"ARD FINANCIAL GROUP"
Closed Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENT
for the year ended 31 December 2016

Contents

Statement of Management's Responsibility for the preparation and approval of consolidated financial statements for the year ended 31 December 2016

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on pages 5-8, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of "Ard Financial Group" Closed JSC ("AFG") and its subsidiaries, "Ard Securities" SC LLC, "Tenger Systems" LLC, "MTND" LLC, "Ard Daatgal" LLC, "Ard Credit" LLC, "Ard Management" LLC, "Jinst-Uvs" JSC, "Altan Khoromsog" SC LLC, "Ard Life" LLC as a group ("Group") for the year ended 31 December 2016.

The management of the Group is responsible for the preparation of these consolidated financial statements that present fairly, in accordance with International Financial Reporting Standards ("IFRS"). We acknowledge our responsibilities and confirm that we have prepared these financial statements fairly in accordance with International Financial Reporting Standards ("IFRS") and accounting law, regulations and guidelines that are effect in Mongolia.

The consolidated financial statements of "Ard Financial Group" Closed JSC for the year ended 31 December 2016 were authorized for issuance by the Company management.

GANHUYAG.CH	**OYUN-ERDENE.T**
Executive director	*Accountant*

Ulaanbaatar, Mongolia

Incorporation decision	Ard Financial Group LLC was incorporated as a Limited Liability Company in accordance with the shareholders’ resolution dated 10 October 2005 under the name of “EIT” LLC. In accordance with the resolution of the Board of Directors dated 08 April 2014, the name “EIT” LLC was changed to “Ard Financial Group” LLC and was registered to the State Registration Office on 26 June 2014. According to shareholders’ resolution dated 03 December 2014, the company became Closed Joint Stock Company and was registered to the State Registration Office on 23 November 2015.

Consolidated companies

		2016	**2015**
“Ard Securities SC” LLC	100%	Yes	Yes
“Tenger Systems” LLC	100%	Yes	Yes
“MTND” LLC	100%	Yes	Yes
“Ard Daatgal” LLC	83.03%	Yes	Yes
“Ard Credit NBFI” LLC	80.7%	Yes	Yes
“Ard Management” LLC	100%	Yes	Yes
“Jinst-Uvs” JSC	84.6%	Yes	Yes
“Altan Khoromsog SC” LLC	100%	Yes	No
“Ard Life” LLC	100%	Yes	No

Shareholders

Batkhishig Khishigdorj	12%
Luna and Luna LLC	10.3%
Ventures One	9.26%
Bruno Rashle	9.25%
Ganhuyag Chuluun	8.04%
Investor Nation JSC	7.5%
Inter Group International LLC	6.51%
Mongolyn Alt LLC	6.2%
Gereltuya Sedbazar	3.21%
Others	27.72%
	100%

Board of Directors

Chairman of the Board of Directors	Oyungerel.J
Member of the Board of Directors	Ganhuyag.Ch
	Odbayar.O
	Ariuntugs.Ts
	Soronzonbold.L
	Bruno Rashle
	Bayarjargal.V
	Batbayar.P
	Tsogbadrakh.G
	Anthony Hobrow

Corporate Information

Executive Management	Executive Director	Ganhuyag.Ch
Permanent address	**Ard Financial Group Closed JSC** 2nd floor of Ard Holdings Building Prime Minister Amar.A street Sukhbaatar district, Mongolia, Ulaanbaatar,	
Auditor	**BDO Audit LLC** 15th floor, room-1502, Union building, “B” block, Narnii road-62, Unesco street, Sukhbaatar district, 1st Khoroo, Mongolia, Ulaanbaatar,	

INDEPENDENT AUDITOR'S REPORT
To the shareholders of "ARD FINANCIAL GROUP" Closed JSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of "Ard Financial Group" Closed JSC (the Group), and its subsidiaries which comprise:

- the consolidated statement of financial position as of December 31, 2016;
- the consolidated statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the significance of the matter discussed in the *Basis for Qualified Opinion* paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Company estimated the goodwill relating to the subsidiaries and associates acquired prior to 1 January 2014 based on the carrying values of assets and liabilities, instead of measuring the acquisition date fair value of identifiable assets and liabilities, and non-controlling interests to measure goodwill in accordance with IFRS 3, *Business Combination*. We were unable to accurately estimate the goodwill relating to abovementioned business combinations during our audit.

An impairment test was not performed and documented for the goodwill amounting MNT 5,488,568 thousand (2015: MNT 5,128,272 thousand) as disclosed in Note 21- Goodwill, and we were unable to obtain sufficient and appropriate evidence that the goodwill is not impaired.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	AUDIT RESPONSE
1 Material non-monetary transactions	
The Group sold its investment in an entity to four shareholders of that entity in 2016. The consideration received for the transaction comprises of share exchange of Ard Financial Group owned by those shareholders and exchange of financial instruments and assets. Material non-monetary transactions were determined as key audit matter because the value of tangible assets and financial instruments were recognized in the financial statements at the transaction value. Please refer to Note 43 of the financial statements for more details.	We performed following procedures in relation to material non-monetary transactions: • Inquired whether buyer and the seller participated in the transaction determined the value of sold assets and instruments objectively • Investigated whether the price of items received in non-monetary basis approximates the average market price of an identical assets. • Analysed whether financial instruments issued for payment were measured at fair value. • Ensured that there was no pressure on buyers and sellers to participate in the transaction. As a result, we have concluded that abovementioned transaction is supported by relevant evidence.

KEY AUDIT MATTER	AUDIT RESPONSE
2 Estimation of insurance claims reserve	
General insurance claims reserve comprises the following: The Incurred but Not Reported (IBNR) claim reserve refers to claims which are expected to have already occurred on or prior to the reporting period, but have not yet been reported to the insurer. Unearned premium reserve (UPR) shows the total amount of premiums written but not yet earned during the reporting period. It is proportionate to the unexpired portion of the insurance as outlined in the insurance contracts. Outstanding claim reserve (OSR) refers to claims which have been reported to the insurer, but have not yet been settled. The contingent reserves are usually set up to provide additional funds should the emerging claim experience differ adversely from the assumptions underlying the main claim reserve. Ard Insurance LLC's, a subsidiary of the Group, balance sheet for the year ended 31 December 2016 reported MNT 4,355,185 thousand insurance claims reserve as required by the new regulation approved by the Financial Regulatory Commission. The estimation of insurance claims reserve requires the work of qualified actuary. Hence, we determined that there is a risk of estimation and measurement error.	We have assessed the Group's key internal controls and processes relating to the estimation and recognition of the claims reserve. We have also used a work of external expert with sufficient capability who is independent of the Group to review the estimation of the insurance claims reserve. The external actuary expert used techniques such as analysis, recalculation and other substantive procedures to ensure reasonableness of the data used and the arithmetic accuracy of the estimation of the claims reserve.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibility for the Audit of Consolidated 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 taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions

are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Altansukh.D
BDO Audit LLC
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Date: ______________________________

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 MNT'000	2015 MNT'000
Sales revenue-net	6	19,324,115	19,446,549
Cost of goods sold	7	(5,573,443)	(5,651,257)
Gross profit		**13,750,672**	**13,795,292**
Salary and other equivalents	8	(2,576,487)	(1,880,726)
General administrative expenses	9	(3,399,495)	(3,552,032)
Operating profit		**7,774,690**	**8,362,534**
Finance income	10	1,616,952	968,341
Gain/(loss) on valuation of financial assets held for sale		1,376	(75)
Share of associate's net-profit	11	394,126	187,263
Other income/(expenses)	12	(43,731)	238,321
Other losses	13	(335,752)	(172,228)
Profit before tax		**9,407,661**	**9,584,156**
Income tax expense	14	(230,000)	(166,381)
Profit from continuing operations		**9,177,661**	**9,417,775**
Profit from discontinued operation	15	-	9,802
Net profit for the year		**9,177,661**	**9,427,577**
Non-controlling expense	16	(136,916)	(59,444)
Net profit for the Group		**9,040,745**	**9,368,133**
Earnings per share-MNT	17	658	555

