

2017

ANNUAL REPORT



*Empowering
people
through
finance*



MESSAGE FROM THE CEO



ABTS NBFI has a rich history of helping entrepreneurs and SMEs. In 2017, we stayed close to them to understand more deeply their needs and serve them at our best.

In 2017, our total assets declined by MNT 2.9 billion or 13.8% totaling MNT 17.8 billion. Loans diminished by MNT 1.8 billion or 14.8% to MNT 10.4 billion.

Drop in assets was linked to repayment of loans to our creditors according to the schedule. We have fulfilled our liabilities in accordance with the relevant agreements. And we will continue to remain the reliable partner. We developed our fruitful collaboration with the Mongolian Micro Finance Development Fund, and started implementation of the seventh project to help low and middle income households and individuals.

Unfortunately, in the reporting year, our profit decreased by about 80%, and ROE recorded low at 7.2%. Togrog exchange rate volatility had an influence.

ABTS NBFI remained a sound institution in times of economic hardship. The ratio of non-performing loans to total equaled 2.8%.

We face year 2018 with strong desire and capability to improve our operating efficiency and increase the value for our Shareholders.

I would like to thank our shareholders', partners' and customers' trust and confidence, and hard work and loyalty of our staff.

ANNUAL REPORT 2017

Table of Contents

	Page #
1. Message from the CEO	<u>1</u>
2. About ABTS NBFi	<u>3</u>
3. Mongolian Economy	<u>5</u>
a. Economic prospects	<u>5</u>
4. National economic indicators	<u>6</u>
5. Performance in 2017	<u>7</u>
6. Loan services	<u>8</u>
7. Loan products	<u>9</u>
8. Social responsibility	<u>10</u>
9. Auditor's opinion	<u>12</u>
10. Audited financial statements	<u>14</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 54.8 billion to around 3700 clients. Total assets soared 193 times, while total loans increased 158 times and the equity rose 136 times.

As end of 2017, our total assets and total loans reached MNT 17.8 billion and MNT 10.4 billion, respectively. Equity equaled to MNT 5.4 billion

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.

Due to the economic slowdown in 2017, ABTS NBFI implemented quality over quantity loan policy. Total loans declined by MNT 1.8 billion or 14.8% to MNT 10.4 billion, and non-performing loans ratio decreased from 4.9% to 2.8%.



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.



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



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.

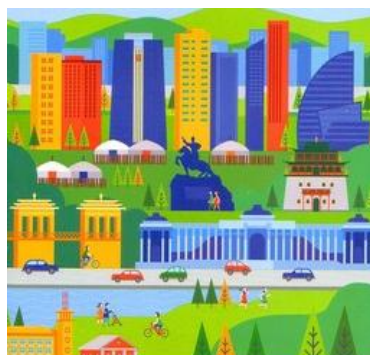
Our borrower improved his living conditions by upgrading his house interior. Moreover, installed electric heating system contributed into the reduction of air pollution:





MONGOLIAN ECONOMY

Economic performance



The Mongolian economy suffered from low commodity prices in the world market in 2016. However, higher prices for key export commodities helped the economy in 2017. The economic activity started to accelerate. Implementation of the IMF's Extended Fund Facility program facilitated stabilization process and improvement of macro-economic environment. Except fiscal consolidating, strengthening banking sector, the program includes improving the business environment, promoting economic diversification, and encouraging foreign direct investment.

The economy grew by 5.1%, considerably better than 1.2% in 2016. Investment contributed by 13.7% p.p into the growth and consumption added 1.8 p.p. GDP accounted to MNT 27.2 trillion. Foreign trade turnover generated by USD 2.3 billion or 27.3%. Exports increased by USD 1.3 billion or 26.1%, mainly influenced by twofold rise in coal export. International reserves more than doubled from 2016, and the fiscal deficit decreased twice. Inflation was maintained within the targeted range at 6.4%.

Mongolia still remains vulnerable to price volatility in the world commodities market. However, the rise in commodities prices is expected to remain in the nearest future. Furthermore, economic forecast for upcoming years had shown some positive results.

