank of Mongolia, FRC

PERFORMANCE IN 2016

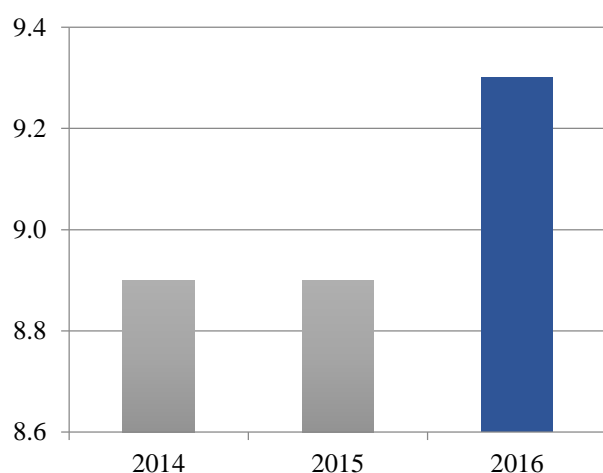
Total Assets (million MNT)



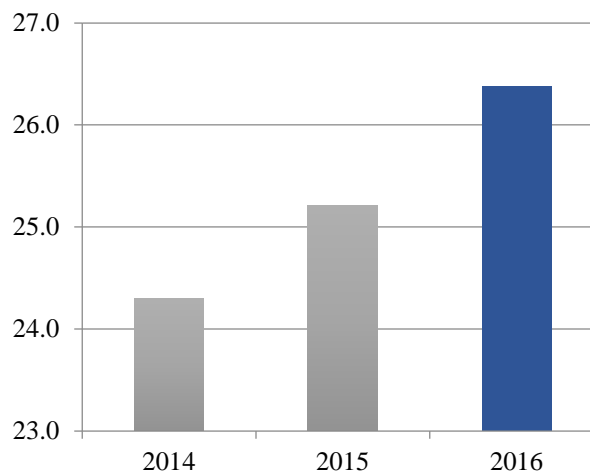
Total Equity (million MNT)



Return on Assets (percentage)



Return on Equity (percentage)



In the reporting year, total assets rose by 68.5% to MNT 20.7 billion and the equity generated by 67.7% and totaled MNT 7.2 billion. Income data showed good performance. Profit after tax soared by 75.5%, while ROE reached 26.4% and ROA was 9.3% in 2016.



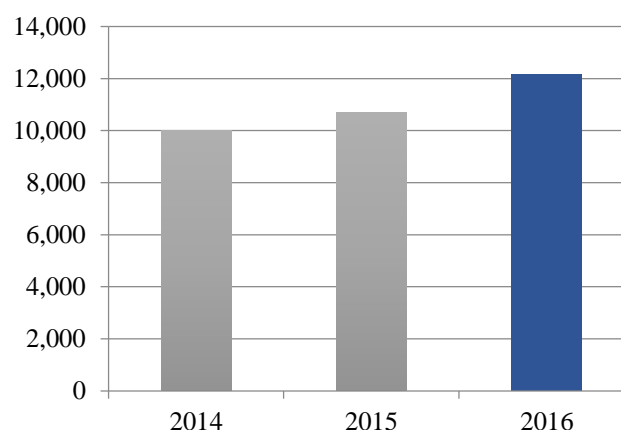
As a result of our accomplishments we were awarded “Best Investor Institution 2016” trophy from the Mongolian Non-Bank Financial Institutions’ Association and our CEO Mrs. Tsolmon was honored as “Lady Entrepreneur 2016” by the Mongolian National Chamber of Commerce and Industry.