The notes set out on pages 13-78 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
ASSETS			
Non-current assets			
Property, plant and equipment-net	18	1,365,479	2,738,772
Intangible assets-net	19	52,416	44,109
Investment properties	20	1,894,933	675,148
Goodwill	21	5,488,569	5,128,272
Long-term loans receivable	22	5,038,698	1,496,985
Financial assets for held-to-maturity	23	821,781	-
Financial assets available-for-sale	25	1,230,413	1,115,914
Investment in associates	26	7,925,538	2,531,446
Total non-current assets		**23,817,827**	**13,730,646**
Assets held-for-sale	24	3,097,600	-
		26,915,427	**13,730,646**
Current assets			
Prepaid expenses	27	829,867	621,702
Inventories	28	64,329	31,111
Short-term loans receivable	29	4,378,686	4,296,316
Trade and other receivables	30	2,397,641	9,254,892
Other short-term financial assets	31	1,005,045	146,872
Cash and cash equivalents	43	3,610,491	7,485,551
Total current assets		**12,286,059**	**21,836,444**
TOTAL ASSETS		**39,201,486**	**35,567,090**

The notes set out on pages 13-78 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016 (continued)

	Notes	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Equity and liabilities			
Equity			
Share capital	32	1,879,653	1,879,653
Additional paid-in capital – ordinary shares	33	10,400,013	10,400,013
Treasury stock	32	(471,579)	(522,791)
Additional paid-in capital- treasury stock		(6,144,347)	(5,547,966)
Other equity instruments	34	13,799	13,799
Retained earnings		22,672,884	13,658,043
Non-controlling interest	35	1,058,351	2,489,496
Total Equity		**29,408,774**	**22,370,247**
Liabilities			
Non-current liabilities			
Long-term loan	36	200,000	429,343
Finance lease payable	37	110,127	-
Deferred tax liabilities	38	56,038	3,467
Non-current liabilities		**366,165**	**432,810**
Current liabilities			
Trade and other payables	39	3,758,688	7,644,738
Risk provisions	40	1,343,182	1,370,658
Income taxes payable		97,083	86,700
Current portion of long-term finance lease payable	37	31,326	-
Current portion of long-term loan	36	20,406	11,976
Short-term loan	41	1,154,501	486,564
Deferred income	42	3,021,361	3,163,397
Total short term liabilities		**9,426,547**	**12,764,033**
Total liabilities		**9,792,712**	**13,196,843**
TOTAL EQUITY AND LIABILITIES		**39,201,486**	**35,567,090**

The notes set out on pages 13-78 form an integral part of these financial statements.

"ARD FINANCIAL GROUP" CLOSED JSC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016 MNT'000	2015 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before taxation	**9,407,661**	**9,584,156**
Adjustments:		
Depreciation of property plant and equipment	224,386	248,190
Amortization of intangible assets	-	11,060
Amortization of LVFDI	13,455	2,476
Share of associates profit	(394,126)	(187,263)
Risk provision	131,478	69,400
Bad-debts expense	3,099	71,666
Loss from property, plant and equipment write-off	264,641	126,373
Loss from inventories written-off	-	7,844
Gain on sale of associates	(7,205,197)	-
Loss from discontinued operation	-	9,802
Loss from investment written-off	-	10,000
Gain on acquisition of subsidiaries	-	(38,415)
Gain on foreign exchange translation	(593,300)	-
Dividend income	-	(50,002)
Interest income	(1,610,034)	(2,032,460)
Interest expense	113,239	369,540
Operating profit before working capital changes	**355,302**	**8,202,367**
Changes in working capital:		
(Increase)/decrease in other current assets	-	(3,096)
(Increase)/decrease in prepaid expenses	(212,515)	46,535
(Increase)/decrease in inventories	(33,218)	(5,283)
(Increase)/decrease in loan receivables	2,185,177	(2,994,176)
(Increase)/decrease in trade and other receivables	6,897,623	(6,515,603)
Increase/(decrease) in trade and other payables	(7,355,597)	6,675,721
Increase/(decrease) in risk provision	(27,474)	(207,714)
Increase/(decrease) in deferred income	(142,037)	651,155
Increase/(decrease) in other current liabilities	(34)	(137,313)
Cash flows from operations	**1,667,226**	**5,712,593**
Taxes paid	(167,012)	(391,249)
Interest paid	(164,643)	(339,174)
Net cash flows from operations	**1,335,571**	**4,982,170**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016 (continued)

		2016 MNT’000	2015 MNT’000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(1,046,023)	(2,341,871)
Sale of available-for-sale financial assets		146,872	1,740,211
Loans provided		(3,269,258)	-
Repayment of loans provided		907,329	-
Investments on equity instruments		(4,939,420)	(139,466)
Acquisition of investment		(360,296)	(126,098)
Sale of property, plant and equipment		555,848	373,973
Acquisition of intangible assets		(17,411)	(100)
Acquisition of held-to-maturity investments		(771,991)	-
Dividend received		-	50,002
Interest income received		1,575,978	1,987,240
Net cash flows from investing activities		**(7,218,372)**	**1,543,891**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares issued		3,083,009	1,218,864
Acquisition of treasury shares		-	(5,944,247)
Non-controlling interest		(1,568,060)	(254,923)
Loans received		1,740,650	715,653
Repayment of loans		(1,247,858)	(717,059)
Net cash flows from financing activities		**2,007,741**	**(4,981,712)**
Total net cash flows		**(3,875,060)**	**1,544,349**
Cash and cash equivalents at the beginning of the year	43	**7,485,551**	**5,941,202**
Cash and cash equivalents at the end of the year	43	**3,610,491**	**7,485,551**

The notes set out on pages 13-78 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share Capital	Additional paid-in capital	Treasury Stock	Additional paid in treasury stock	Retained earnings	Other equity instruments	Equity attributable to the group	Non-controlling interest	Total equity
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
	32	33	32			34		35	
Balance at 01 January 2015	**1,833,551**	**9,257,629**	**(156,887)**	**-**	**4,202,566**	**13,799**	**15,150,659**	**2,684,975**	**17,835,634**
Treasury stock	-	-	(396,283)	(5,547,966)	-	-	(5,944,249)	-	(5,944,249)
Effect of economic transparency law	-	-	-	-	87,344	-	87,344	-	87,344
Issued treasury stock	46,102	1,142,384	30,379	-	-	-	1,218,864	-	1,218,864
Business combination	-	-	-	-	-	-	-	(109,286)	(109,286)
Dividends declared	-	-	-	-	-	-	-	(145,637)	(145,637)
Profit for the year	-	-	-	-	9,368,133	-	9,368,133	59,444	9,427,577
Balance at 31 December 2015	**1,879,653**	**10,400,013**	**(522,791)**	**(5,547,966)**	**13,658,043**	**13,799**	**19,880,751**	**2,489,496**	**22,370,247**
Treasury stock	-	-	(311,363)	(5,673,395)	-	-	(5,984,758)	-	(5,984,758)
Error adjustment	-	-	-	-	(25,904)	-	(25,904)	-	(25,904)
Business combination	-	-	-	-	-	-	-	(1,568,061)	(1,568,061)
Treasury stock issued	-	-	362,575	5,077,014	-	-	5,439,589	-	5,439,589
Profit for the year	-	-	-	-	9,040,745	-	9,040,745	136,916	9,177,661
Balance at 31 December 2016	**1,879,653**	**10,400,013**	**(471,579)**	**(6,144,347)**	**22,672,884**	**13,799**	**28,350,423**	**1,058,351**	**29,408,774**

The notes set out on pages 13-78 form an integral part of these financial statements.