In 2017, Mongolia succeeded to avoid the risk of debt default. The Development Bank of Mongolia's Eurobond was replaced by the Mongolian Government's new bond Khuraldai. Also, the Government issued Gerege bond to repay Chinggis bond and "Dim Sum" bond which matured early in 2018. The foreign debt burden has been lessened.

In 2017, the exchange rate of Togrog against USD improved by 2.5% or MNT 62.4. Average togrog exchange rate appreciated against US dollar by MNT 49.1.

Economic prospects

The IMF three-year Extended Fund Facility program aims to stabilize the economy, and facilitate further economic recovery. The Mongolian authorities projected economic growth of 4.2% in 2018. Also, IMF and ADB projected growth of 4.2% in 2018. World Bank forecast is 3.1% in 2018, 7.3% in 2019, and 5.5% in 2020. Significant changes are projected for the medium term.

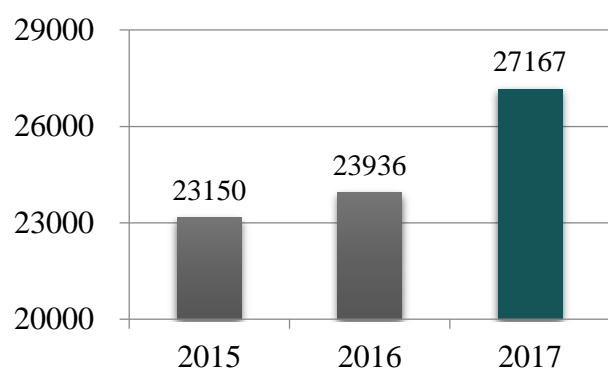


According to the World Bank's *Commodity Markets Outlook*, minerals and metals price is likely to rise in 2018. It is expected that strong demand for coal from China and an expansion of the massive Oyu Tolgoi mine will be a major boost to economic growth in 2018-19.

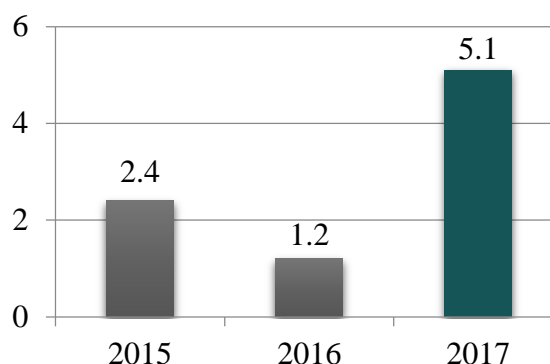


NATIONAL ECONOMIC INDICATORS

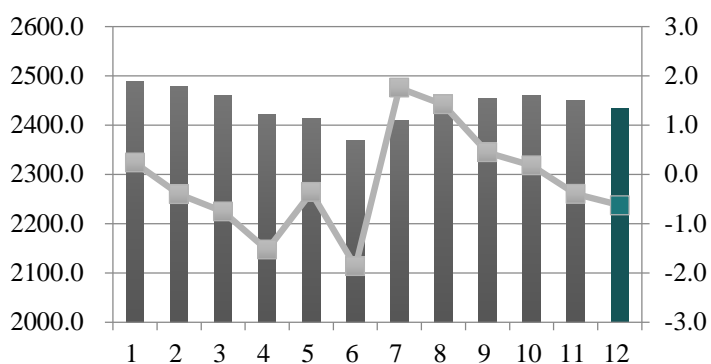
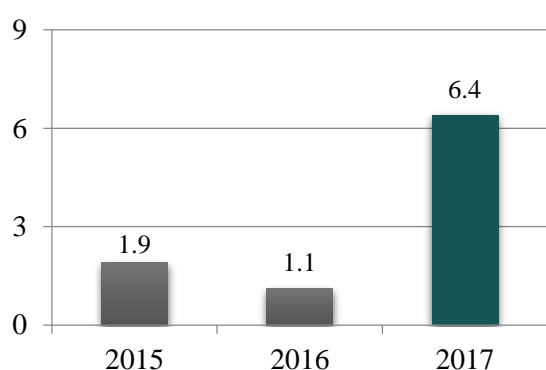
GDP at current prices (billion MNT)



Real GDP growth (by percentage)



Inflation rate (by percentage) **Monthly average USD exchange rate and changes**



Main indicators of Banks and NBFIs

(by billion MNT)