LOAN SERVICES



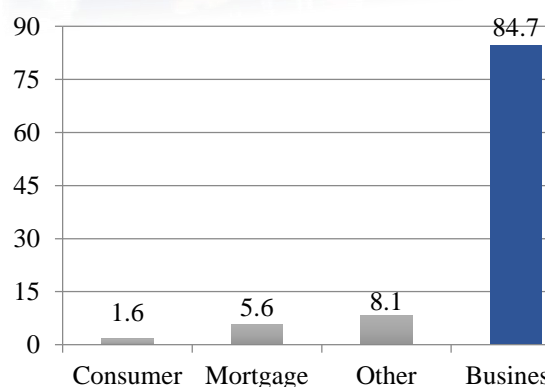
Total Loans

(million MNT)



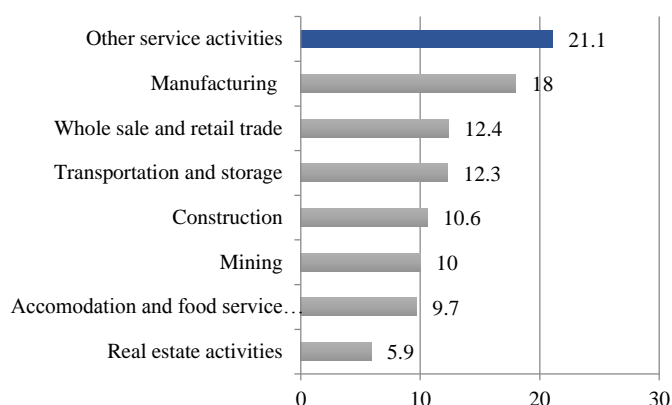
Loan composition by products

(percentage)



Loan composition by sectors

(percentage)



In 2016, total loans rose by MNT 1.4 billion or 13.6% to MNT 12.2 billion. Out of total loans, 18% was provided to manufacturing, 12.4% to wholesale and retail trade, 12.3% to transportation and storage, 10.6% to construction, 10% to mining, 9.7% to accommodation and food service activities and 5.9% to real estate activities, while loans to other economic sectors made up 21.1%.

The breakdown of loan portfolio by loan purposes remained comparatively stable. The share of business loans increased from 79.7% to 84.3%, and the share of mortgage loans decreased from 5.4% to 3.8%, while consumer loans dropped from 5.8% to 3.8% in 2016. In summary, business purposes loans made up the largest portion in the loan portfolio.

In the reporting year we granted loans to 224 borrowers and our average loan issued was MNT 43 million.

LOAN PRODUCTS

We are offering the following loan products to our customers in financial need:

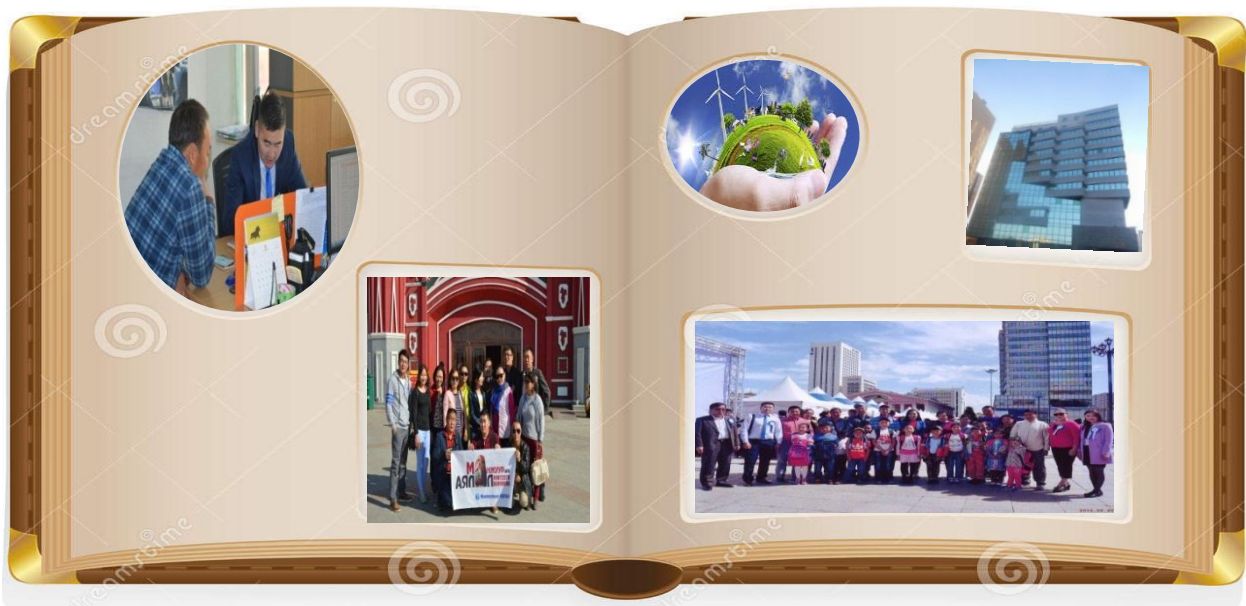
1. **Business loans** - Business loan is designed for businesses operating successfully and willing to expand their activity. Purpose of the business loan is to provide the borrowers an opportunity to expand their business operations, to create sustainable workplaces and increase living standards.
2. **Sustainable livelihood project loans** - Micro-finance loan is designed to provide credit facilities to low and middle income people who have no access to financial services and credit facilities available at banks and other financial institutions. The purpose of the Micro Finance Development Loan is to help those marginal and low income people to increase their income, build stable income source, improve their living conditions and reduce their social vulnerability.
3. **Salary loans** - ABTS NBFI's salary loan service is available to all working people in both private and public sectors.
4. **Credit line** - Credit line is extended to businesses and entrepreneurs to help them to smooth their financial flows.
5. **Mortgages** - Mortgage loans finances purchase of apartments and houses by individuals. We introduced simplified loan issue procedure.
6. **Apartment maintenance loans** - Loan provided to individuals for their apartment maintenance and repairs.
7. **Loans on improvement of living conditions** - This loan is issued for improvement, expansion and maintenance of living premises.
8. **Start-up loans** - This loan is provided to businesses which start their operations. As usual these businesses are without experience, and these loans bear comparatively higher risk.
9. **Trust secured loans** - Loans collateralized by financial resources held in trust account with ABTS NBFI.
10. **Consumer loans** - Consumer loan is lent for various personal, family, household purposes.
11. **Loans for acquisition of premises** - Loan is provided for purchasing premises, houses.
12. **Automobile loans** - Loan provided for purchasing car.
13. **Student loans** - Loan is provided for the financial need of students that enrolled in the Mongolian Universities.
14. **Working Student loans** - Loan is issued to cover the expenses of students who are willing to work and travel abroad during their vacation.
15. **Employee salary loans** – This preferential loan is provided to the employees of ABTS NBFI in order to serve financial needs of employees and sustainable performance of the company.

SOCIAL RESPONSIBILITY

We are committed to achieving tangible, sustainable fulfillment of our corporate social responsibilities. We are focused on conducting our business activities with a balance among three dimensions – economic, social, and environmental.

Social responsibility activities by ABTS NBFI in 2016:

- We carry out operations by consistently supporting and financing environmentally friendly activities of our borrowers.
- All loan officers attended training on risk management, organized by the Banking and Finance Academy and Mongolian Non-Bank Financial Institutions Association.
- Mongolian Non-Bank Financial Institutions Association awarded and titled ABTS NBFI as the “Best Investor of the Year”.
- We supported hosting the 11th Asia-Europe Meeting (ASEM 11) Summit that facilitated Mongolia’s world-wide advertisement and propaganda.
- Within the framework of Mongolian Non-Bank Financial Institutions Association’s campaign directed at providing 1000 school bags to children from poor and low-income households in order to encourage them to learn and study, we provided 20 school bags.
- Collaborated with the Mongolian Non-Bank Financial Institutions Association in preparing proposals to develop some regulations on non-bank financial activity in Mongolia and participated in various activities organized by the Association, including sport events and training courses.
- All employees participated in Manchuria trip that facilitated development of team culture.
- Celebrated the 15th anniversary of successful and dedicated work (the Mongolian Youth Association awarded “Young Leader” and “Labor Honor” medals to our two loan officers and the FRC awarded “Labor Honor” medal to the chief accountant).