1. REPORTING ENTITY

“Ard Financial Group” Closed JSC was incorporated as a Limited Liability Company in accordance with the shareholders’ resolution dated 10 October 2005 under the name “EIT” LLC and was registered to the State Registration Office of Mongolia on the 18th of October 2005 and granted the State Registration Certificate No. 9011036140 with registration No.5024145.

In accordance with the board of director’s resolution dated 08 April 2014, the name “EIT” LLC was changed to “Ard Financial Group” LLC and was registered to the State Registration Office on 26 June of 2014.

According to shareholders’ resolution dated 03 December 2014, the company became Closed Joint Stock Company and was registered to the State Registration Office on 23 November 2015.

The principle activities of the Company are business consulting and investment.

“Tenger System” LLC was incorporated as a Limited Liability Company in accordance with the shareholders’ resolution dated 16 July 2007 and was registered to the State Registration Office of Mongolia as a software development entity on the 16th of July 2007 and granted the State Registration Certificate No.9011108150 with registration No.5151716.

It is principally engaged in provision of software development service, sale of software and other services related to software to “Ard Financial Group” LLC, its fellow subsidiaries and third parties.

“Ard Securities SC” LLC was incorporated under the name “BATS Invest” LLC in 1997 and was registered to the State Registration Office of Mongolia as a broker, dealer and granted the State Registration Certificate No.2111063 with registration No.24/987.

“BATS Invest” LLC was changed to “Monet” LLC on 11 December 2009, and on 14 February 2012 “Monet” LLC became “Monetcapital” LLC, and “Monetcapital” LLC changed its name to “Monetcapital SC” LLC on 15 September 2014, and “Monetcapital SC” LLC was changed to “Ard Securities SC” LLC on 30 January 2015.

The company engages in securities brokerage and underwriting activity.

“MTND” LLC was registered to the State Registration Office of Mongolia on 27 May 2010 as a business consulting entity and granted the State Registration Certificate No. 9011232100 with registration No. 5382645. It operates in the financial information, financial advice and training, and business consultancy field.

1. REPORTING ENTITY *(continued)*

"Ard Daatgal" LLC was incorporated as a Limited Liability Company in accordance with the founder's resolution No.01 dated 22 March 1994 and was registered to the State Registration Office of Mongolia to operate as a conventional insurance entity.

The Company provides 15 types of basic insurance services through its branches in all districts in UB and 21 provinces with special license of insurance No. 2/16.
Ard Financial Group Closed JSC acquired 33% of shares of Ard Daatgal LLC in December 2013, 22.31% of shares in December 2014, 11.27% of shares in May 2016 and another 16.72% of shares in September 2016 and holding total of 83.03% and it was consolidated to Ard Financial Groups financial statements from 2014 onwards.

"Ard Credit NBFI" LLC was incorporated on 21 April 2011 and in accordance with the resolution No.108 dated 21 April 2011 was granted Certificate No.1/222 to operate as a Non-Banking Financial Institute. On 22 April 2011, the Company was registered to the State Registration Office of Mongolia to operate in the Credit, Foreign Exchange, Investment and financial advisory services and granted the State Registration Certificate No.9015002031 with registration No.5459567.
Ard Financial Group Closed JSC has acquired 50% of Ard Credit NBFI in December 2013, 8% of Ard Credit NBFI in May 2015, 22.7% of Ard Credit NBFI in December 2016 and it was consolidated to Ard Financial Groups financial statements from 2014.

"Ard Management" LLC was incorporated as a Limited Liability Company on 06 September 2011 and was registered to the State Registration Office of Mongolia on 06 September 20011 and granted the State Registration Certificate No.9011306066 with registration No.5510759. According to the shareholders' resolution on 03 December 2014, the principle activities of the company changes to investment management for a purpose of investment control. And it has issued requisition of special grant on investment management activities to Financial Regulatory Committee.

"Jinst-Uvs" JSC was incorporated as a Joint Stock Company on 20 April 1996 in accordance with founder resolution No.01 and was registered to the Registration Office of Mongolia on 30 January 2007 and granted the State Registration Certificate No.1510001010 with registration No.2001861.

The principle activities of the Jinst-Uvs JSC are seed and other plant growing, five types of domestic animals, reindeer, dairy, other raw and their wholesale. But no activities made as at end of reporting year.

1. REPORTING ENTITY *(continued)*

"Altan Khoromsog SC" LLC was incorporated as a Limited Liability Company in accordance with the shareholders' resolution №01 and was registered to the State Registration Office of Mongolia on 09 November 2007 and granted the State Registration Certificate No. 9011124089 with registration No. 2030055.

The principle activities of the Altan khoromsog SC LLC engages in securities brokerage and underwriting activity.

"Ard Life" LLC was incorporated as a Limited Liability Company in accordance with the founder's resolution No.02 dated 10 March 2012 and was registered to the State Registration Office of Mongolia on 13 April 2012 and granted the State Registration Certificate No. 9011339130 with registration No. 5588731.

The principle activities of Ard Life LLC are foreign trade but was inactive during the year.

2. BASIS OF PREPARATION

Significant accounting policies used in the preparation of these consolidated financial statements are set out in Note 46. The policies set out in Note 46 have been applied consistently in previous years unless otherwise stated.

The Group’s functional and reporting currency is Mongolian Tugrug (“MNT”). And these consolidated financial statements, expressed in MNT, and have been presented in MNT rounded to nearest thousand.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by Reporting Committee of IASB.

The preparation of financial statements in conformity with IFRS requires certain critical accounting estimates and the Group’s accounting policies require management to make judgments.

Basis of measurement

The financial statements have been prepared in accordance with historical cost convention, except for (see detailed information from appropriate accounting policy) followings:

- Financial instruments – fair value should be recognized as a profit or loss
- Financial instruments – available for sale financial assets
- Financial instruments – Loans and receivables
- Investment Property
- Contingent liability

3. BASIS OF CONSOLIDATION *(continued)*

These consolidated financial statements have been prepared in accordance with IFRS 10 *Consolidated Financial Statements*, and it comprises the consolidated financial statements of holding company "Ard Financial Group" Closed JSC and its subsidiaries. The separate financial statements that are being consolidated are prepared as of same period using uniform accounting policies for like transactions and other events in same circumstances.

When the Group has control over the investee, then the investee is classified as a subsidiary. The company is considered to have control over the investee, if they meet all of the following three criteria:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its return.

The Group shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the above elements of control.

The consolidated financial statements of the Company and its subsidiaries (the "Group") reported results as a single entity. Therefore, all intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

In the statement of financial position, the acquirer's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are consolidated in the consolidated statement of Profit or Loss and Comprehensive Income from the date on which control is obtained and consolidation is ceases when the Group loses its control.

In preparing the consolidated financial statement, like items of assets, liabilities, equity, income, expenses and cash flows of Group with those of its subsidiaries are combined by line by line.

The followings have been eliminated:

a) Full intragroup
   - Asset and liability balances;
   - Revenue and expenses;

b) The carrying amount of the investment in each subsidiary and parents portion of subsidiary's equity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

(a) Going concern

These consolidated financial statements of the group for the year have been prepared on a going concern basis.

(b) Impairment

If carrying value of assets or cash-generating unit exceeds its recoverable amount, impairment shall be recognized. In order to determine recoverable amount, management estimates expected future cash flows of each asset or cash-generating unit and chooses appropriate interest rate to calculate present value of cash flows. In order to measure expected future cash flows management makes assumptions about future operation. These assumptions are related to certain events and conditions in the future. Actual results may differ from these assumptions and it could become a reason to make significant adjustments to assets before next accounting year.

In most cases, appropriate discount rate is determined by adjusting market risk and risk factors in relation to assets.

(c) Economic useful lives of depreciable assets

At the end of each accounting year, the group's management reviews economic useful life of depreciable assets, such as property, plant and equipment based on their expected use. Actual result may differ from calculation and assumption due to technical aging of assets. Economic useful life of property, plant and equipment is set out in Notes 46k and 46l in detail.