	2015	2016	2017
Banks			
Total assets	21,521.2	25,338.4	28,772.9
Loans	11,633.6	12,338.0	13,506.5
NPL	867.3	1,047.5	1,148.5
NPL/Total Loans %	7.5%	8.5%	8.5%
NBFIs			
Number	450	518	534
Total Assets	623.2	787.2	969.2
Loans	391.2	478.2	638.0
NPL	38.3	59.5	81.1
NPL/Total loans %	9.8%	12.4%	12.7%

Source: Bank of Mongolia, FRC

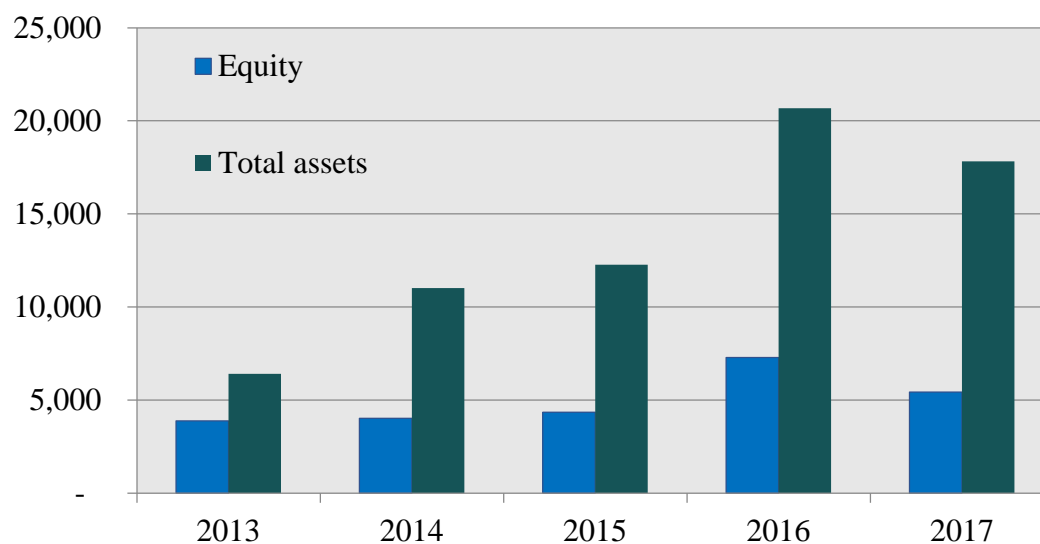


PERFORMANCE IN 2017



In the reporting year, total assets declined by 13.8% to MNT 17.8 billion, while total loans dropped by 14.8% to MNT 10.4 billion. We made payment of loan interest and repayment of loan principal around MNT 4 billion to our lenders last year that influenced drop in total assets.