SULD-AUDIT LLC

ACCOUNTING CONSULTING, AUDIT
ASSET VALUATION COMPANY

Date 02.02.2017

Ref 17/08

Ulaanbaatar

TO SHAREHOLDERS OF "ABTS NBFI" LLC

Report on the audit of the financial statements

Unqualified opinion

We have audited the financial statements of "ABTS NBFI" LLC, which comprise the statement of financial position as at December 31, 2016, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements express true and fair view in all material aspects the financial position as at December 31, 2016 of "ABTS NBFI" LLC, and financial performance and cash flows for the year then ended in compliance with International Financial Reporting Standards and in accordance with resolutions, ordinances and guidance approved by the Financial Regulatory Commission.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance of these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the audit of the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT

/contd. /


In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

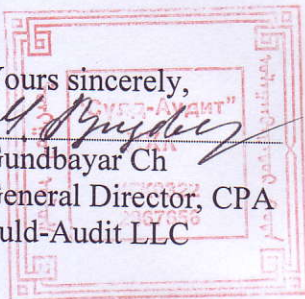
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users.

Yours sincerely,


Gundbayar Ch
General Director, CPA
Suld-Audit LLC



AUDITED STATEMENT OF FINANCIAL POSITION*As at December 31, 2016*

(in thousand MNT)

	December 31, 2015	December 31, 2016
A. Assets		
Cash and cash equivalents	642 869.0	5 925 609.5
Loans /net/	10 527 260.0	11 719 860.5
Accrued interest	739 571.2	1 665 344.0
Other assets	47 797.9	13 625.3
Total Current assets	11 957 498.1	19 324 439.3
B. Non-current assets		
Fixed assets	310 426.3	1 346 708.1
Buildings	328 526.3	328 526.8
Accumulated depreciation	(28 801.0)	(37 031.0)
Furniture and fixtures	13 858.7	16 387.5
Accumulated depreciation	(5 420.8)	(6 825.0)
Technical facilities	11 976.4	11 690.3
Accumulated depreciation	(9 713.8)	(10 153.9)
Unfinished goods	-	1 044 113.4
Intangible assets	1 075.0	977.3
Total Non-current assets	311 501.3	1 347 685.4
TOTAL ASSETS	12 268 999.4	20 672 124.7
Short-term liabilities		
Trust service payables	2 642 434.0	2 450 981.2
Interest accruals	296 090.8	119 568.0
Income tax payables	41 312.8	41 203.9
Other	-	196 528.7
Total Short-term liabilities	2 979 837.6	2 808 281.8
Long-term liabilities		
Project financing	4 941 364.5	10 570 630.0
Total Long-term liabilities	4 941 364.5	10 570 630.0
Total liabilities	7 921 202.1	13 378 911.8
Equity		
Share capital	3 121 680.0	4 689 480.0
Additional paid-in capital	130 344.0	679 074.0
Retained earnings/loss	1 095 773.3	1 924 658.9
Total Owner's Equity	4 347 797.3	7 293 212.9
TOTAL LIABILITIS AND EQUITY	12 268 999.4	20 672 124.7

The accompanying notes are an integral part of the financial statements.