(d) Inventory

Inventories are measured at the lower of cost and net realisable value. In order to calculate net realizable value of inventory, the most reliable and available evidence should be used. If company's business is deeply related with technological change, the sales price of inventory change dramatically.

Future change of inventory's carrying amount depends on the price change of every segment of market portfolio.

(e) Control assessment

The Group considers the possibility to gain power and variable benefits, and the relationship between power and benefit when assessing its investment in financing company in accordance with IFRS 10 *Consolidated Financial Statements* at the end of each reporting period. The control may change due to the interest in financing entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(f) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)
Level 2: Observable direct or indirect inputs other than Level 1 inputs
Level 3: Unobservable inputs (i.e. not derived from market data).

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value and interest rate risk
  - Foreign exchange risk
  - Other market risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objective, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The have been no substantive changes in the Group's exposure to financial instrument risk, its objectives, policies, processes for managing those risks or methods used to measure them unless otherwise stated in the note.

i) Financial principal instruments

The key financial instruments used by the Group which may have exposure to risks are as follows:

- Trade and other receivables;
- Cash and cash equivalents;
- Long and short term loan receivables;
- Financial assets for held to maturity
- Financial assets - available for sale;
- Financial assets - held for sale;
- Financial assets for trading
- Trade and other payables
- Short and long term loan
- Current portion of long-term loan
- Long-term financial lease payables
- Current portion of long-term financial lease payables

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

ii) Financial instrumens by category

a. Financial assets

	Financial assets at fair value through profit or loss		Loan and receivable		Available for sale	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Financial assets for held to maturity	-	-	1,442,040	140,000	-	-
Loan receivables	-	-	9,417,384	5,793,301	-	-
Trade and other receivables	-	-	2,396,200	9,181,053	-	-
Financial assets available for sale	-	-	-	-	1,230,413	1,115,913
Held for sale financial assets	-	-	-	-	327,133	2,000
Financial assets for trading	57,654	4,872	-	-	-	-
Cash and cash equivalents	-	-	3,610,491	7,485,551	-	-
	57,654	**4,872**	**16,866,115**	**22,599,905**	**1,557,546**	**1,117,913**

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (*continued*)

ii) Financial instruments by category (continued)

b. Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000
Trade and other payables	-	-	(3,624,092)	(7,583,049)
Short-term loan	-	-	(1,154,501)	(486,564)
Long-term loan	-	-	(200,000)	(429,343)
Long-term finance lease payables	-	-	(110,127)	-
Current portion of long-term loan	-	-	(20,406)	(11,976)
Current portion of long-term finance lease payables	-	-	(31,326)	-
	-	**-**	**(5,140,452)**	**(8,510,932)**

iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables,loans and lease.

Short-term financial assets and liabilities (under one year) are recognized in the financial statements at value close to their fair value.

iv) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value as at 31 December 2016 is as follows.

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Financial assets for trading	57,654	-	-	57,654
Available for sale	-	327,133	-	327,133
	57,654	**327,133**	**-**	**384,787**

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (*continued* **)**

The fair value hierarchy of financial instruments measured at fair value as at 31 December 2015 is as follows.

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Financial assets for trading	4,872	-	-	4,872
Financial assets available for sale	-	2,000	-	2,000
	4,872	**2,000**	**-**	**6,872**

There were no transfers between levels of inputs used in deterring the fair value during the periods.

General objectives, policies and processes

Management has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them.

The overall objective of the Management is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

a) Credit risk

The Group might be exposed to counterparty credit risk arising from a financial instrument failing to meet its contractual obligations and credit risk arising from sales on credit. Although the maximum exposure to credit risk is concentrated to the outstanding balance of Note 22 and 29 *Loan receivables* and Note 30 *Trade and other receivables*, the Group manages these risks through bad debt and loan risk provisions and collateral.

b) Market risk

Market risk is generally arisen from the use of financial instruments which bear interest, are available for sale and are generated in foreign currency. This is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rate (interest rate risk), foreign currency rate (foreign currency risk) and/or other factors (other market rate risks).

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (*continued*)

i) Fair value and interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate as a result of changes in market rates.

The Group's interest-bearing financial assets are Loan receivables with annual interest rates of 12%. The payables, which constitute the major part of the financial liability, have annual interest rates of 6.5%-17%, thus presenting a moderate exposure to interest rate risk.

Receivables and liabilities with interest are shown in the table below.

	Annual interest rate	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Loan receivables	12%	9,417,384	5,793,301
Trust service payables	12%-22%	1,649,304	897,757
Notes payable	14.4-17%	1,442,040	140,000
Bank loan	6.50%	200,000	429,343
Financial lease payable	12.00%	110,127	-

ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in foreign currency rates. This risk is arisen from the transactions and recognized assets and liabilities denominated in the foreign currencies other than Mongolian tugrugs. The main currency that could be exposed to risk is US dollars. The Group's financial condition and cash flow could be affected by foreign currency exchange rate fluctuations.

The exchange rates used during the periods against MNT is shown below.

Currencies	Average price		Closing price	
	2016	2015	12/31/2016	12/31/2015
USD	2144.85	1,970.31	2489.53	1,995.98
CNY	322.59	313.53	357.96	307.54
JPY	19.78	16.29	21.19	16.58

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

ii) **Foreign currency risk (*continued*)**

The Group's foreign currency financial assets are as follows:

	Financial instruments expressed in MNT		Financial instruments expressed in USD		Financial Instruments expressed in other currency		Total	
	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000
Financial assets								
Financial assets for held to maturity	1,442,040	140,000	-	-	-	-	1,442,040	140,000
Loan receivables	5,945,779	3,382,564	3,471,605	2,410,737	-	-	9,417,384	5,793,301
Trade and other receivables	2,297,668	8,426,986	98,532	748,599	-	5,468	2,396,200	9,181,053
Available for sale	1,230,413	1,115,913	-	-	-	-	1,230,413	1,115,913
Held for sale assets	327,133	2,000	-	-	-	-	327,133	2,000
Financial assets for trading	30,306	-	27,348	-	-	-	57,654	-
Cash and cash equivalents	3,319,982	4,546,307	290,235	2,939,244	274	-	3,610,491	7,485,551
Total financial assets	**14,593,321**	**17,613,770**	**3,887,720**	**6,098,580**	**274**	**5,468**	**18,481,315**	**23,717,818**

5. FINANCIAL INSTRUMENT – RISK MANAGEMENT *(continued)*

ii) **Foreign currency risk (*continued*)**

	Instruments in MNT		Instruments in USD		Instruments in other currency		Total	
	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000	2016 MNT'000	2015 MNT'000
Financial liabilities	-	-	-	-	-	-	-	-
Trade and other payables	(3,114,900)	(7,412,233)	(505,283)	(167,542)	(3,909)	(3,274)	(3,624,092)	(7,583,049)
Short-term loan	(1,154,501)	(486,564)	-	-	-	-	(1,154,501)	(486,564)
Long-term loan	(200,000)	(429,343)	-	-	-	-	(200,000)	(429,343)
Long-term financial lease payable	-	-	(110,127)	-	-	-	(110,127)	-
Current portion of long-term loan	(20,406)	(11,976)	-	-	-	-	(20,406)	(11,976)
Current portion of long-term financial lease payable	-	-	(31,326)	-	-	-	(31,326)	-
Total financial liabilities	**(4,489,807)**	**(8,340,116)**	**(646,736)**	**(167,542)**	**(3,909)**	**(3,274)**	**(5,140,452)**	**(8,510,932)**
Net financial assets/(liabilities)	**10,103,514**	**9,273,654**	**3,240,984**	**5,931,038**	**(3,635)**	**2,194**	**13,340,863**	**15,206,886**

5. FINANCIAL INSTRUMENT – RISK MANAGEMENT *(continued)*

c) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. In order to fulfil its objective, the Group should have sufficient cash on demand (or other agreed instruments) to meet expected obligation. Liquidity risk depends on the Group's ability to manage its cash flows. The Group prepares budgets for the year based on the valuation of needs and requirements of cash flows.