Equity and total assets, million MNT

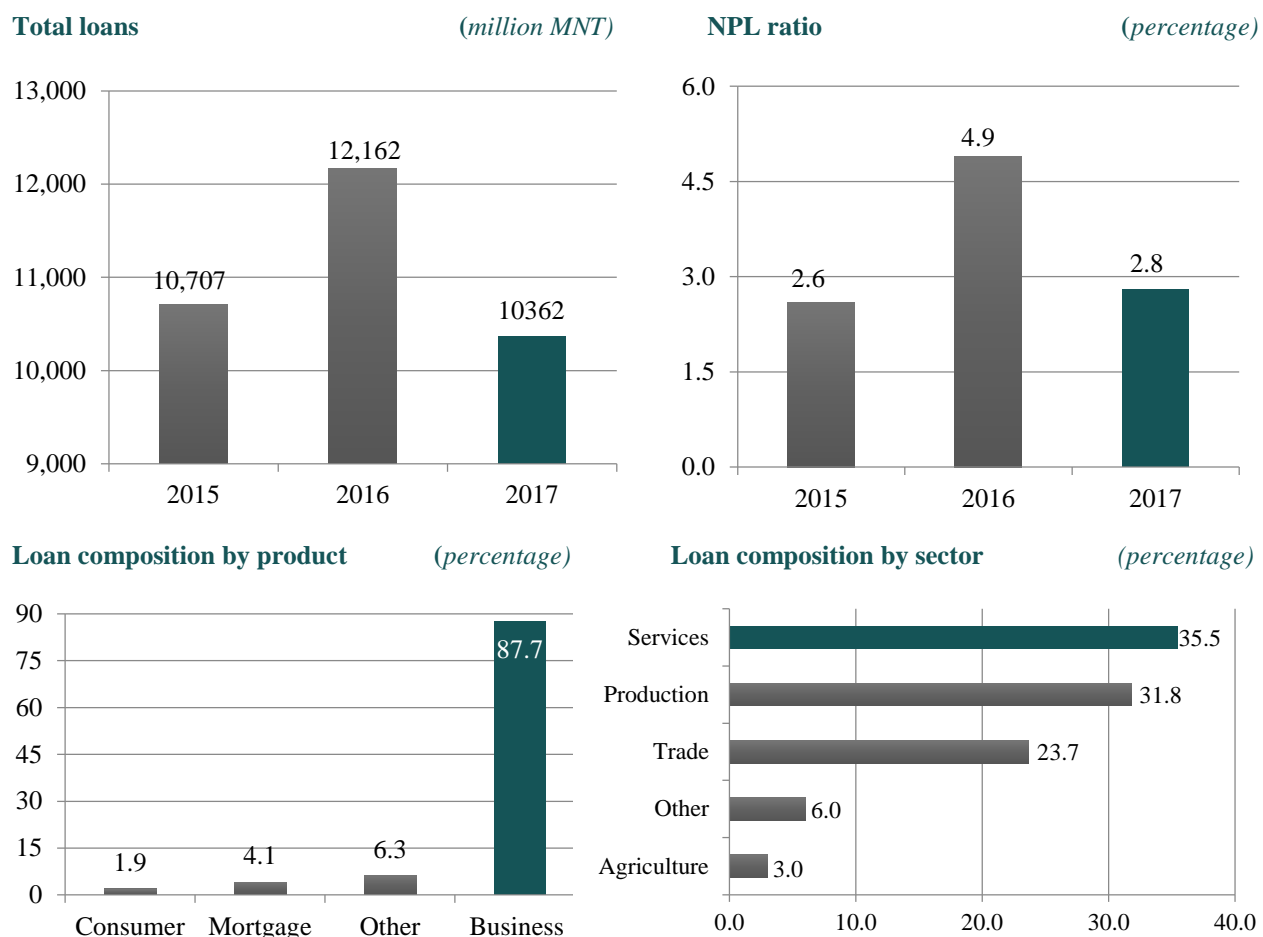


Equity dropped by 25.6% and totaled MNT 5.4 billion. Profit after tax also lowered by 79.6%, while ROE reached 7.2% and ROA was 2.2% in 2017.



LOAN SERVICES

In worsened economic conditions, we paid more attention to loans quality and made efforts to improve the loan portfolio rather than expand the loan market. Total loans declined by MNT 1.8 billion or 14.8% to MNT 10.4 billion. On the other hand, as a result of directing distribution of loans to comparatively trustworthy clients and taking measures on enhancing the quality of loan portfolio, our non-performing loans ratio decreased from 4.9% to 2.8%, compared to 2016.



Out of total loans, 35.5% was provided to services, 31.8% to production, 23.7% to trade and 3% to agriculture sector, while loans to other economic sectors made up 6%.

The breakdown of loan portfolio by loan purposes remained comparatively stable. The share of business loans slightly increased from 84.7% to 87.7%, while the share of mortgage loans declined from 5.6% to 4.1%, and consumer loans rose from 1.6% to 1.9% in 2017. In summary, business purposes loans made up the largest portion in the loan portfolio.

In the reporting year, we granted loans to 174 borrowers and our average loan issued was MNT 56 million.