AUDITED STATEMENT OF COMPREHENSIVE INCOME*For the year ended December 31, 2016*

	(in thousand MNT)	
	December 31, 2015	December 31, 2016
Interest income	2 586 477.1	2 219 588.4
Interest expense	412 278.7	825 995.1
Net interest income	2 174 198.4	1 393 593.3
Currency exchange and retranslation income (net)	-	1 924 146.5
Other operating income	90 629.0	96 984.7
Total non-interest income	90 629.0	2 021 131.2
Net operating income	2 264 827.4	3 414 724.5
Difference in currency exchange and retranslation	22,773.1	-
Operating expenses	779 406.6	989 984.2
Total Operating expenses	802 179.7	989 984.2
Profit/Loss before loan provisions	1 462 647.7	2 424 740.3
Contingent risk expense	254 771.0	263 129.5
Operating Profit/Loss	1 207 876.7	2 161 610.8
Non-operating income	18 846.8	14 957.9
Non-operating expenses	5 675.9	21 084.4
Non-operational profit (loss)	13 170.9	(6 126.5)
Net profit (loss) before tax	1 221 047.6	2 155 484.3
Income tax	125 274.3	230 825.4
Net profit (loss) for reporting period	1 095 773.3	1 924 658.9

The accompanying notes are an integral part of the financial statements.

AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY*For the year ended December 31, 2016*

	Share capital	Paid-in capital	Retained earnings	Total amount
Balance as at January 01, 2015	2 965 680.0	75 744.0	976 088.5	4 017 512.5
Changes in accounting policies				
Adjusted balance				
Revaluation reserve				
Investment revaluation reserves				
Unrecognized loss/profit in income statement				
Net profit for the reporting period			1 095 773.3	1 095 773.3
Dividends			(976 088.5)	(976 088.5)
Share capital	156 000.0	54 600.0		210 600.0
Balance as at December 31, 2015	3 121 680.0	130 344.0	1 095 773.3	4 347 797.3
Changes in accounting policies				
Adjusted balance				
Revaluation reserve				
Investment revaluation reserves				
Unrecognized loss/profit in income statement				
Net profit for the reporting period			1 924 658.9	1 924 658.9
Dividends			(1 095 773.3)	(1 095 773.3)
Share capital	1 567 800.0	548 730.0		2 116 530.0
Balance as at December 31, 2016	4 689 480.0	679 074.0	1 924 658.9	7 293 212.9

The accompanying notes are an integral part of the financial statements.

AUDITED STATEMENT OF CASH FLOWS*For the year ended December 31, 2016*

		(in thousand MNT)
Row №		December 31, 2016
1	Cash flows from operating activities	5 298 723.6
1.1	Cash inflows from operating activities (+)	18 460 757.5
	Loan interest income	1 460 929.4
	Deposits interest income	3 138.2
	Commission and fees income	15 202.6
	Proceeds from loan repayment	
	Foreign currency exchange income	1 688 109.3
	Proceeds from trust services	414 247.0
	Proceeds from receivables	
	Other cash inflows	14 879 131.0
1.2	Cash outflows from operating activities (-)	13 162 033.9
	Payments to employees	42 651.3
	Payment of social insurance benefits	300.4
	Payment to Social insurance	28 485.7
	Payment to Issued loans	19 798.4
	Foreign currency exchange expenses	
	Payment for utilities	3 140.3
	Payment for fuel, transportation, and spare parts	14 538.1
	Payment of interest on borrowed funds	768 393.1
	Trust service income/interest expenses	
	Trust service payments	1 195 972.7
	Tax paid	263 116.8
	Expenses on loan recovery	7 912 178.6
	Other cash payments	2 913 458.5
2	Cash flows from non-operating activities	
2.1	Cash inflows from non-operating activities	-
	Penalties, fines	
	Income from sale of fixed assets	
	Other	
2.2	Cash outflows from non-operating activities	(15 983.1)
	Celebration expense	15 093.3
	Penalties, fines	
	Expense on off-written assets	
	Other	889.8
3	NET CASH FLOWS	5 282 740.5
4.1	Cash and cash equivalents at the beginning of the year	642 869.0
4.2	Cash and cash equivalents at the end of the year	5 925 609.5

The accompanying notes are an integral part of the financial statements.