The following table sets out the Group's ability of financial assets to settle the contractual obligations and contractual maturities of financial liabilities:

At 31 Dec 2016	Up to 1 year MNT'000	1-2 years MNT'000	More than 2 years MNT'000	Total MNT'000
Trade and other payables	(3,624,092)	-	-	(3,624,092)
Short-term loan	(1,154,501)	-	-	(1,154,501)
Long-term loan	-	(200,000)	-	(200,000)
Current portion of long-term loan	(20,406)	-	-	(20,406)
Long-term finance lease payable	-	(35,357)	(74,770)	(110,127)
Current portion of lease payable	(31,326)	-	-	(31,326)
	(4,830,325)	**(235,357)**	**(74,770)**	**(5,140,452)**

At 31 Dec 2015	Up to 1 year MNT'000	1-2 years MNT'000	More than 2 years MNT'000	Total MNT'000
Trade and other payables	(7,583,049)	-	-	(7,583,049)
Short-term loan	(486,564)	-	-	(486,564)
Long-term loan	-	(229,343)	(200,000)	(429,343)
Current portion of long-term loan	(11,976)	-	-	(11,976)
	(8,081,589)	**(229,343)**	**(200,000)**	**(8,510,932)**

6. SALES REVENUE

	2016 MNT'000	2015 MNT'000
Revenue from sale of investment	11,214,325	11,341,832
Revenue from sale of software	27,604	21,861
Revenue from management service	28,000	29,171
Revenue from broker-dealer operation	224,324	1,629
Revenue from underwriting	12,375	154,237
Revenue from insurance activities	5,837,802	6,425,660
Dividend income	-	218,366
Revenue from loan interest	1,284,273	1,234,028
Revenue from fee of share sales	695,412	7,640
Other	-	12,125
	19,324,115	**19,446,549**

7. COST OF SALES

	2016 MNT'000	2015 MNT'000
Cost of investments sold	(2,778,285)	(1,740,211)
Cost of insurance service	(2,535,806)	(3,620,846)
Loan interest – MNT	(91,865)	(114,940)
Loan interest – USD	(599)	(47,422)
Trust service interest and other expenses	(166,888)	(116,532)
Securities interest	-	(11,306)
	(5,573,443)	**(5,651,257)**

8. SALARY, AND SIMILAR EXPENSE

	2016 MNT'000	2015 MNT'000
Salary expense	(2,043,875)	(1,612,298)
SHI expense	(241,413)	(184,503)
Employee benefit plan	(201,465)	(36,278)
Other	(89,734)	(47,647)
	(2,576,487)	**(1,880,726)**

9. GENERAL ADMINISTRATION EXPENSES

	2016 MNT'000	2015 MNT'000
Rental fees	(433,055)	(568,497)
Utility expense	(71,661)	(31,755)
Business trip expense	(230,785)	(156,867)
Depreciation expenses	(263,704)	(252,663)
Amortization of LVFDI	(1,021)	(4,920)
Communication expenses	(90,316)	(73,558)
Stationary expense	(32,996)	(62,474)
Advertising expenses	(274,890)	(200,972)
Security expenses	(2,082)	(3,040)
Transportation expenses	(83,917)	(76,769)
Professional service expenses	(269,666)	(180,720)
Repair and maintenance expenses	(47,333)	(59,233)
Service fees charges	(1,019,945)	(1,400,800)
Software expense	(132)	-
Special events expenses	(322,432)	(200,429)
Supply materials	(33,565)	(12,157)
Insurance expense	(14,066)	(5,894)
Other tax expenses	(103,795)	(111,663)
Prompt service costs	(30,003)	(56,988)
Other expenses	(74,263)	(92,633)
	(3,399,495)	**(3,552,032)**

10. FINANCIAL INCOME/(COSTS)

	2016 MNT'000	2015 MNT'000
Finance income:		
Interest income from Bank savings	614,747	592,107
Loan interest income	185,143	374,221
Bond interest income	140,618	8,023
Securities interest income	30,827	-
Foreign currency exchange rate gain	1,567,448	600,753
Gain on sale investment	165,556	123,996
	2,704,339	**1,699,100**
Finance costs		
Interest expense	(113,239)	(79,341)
Finance fees and commission	-	(4,290)
Loss on foreign exchange differences	(974,148)	(641,835)
Other	-	(5,293)
	(1,087,387)	**(730,759)**
Total financial income	**1,616,952**	**968,341**

11. SHARE OF PROFIT OF AN ASSOCIATES

	2016			2015		
	Net profit of associate	Share of owner	Gain on investment	Net profit of associate	Share of owner	Gain/(loss) on investment
	MNT'000	%	MNT'000	MNT'000	%	MNT'000
Institute of Engineering and Technology LLC	176,450	50%	88,225	391,860	50%	195,930
Wild Digital LLC	-		-	(16,995)	51%	(8,667)
Mongol Post SC	1,006,585	30.39%	305,901	-		-
			394,126			**187,263**

12. OTHER INCOME/(EXPENSE)

	2016 MNT'000	2015 MNT'000
Rental income	17,401	19,595
Other income	134,516	191,439
Reinsurance commission income	45,640	88,386
Donations expenses	(87,082)	(15,392)
Fee and penalty expense	(25,972)	(8,438)
Sport and event expense	(7,321)	(33,757)
Other expenses	(120,913)	(3,512)
	(43,731)	**238,321**

13. OTHER GAIN/(LOSSES)

	2016 MNT'000	2015 MNT'000
Loss on property, plant and equipment written-off	(201,176)	(126,373)
Loss on fair value of investment	-	20,571
Bad-debts expense	(3,099)	-
Loan provision risk expense	(131,477)	(66,304)
Other	-	(122)
	(335,752)	**(172,228)**

14. INCOME TAX EXPENSE

According to Mongolian Corporate Tax Law, each company in the Group is obliged to pay the Corporate Income Tax ("CIT") at the rate of 10% of the portion of taxable profits up to MNT 3 billion and 25% of the portion of taxable profits above MNT 3 billion.

	2016 MNT'000	2015 MNT'000
Profit before tax	**9,407,661**	**9,584,156**
Permanent tax difference	**(8,705,932)**	**(10,862,200)**
Income exempt from taxation	(83,100)	(333,973)
Tax effect of income taxable at special rate	(1,092,426)	(1,002,331)
Nondeductible expense	447,892	522,033
Difference arises from consolidation	(7,978,298)	(10,047,929)
Temporary tax difference	**(525,489)**	**(15,267)**
Taxable temporary difference	(787,184)	(436,627)
Deductible temporary difference	261,695	421,360
Profit/loss at normal rate	**176,240**	**(1,293,312)**
Tax %	**10%**	**10%**
Tax at normal rate	(61,076)	(52,775)
Tax exempt income	237	-
Tax effect of other deducted income	-	(11,837)
Tax at special rate	(116,590)	(100,234)
Temporary tax affect	(52,571)	(1,535)
Total tax expense for the year	**(230,000)**	**(166,381)**

Income tax expense for the year for each company within the Group are as follows:

	2016 MNT'000	2015 MNT'000
Ard Financial Group Closed JSC	(100,043)	(53,575)
Ard Securities SC LLC	(19,074)	(7,183)
Ard Daatgal LLC	(58,484)	(58,045)
Ard Credit NBFI	(51,942)	(47,528)
MTND LLC	(452)	(44)
Tenger System LLC	(5)	(6)
	(230,000)	**(166,381)**

15. PROFIT FROM DISCONTINUED OPERATION

In accordance with the Resolution No.2015/24 from the Board of Directors dated 01 September 2015, Ard Financial Group Closed JSC lost its control over Arvai Capital LLC by transferring its discontinued operation of 100% ownership subsidiary Arvai Capital LLC with no liability to others and tax issue to third party without any consideration. Moreover, it recognized retained losses of MNT 9,802 thousands as a profit from discontinued operation.