LOAN PRODUCTS

We offer the following loan products to our customers:

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. **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.
3. **Credit line** - Credit line is extended to businesses and entrepreneurs to help them to smooth their financial flows.
4. **Micro Finance Development Fund's project loans** - Micro-finance loan is designed to provide credit facilities to low and middle income people to help them to increase their income, build stable income source, improve their living conditions and reduce their social vulnerability. These loans are provided within the Micro Finance Development Fund's project.
5. **Trust secured loans** - Loans collateralized by financial resources held in trust account with ABTS NBFI.
6. **Consumer loans** - Consumer loan is lent for various personal and household purposes.
7. **Salary loans** - Salary loan service is available to all working people in both private and public sectors.
8. **Loans for acquisition of premises** - Loan is provided for purchasing premises, houses.
9. **Loans on improvement of living conditions** - This loan is issued for improvement, expansion and maintenance of living premises.
10. **Mortgages** - Mortgage loans finance purchase of apartments and houses.
11. **Apartment maintenance loans** - Loan provided to individuals for their apartment maintenance and repairs.
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 loan is provided to the employees of ABTS NBFI in order to serve their financial needs and facilitate 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. Our operations were directed at consistently supporting and financing environmentally friendly activities of our borrowers.

Social responsibility activities by ABTS NBFi in 2017:

- Implemented the seventh project of Micro Finance Development Fund, Mongolia
- As the Best Investor of 2016 (awarded by the Mongolian Non-Bank Financial Institutions Association), we organized meeting among other NBFIs, during which we introduced ABTS activity, made presentation on various forms of external financing, and shared our experience
- Presented gifts to children from poor and low-income households of Chingeltei District on Children's Day
- Provided 50 school bags within the framework of MNBFI Association's campaign directed at providing 1000 school bags to children from poor and low-income households, with the purpose to encourage them and strengthen their willingness to learn and study
- We granted loans to 27 female heads of households to support single mothers.
- Took part in preparation of the National program on Development of financial market of Mongolia until 2025.



COMPANY DETAILS

ABTS NON-BANK FINANCIAL INSTITUTION

302, Logos office

Chingeltei District - 6

Ulaanbaatar – 15140

Tel: (976-11) 318-133, (976-11) 7000-7616

Fax: (976-11) 329678

E-mail: info@abts.mn

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SULD-AUDIT LLC

ACCOUNTING CONSULTING, AUDIT
ASSET VALUATION COMPANY

Date 26.01.2018

Ref LB/03

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, 2017, 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, 2017 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.

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,

"Сулд-Аудит"
УГК0322
26.12.16
Gundbayar Ch.
General Director, CPA
Suld-Audit LLC

AUDITED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

(in thousand MNT)

	December 31, 2016	December 31, 2017
A. Assets		
Cash and cash equivalents	5 925 609.5	3 018 244.8
Loans /net/	11 719 860.5	10 076 557.6
Accrued interest	1 665 344.0	2 889 265.2
Other assets	13 625.3	84 277.5
Total Current assets	19 324 439.3	16 068 345.1
B. Non-current assets		
Fixed assets	1 346 708.1	1 749 848.4
Buildings	328 526.9	328 526.9
Accumulated depreciation	(37 031.0)	(45 238.6)
Furniture and fixtures	16 387.5	16 387.5
Accumulated depreciation	(6 825.0)	(8 362.6)
Technical facilities	11 690.3	11 690.3
Accumulated depreciation	(10 153.9)	(10 629.1)
Unfinished goods	1 044 113.4	1 457 474.0
Intangible assets	977.3	879.5
Total Non-current assets	1 347 685.4	1 750 727.9
TOTAL ASSETS	20 672 124.7	17 819 073.0
Short-term liabilities		
Trust service payables	2 450 981.2	4 273 816.0
Interest accruals	119 568.0	286 384.8
Income tax payables	41 203.9	78 464.1
Dividends payable	-	226 452.0
Other	196 528.7	216 892.6
Total Short-term liabilities	2 808 281.8	5 082 009.4
Long-term liabilities		
Project financing	10 570 630.0	7 309 382.5
Total Long-term liabilities	10 570 630.0	7 309 382.5
Total liabilities	13 378 911.8	12 391 391.9
Equity		
Share capital	4 689 480.0	4 689 480.0
Additional paid-in capital	679 074.0	679 074.0
Retained earnings/loss	1 924 658.9	37 298.3
Benefice		21 828.8
Total Owner's Equity	7 293 212.9	5 427 681.1
TOTAL LIABILITIES AND EQUITY	20 672 124.7	17 819 073.0

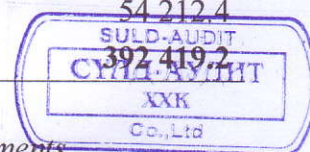
The accompanying notes are an integral part of the financial statements.