16. NON-CONTROLLING INTEREST

	2016			2015		
	Profit/loss of subsidiary MNT	Non-controlling interest %	Benefit/loss of Non-controlling interest MNT	Profit/loss of subsidiary MNT	Non-controlling interest %	Benefit/loss of Non-controlling interest MNT
Ard Daatgal LLC	352,936	16.97%	(59,899)	(213,954)	44.7%	95,616
Ard Credit NBFI	401,764	19.3%	(77,538)	410,978	42%	(172,611)
Jinst-Uvs JSC	(3,380)	15.4%	521	(113,966)	15.4%	17,551
			(136,916)			**(59,444)**

17. EARNING PER SHARE

	2016 MNT’000	2015 MNT’000
Net profit for the year	**9,040,745**	**9,368,133**
Weighted average shares	13,732,898	16,873,245
Earnings per share-MNT	**658**	**555**

18. PROPERTY, PLANT AND EQUIPMENT – NET

	Building	Construction in progress	Furniture and fixture	Motor Vehicles	Computer and equipment	Lease improvement	Other assets	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
COST								
Balance at 01 Jan 2015	**-**	**-**	**199,154**	**549,668**	**175,014**	**470,374**	**10,374**	**1,404,584**
Acquired	-	1,411,705	18,231	719,272	31,345	161,142	-	2,341,695
Write-off	-	-	(28,442)	(151,690)	(21,568)	-	-	(201,700)
Reclassified	-	-	(140)	-	315	-	-	175
Sold	-	-	-	(416,804)	-	-	-	(416,804)
Balance at 31 Dec 2015	**-**	**1,411,705**	**188,803**	**700,446**	**185,106**	**631,516**	**10,374**	**3,127,950**
Acquisition	300,000	104,188	22,049	641,595	54,757	64,886	-	1,187,475
Reclassified to investment property	-	(1,515,893)	-	-	-	-	-	(1,515,893)
Transfer	-	-	-	(192,075)	-	-	-	(192,075)
Write-off	-	-	(7,510)	-	-	-	-	(7,510)
Donation	-	-	-	-	(38,059)	-	-	(38,059)
Disposal	-	-	(22,062)	(65,200)	(1,640)	-	-	(88,902)
Sold	(300,000)	-	(3,590)	(290,764)	-	-	-	(594,354)
Balance at 31 Dec 2016	**-**	**-**	**177,690**	**794,002**	**200,164**	**696,402**	**10,374**	**1,878,632**

18. PROPERTY, PLANT AND EQUIPMENT - NET *(continued)*

	Building	Construction in progress	Furniture and fixture	Motor Vehicles	Computer and equipment	Lease improvement	Other assets	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Accumulated depreciation								
Balance at 01 Jan 2015	**-**	**-**	**(47,777)**	**(88,487)**	**(122,507)**	**-**	**(374)**	**(259,145)**
Charge for the year	-	-	(53,776)	(64,079)	(36,261)	(94,075)	-	(248,191)
Reclassified	-	-	41	-	(41)	-	-	-
Write-off	-	-	15,595	56,226	19,945	-	-	91,766
Sold	-	-	-	26,392	-	-	-	26,392
Balance at 31 Dec 2015	**-**	**-**	**(85,917)**	**(69,948)**	**(138,864)**	**(94,075)**	**(374)**	**(389,178)**
Charge for the year	-	-	(18,761)	(73,967)	(37,583)	(94,075)	-	(224,386)
Transferred	-	-	-	13,987	-	-	-	13,987
Write-off	-	-	3,667	-	-	-	-	3,667
Donation	-	-	-	21,914	-	-	-	21,914
Disposal	-	-	10,981	11,314	42	-	-	22,337
Sold	-	-	1,572	36,934	-	-	-	38,506
Balance at 31 Dec 2016	**-**	**-**	**(88,458)**	**(59,766)**	**(176,405)**	**(188,150)**	**(374)**	**(513,153)**
NET BOOK VALUE								
at 31 December 2015	**-**	**1,411,705**	**102,886**	**630,498**	**46,242**	**537,441**	**10,000**	**2,738,772**
at 31 December 2016	**-**	**-**	**89,232**	**734,236**	**23,759**	**508,252**	**10,000**	**1,365,479**

19. INTANGIBLE ASSETS

	Software MNT’000	Movie MNT’000	TOTAL MNT’000
COST			
At 01 Jan 2015	**56,369**	**-**	**56,369**
Acquired	137	-	**137**
At 31 Dec 2015	**56,506**	**-**	**56,506**
Acquired	-	21,761	**21,761**
At 31 Dec 2016	**56,506**	**21,761**	**78,267**
ACCUMULATED AMORTIZATION			
At 01 Jan 2015	**(6,563)**	**-**	**(6,563)**
Charge for the year	(5,834)	-	**(5,834)**
At 31 Dec 2015	**(12,397)**	**-**	**(12,397)**
Charge for the year	(11,279)	(2,175)	**(13,454)**
At 31 Dec 2016	**(23,676)**	**(2,175)**	**(25,851)**
NET BOOK VALUE			
at 31 December 2015	**44,109**	**-**	**44,109**
at 31 December 2016	**32,829**	**19,586**	**52,416**

20. INVESTMENT PROPERTIES

	At 31 Dec 2016 MNT’000	At 31 Dec 2015 MNT’000
At 01 January	**675,148**	**675,148**
Addition to IP	379,040	-
Reclassification from PPE	1,515,893	-
Disposal	(675,148)	-
At 31 December	**1,894,933**	**675,148**

21. GOODWILL

	At 31 Dec 2016 MNT	At 31 Dec 2015 MNT
Ard Securities SC LLC	546,612	546,612
Ard Credit NBFI	637,565	485,694
Ard Daatgal LLC	4,297,543	4,095,966
Altan Khoromsog SC LLC	6,849	-
	5,490,569	**5,128,272**

21. GOODWILL *(continued)*

Acquired assets, liabilities, consideration and fair value of goodwill (restated) as at 31 December 2015 and 2016 are as follows:

	Ard Daatgal LLC				Altan Khoromsog SC LLC
	1/1/2014	**12/31/2014**	**9/1/2016**		**5/20/2016**
	Restated through fair value	**Restated through fair value**	**Restated through fair value**	**Total**	**Restated through fair value**
	MNT’000	**MNT’000**	**MNT’000**	**MNT’000**	**MNT’000**
Current assets	6,882,916	8,132,558	2,663,350		33,186
Non-current assets	287,668	256,902	6,902,994		20
Total liabilities	(3,245,008)	(4,150,133)	(5,418,638)		(55)
Total net-asset	**3,925,575**	**4,239,327**	**4,147,707**		**33,151**
Acquired percentage	33%	22.31%	27.72%	83.03%	100%
Fair value of acquired net assets	**1,295,440**	**945,794**	**1,149,744**	**3,390,978**	**33,151**
Fair value of consideration	3,660,000	2,677,200	1,351,321	7,688,521	40,000
Goodwill	**2,364,560**	**1,731,406**	**201,577**	**4,297,543**	**6,849**

21. GOODWILL *(continued)*

Acquired assets, liabilities, consideration and fair value of goodwill (restated) as at 31 December 2015 and 2016 are as follows:

	Ard Securities SC LLC	**Ard Credit NBFI**			
	12/31/2013 **Restated through fair value**	1/1/2014 **Restated through fair value**	4/30/2015 **Restated through fair value**	12/28/2016 **Restated through fair value**	**Total**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Current assets	6,882,916	1,805,590	3,507,195	5,353,520	
Non-current asset	287,668	21,554	210,524	339,141	
Total liabilities	(3,245,008)	(546,337)	(2,132,260)	(2,399,080)	
Total net-asset	**3,925,575**	**1,280,808**	**1,585,459**	**3,293,581**	**6,159,847**
Acquired percentage	**100%**	**50%**	**8%**	**12.7%**	**70.7%**
Fair value of acquired net assets	**692,452**	**640,404**	**126,837**	**418,316**	**1,185,557**
Fair value of consideration	1,239,065	1,000,000	252,935	570,187	1,823,122
Goodwill	**546,612**	**359,596**	**126,098**	**151,871**	**637,565**