AUDITED STATEMENT OF COMPREHENSIVE INCOME*For the year ended December 31, 2017*

(in thousand MNT)

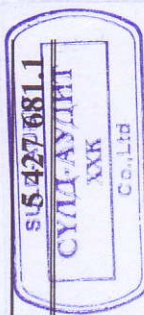
	December 31, 2016	December 31, 2017
Interest income	2 219 588.4	2 568 993.6
Interest expense	825 995.1	1 002 775.3
Net interest income	1 393 593.3	1 566 218.3
Currency exchange and retranslation income (net)	1 924 146.5	-
Other operating income	96 984.7	169 765.6
Total non-interest income	2 021 131.2	169 765.6
Net operating income	3 414 724.5	1 735 983.9
Difference in currency exchange and retranslation	-	272 302.4
Operating expenses	989 984.2	768 823.8
Total Operating expenses	989 984.2	1 041 126.2
Profit/Loss before loan provisions	2 424 740.3	694 857.7
Contingent risk expense	263 129.5	255 169.3
Operating Profit/Loss	2 161 610.8	439 688.4
Non-operating income	14 957.9	13 810.7
Non-operating expenses	21 084.4	6 867.5
Non-operational profit (loss)	(6 126.5)	6 943.2
Net profit (loss) before tax	2 155 484.3	446 631.6
Income tax	230 825.4	54 212.4
Net profit (loss) for reporting period	1 924 658.9	392 419.2

*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, 2017

	Share capital	Paid-in capital	Retained earnings	Total amount
Balance as at January 01, 2016	3 121 680.0	130 344.0	1 095 773.3	4 347 797.3
Changes in accounting policies				
Adjusted balance				
Revaluation reserve	3 121 680.0	130 344.0	1 095 773.3	4 347 797.3
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
Changes in accounting policies				
Adjusted balance				
Revaluation reserve				
Investment revaluation reserves				
Unrecognized loss/profit in income statement				
Net profit for the reporting period			392 419.2	392 419.2
Dividends			(2 257 951.0)	(2 257 951.0)
Share capital				
Balance as at December 31, 2017	4 689 480.0	679 074.0	59 127.1	5 427 681.1



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

AUDITED STATEMENT OF CASH FLOWS*For the year ended December 31, 2017*(in thousand
MNT)

Row №		December 31, 2016	December 31, 2017
1	Cash flows from operating activities	5 298 723.6	(2 903 211.9)
1.1	Cash inflows from operating activities (+)	18 460 757.5	9 616 474.9
	Loan interest income	1 460 929.4	1 039 787.6
	Deposits interest income	3 138.2	4 986.9
	Commission and fees income	15 202.6	18 249.7
	Savings interest income at Bank		103 185.0
	Foreign currency exchange income	1 688 109.3	305 473.8
	Proceeds from trust services	414 247.0	1 271 792.0
	Other cash inflows	14 879 131.0	6 872 999.9
1.2	Cash outflows from operating activities (-)	13 162 033.9	12 519 686.8
	Payments to employees	42 651.3	47 051.0
	Payment of social insurance benefits	300.4	848.4
	Payment to Social insurance	28 485.7	27 820.3
	Payment to Issued loans	19 798.4	41 168.0
	Foreign currency exchange expenses		
	Payment for utilities	3 140.3	2 818.3
	Payment for fuel, transportation, and spare parts	14 538.1	14 593.8
	Payment of interest on borrowed funds	768 393.1	696 028.7
	Trust service income/interest expenses		
	Trust service payments	1 195 972.7	646 312.5
	Tax paid	263 116.8	336 564.8
	Expenses on loan recovery	7 912 178.6	7 655 330.5
	Other cash payments	2 913 458.5	3 051 150.5
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)	(4 152.9)
	Celebration expense	15 093.3	4 152.9
	Other	889.8	0.0
3	NET CASH FLOWS	5 282 740.5	(2 907 364.8)
4.1	Cash and cash equivalents at the beginning of the year	642 869.0	5 925 609.5
4.2	Cash and cash equivalents at the end of the year	5 925 609.5	3 018 244.8

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