22. LONG-TERM LOANS RECEIVABLE

	Erdene-Togtokh (i) MNT'000	IET (MNT) (ii) MNT'000	IET LLC (USD) (ii) MNT'000	TOTAL MNT'000
At 01 Jan 2015	**-**	**-**	-	**-**
Loans provided	1,446,456	-	-	1,446,456
Exchange difference	50,529	-	-	50,529
At 31 Dec 2015	**1,496,985**	**-**	**-**	**1,496,985**
Loans provided	-	1,579,540	1,579,540	3,159,080
Exchange difference	370,163	-	12,470	382,633
At 31 Dec 2016	**1,867,148**	**1,579,540**	**1,592,010**	**5,038,698**
At 31 Dec 2015	**1,496,985**	**-**	**-**	**1,496,985**
At 31 Dec 2016	**1,867,148**	**1,579,540**	**1,592,010**	**5,038,698**

(I) Ard Financial Group JSC entered into a Loan Agreement with Erdene-Togtokh.P on 26 May 2015 to provide business loan of USD 750,000 at interest rate of 1% per 30 days for 60-month period.

(ii) Ard Financial Group JSC made two loan agreements with IET LLC on 6 December 2016 to lend MNT 1,579,541,250 at interest rate of 12 percent per annum, and to lend USD 639,482 at interest rate of 8 percent per annum for 10 years each.

23. FINANCIAL ASSETS FOR HELD TO MATURITY

The amount represents the investment on 33 shares of bond issued by Hunnu Air LLC and par value of USD 10,000 for 18 months. The interest bears at 1.2% for first 12 months and at 1.4% for last 6 months.

24. ASSETS HELD-FOR-SALE

General information

The amount represents the value of three different 3-storey residential houses with door number 6 of B block, and 5 and 6 of C block each, located in Khiimori Town, 17081 Dunjingarav Street, Khoroo-11, Khan-Uul District, Ulaanbaatar; and three garages. The building features concrete base, carcass structure, light concrete walls and floated Ferro concrete pavements. The Company is planning to sell those properties within 2017.

Fair value measurement

The fair value of asset is a level 3 of fair value hierarchy. When determining the fair value of assets held-for-sale, the Company used the market approach and benchmarked with identical properties located in Khan-Uul district.

25. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	At 31 Dec 2016			At 31 Dec 2015		
	Ownership percentage	Number of shares	Total MNT	Ownership percentage	Number of shares	Total MNT
Nomiin Khishig LLC	20%	36,000	1,048,716	20%	36,000	1,048,716
Ard Assets SCC			77,697			67,198
Investor Nation SC	6.44%	104,000	104,000			-
			1,230,413			**1,115,914**

26. INVESTMENT IN ASSOCIATE

Ard Financial Group Closed JSC owns 30.39% of "Mongol Post" SC and the investment in associates are accounted for under equity method.

	At 31 Dec 2016			At 31 Dec 2015		
	Ownership percentage	Number of shares	Total MNT	Ownership percentage	Number of shares	Total MNT
Mongol Post SC	30.39	30,267,994	7,925,538			-
Wild Digital LLC			-	51	29,610	20,943
Institute of Engineering and Technology LLC			-	50	623,399	2,510,503
			7,925,538			**2,531,446**

27. PREPAID EXPENSES

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Work performed by others	900	-
Prepayment of pension funds	27,741	19,709
Prepayment of rental expense	155,323	118,240
Prepaid expense – Law	38,152	38,152
Prepaid expense – Other	65,732	61,485
Deferred commission of double indemnity insurance	326,930	-
Deferred expense of insurance commission income /broker/*	24,837	174,878
Deferred expenses of insurance commission income /agent/*	191,152	209,238
	829,867	**621,702**

* Fees paid to insurance brokers and agents were recognized as an expense equally through the insurance period. The amount represents fees to be recognized in 2017 but paid in 2016 (fees to be recognized in 2016 but paid in 2015).

28. INVENTORY

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Contractual guarantees	3,420	6,259
Supply materials	44,881	24,600
Other materials	16,028	252
	64,329	**31,111**

29. SHORT-TERM LOANS RECEIVABLE

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Loans to other parties	4,316,870	4,133,367
Loans to related parties	119,066	135,925
Loan interest receivables	184,081	154,009
Loan risk provision	(241,331)	(126,985)
	4,378,686	**4,296,316**

30. TRADE AND OTHER RECEIVABLES

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Amount due from the third parties	2,141,405	1,871,147
Other receivables	167,287	35,082
less: Provisions	(27,988)	(2,266)
	2,280,704	**1,903,963**
Amount due from the related parties	115,496	7,277,090
Total financial assets other than cash and cash equivalents classified as loans and receivables	**2,396,200**	**9,181,053**
SHI receivables	111	0
PIT receivables	-	1
VAT receivables	-	73,188
Other receivables	1,330	650
Total trade and other receivables	**2,397,641**	**9,254,892**

31. SHORT-TERM INVESTMENT

This amount represents stock investment in stock exchange of Mongolia and Hong Kong measured at fair value.

	At 31 Dec 2016 MNT	At 31 Dec 2015 MNT
Financial asset held-to-maturity*	620,258	140,000
Financial assets available-for-sale	327,133	2,000
Financial assets held-for-sale	57,654	4,872
	1,005,045	**146,872**

*- The amount represents the Government bond of 6770 shares and the per par value of MNT 85,504 at the interest rate of 17% as of 31 December 2016 .

32. SHARE CAPITAL

The Group has rights to issue 22,752,700 shares with par value of MNT 100. Issued shares as at 31 December 2016 are as follows:

Shares	Number of shares Number	Par value MNT	Total MNT’000
01 January 2015	**16,766,647**	**100**	**1,676,665**
Issued shares (Approved 22,752,700)	764,805	100	76,480
Treasury stock	(3,962,833)	100	(396,283)
31 December 2015	**13,568,619**	**100**	**1,356,862**
Issued shares (Approved 22,752,700)	3,625,745	100	362,575
Treasury stock	(3,113,627)	100	(311,363)
31 December 2016	**14,080,737**	**100**	**1,408,074**

The shareholders of the Group as at 31 December 2016 are as follows:

	Number of shares number	Par value MNT	Total MNT’000	Percentage of owner %
Batkhishig Khishigdorj	1,689,415	100	168,942	12.0%
Luna & Luna LLC	1,450,801	100	145,080	10.3%
Ventures One	1,304,043	100	130,404	9.3%
Bruno Raschle	1,302,016	100	130,202	9.2%
Ganhuyag Chuluun	1,132,000	100	113,200	8.0%
Investor Nation LLC	1,056,359	100	105,636	7.5%
Intergroup International LLC	917,333	100	91,733	6.5%
Mongolyn Alt LLC	873,000	100	87,300	6.2%
Gereltuya Sedbazar	452,000	100	45,200	3.2%
Soronzonbold Lhagvasuren	306,710	100	30,671	2.2%
Ronoc Limited	305,697	100	30,570	2.2%
Zoljargal Myagmarsuren	251,000	100	25,100	1.8%
Uyanga Galnyam	224,679	100	22,468	1.6%
Delgerjargal Bayarjargal	170,000	100	17,000	1.2%
Main shareholders	**11,435,053**	**100**	**1,143,505**	**81.2%**
766 other shareholders	2,645,684	100	264,568	18.8%
Total shareholders	**14,080,737**	100	**1,408,074**	**100.0%**

32. SHARE CAPITAL *(continued)*

The shareholders of the Group as at 31 December 2015 are as follows:

Name of shareholders	Number of shares number	Par value MNT	Total MNT'000	Percentage of owner %
Intergroup International LLC	1,871,276	100	187,128	13.8%
Luna & Luna LLC	1,373,801	100	137,380	10.1%
Ventures One	1,304,043	100	130,404	9.6%
Ganhuyag Chuluun	1,290,000	100	129,000	9.5%
Mongolyn Alt LLC	873,000	100	87,300	6.4%
Nemekhbaatar Bayartogtoh	507,834	100	50,783	3.7%
Bruno Raschle	461,016	100	46,102	3.4%
Buren-Erdene Khuldorj	457,300	100	45,730	3.4%
Gereltuya Sedbazar	452,000	100	45,200	3.3%
Uyanga Galnyam	431,589	100	43,159	3.2%
Soronzonbold Lhagvasuren	405,210	100	40,521	3.0%
Sergelen Munkh-Ochir	350,794	100	35,079	2.6%
Bat-Ochir Dugersuren	313,650	100	31,365	2.3%
Ronoc Limited	305,697	100	30,570	2.3%
Main shareholders	**10,397,210**	**100**	**1,039,721**	**76.6%**
315 other shareholders	3,171,409	100	317,141	23.4%
Total shareholders	**13,568,619**	**100**	**1,356,862**	**100%**

33. ADDITIONAL PAID-IN CAPITAL

This amount represents excess value over par value which is share premium.

34. OTHER EQUITY INSTRUMENTS

In accordance with the Resolution No.2007/06 of the Board of Directors, the Company made provision of 25 percent (14,299,079 MNT) on dividend declared by Khas Bank. MNT 500,000 was declared as a bonus in accordance with the BOD's resolution dated 21 May 2007.

35. NON-CONTROLLING INTEREST

	At 31 Dec 2016 MNT	At 31 Dec 2015 MNT
Ard Credit NBFI LLC	445,414	786,194
Ard Daatgal LLC	613,458	1,703,302
Jinst-Uvs LLC	(521)	-
	1,058,351	**2,489,496**

Non-controlling interest as movement of each company are as follows:

	Ard Credit NBFI LLC MNT'000	Ard Daatgal LLC MNT'000	Jinst-Uvs JSC MNT'000	Total MNT'000
Balance as at 31 Dec 2014	**790,419**	**1,894,555**	**-**	**2,684,975**
Acquisition	(126,837)	-	17,551	(109,286)
Profit/(loss) of the year	172,611	(95,616)	(17,551)	59,444
Dividend for NCI	(50,000)	(95,637)	-	(145,637)
Balance as at 31 Dec 2015	**786,193**	**1,703,303**	**-**	**2,489,496**
Acquisition	(418,316)	(1,149,744)	-	(1,568,060)
Profit/(loss) of the year	77,537	59,899	(521)	136,915
Balance as at 31 Dec 2016	**445,414**	**613,458**	**(521)**	**1,058,351**

36. LONG-TERM LOAN

		At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Loan from Khan bank (MNT)		-	222,082
Loan from Ard Assets SLC (MNT)		-	7,261
Micro Finance Development Fund (MNT)	(i)	200,000	200,000
		200,000	**429,343**

i) The loan agreement № 30/50 on 08 October 2015 is entered between Micro Finance Development Fund and Ard Credit NBFI. According to the loan agreement, MFDF (lender) agreed to lend the loan amount of MNT 500 million (five hundred million) for 36 months and at the interest rate of 6.5 annually. The amount of MNT 300 million of total loan was provided for short-term and MNT 200 million (two hundred million) for long-term.

Under with loan agreement, the loan should spend MNT 200 million (two hundred million) for Bayangol District, 150 million (one hundred fifty million) for Khan-Uul District and MNT 150 million (one hundred fifty million) for countryside. The loan collateral assets were including the 394.8 square meter of real estate of Institute of Engineering and Technology and 333.2 square meter of private apartment. The borrower should pay principal loan for 10 times every quarter after the 6 months since the loan agreement signed both parties.

37. LONG-TERM FINANCIAL LEASE

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Total long-term financial lease	**141,453**	**-**
Current portion of long-term financial lease	(31,326)	-
long-term financial lease	**110,127**	**-**

Ard Securities SC LLC is entered into a Loan Agreement №13/0621 with Tavan Bogd NBFI LLC on 4 February 2016to lease Lexus 570 motor vehicle valued at USD 73,470 for 60 months and at the interest of 1.0% per month.

38. DEFFERED TAX PAYABLE

	Foreign exchange unrealized gain/loss MNT'000	Depreciation difference of PPE MNT'000	Inventory unrealized profit/loss MNT'000	Total MNT'000
01 January 2015	**(1,933)**	**-**	**-**	**(1,932)**
Temporary difference for the year	(1,100)	(3,479)	3,045	**(1,534)**
31 December 2015	**(3,033)**	**(3,479)**	**3,045**	**(3,467)**
Temporary difference for the year	(52,571)	-	-	**(52,571)**
31 December 2016	**(55,604)**	**(3,479)**	**3,045**	**(56,038)**

39. TRADE AND OTHER PAYABLES

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Trade payables	1,019,133	5,761,305
Trust service payables	1,649,304	897,757
Amount due to related parties	2,494	398,081
Insurance claim return due	-	408
Shares payable	72,630	164,358
Insurance agreement commission payables	4,141	-
Charges due to double insurer	609,201	284,867
Employee benefit plan due	231,741	1,134
Other payables	35,448	75,139
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**3,624,092**	**7,583,049**
Rent deposits payable	2,486	-
Interest payable	4,604	149
PIT payable	81,233	59,928
VAT payable	38,154	-
SHI payable	6,403	1,122
Withholding tax payables	1,716	490
Total trade and other payables	**3,758,688**	**7,644,738**

40. RISK PROVISION

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Incurred but not reported reserve	395,635	658,155
Reported but not paid reserve	8,020	-
Possible loss reserve	298,275	71,250
Special provision fund	641,252	641,253
	1,343,182	**1,370,658**

41. SHORT-TERM LOAN

		At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Loan from Khan bank	(i)	712,335	-
Loan from Ard Assets SLC	(ii)	50,000	-
Short-term loan from bank – MNT	(iii)	190,000	250,000
Micro Finance Development Fund	(iv)	202,166	236,564
		1,154,501	**486,564**

ii) The amount represents a loan received from Khan Bank at annual interest rate of 21.6% for a year. The loan collateralized the Company's savings account as a security.

iii) The amount comprises of MNT 30 million loan agreement entered between Ard Financial Group Closed JSC and Ard Active SCC for 12-month period at interest rate of 20 percent per annum, and a Loan Agreement No. 47-3 entered between Ard Securities SC LLC and Ard Active SCC to borrow MNT 20 million secured by savings account at Ard Active SCC for 3-month period at interest rate of 3 percent per month.

iv) The credit line authorized loan agreement No ZG-RCC2015060507-1 was entered between Trade and Development Bank and Ard Credit NBFI LLC on 08 June 2015. In accordance with this agreement, TDB lent MNT 250 million (two hundred fifty million) for 24-month period at an interest rate of 1.9 percent per month. The loan is secured by 450 square meter private apartment registered under Uyanga.G, a citizen of Mongolia and 700 square meter camp land. The loan agreement was renewed on 08 June 2016.

v) Please refer to Notes 35 of the financial statements for more details.

42. DEFFERRED REVENUE

This amount represents the balance of unearned premium reserve of Ard Daatgal LLC.

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Deferred income	6,775	2,438
Deferred commission income of double insurance	2,585	-
Unearned premium reserve	3,012,001	3,160,959
	3,021,361	**3,163,397**

43. ADDITIONAL NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

Cash and cash equivalents for purposes of the statement of cash flows comprises:

	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
Cash on hand	94,145	8,449
Cash at bank	410,198	4,416,017
Bank savings *	2,925,313	3,061,076
Guarantee fund deposit	180,835	9
	3,610,491	**7,485,551**

*-The amount represents the saving accounts over 3 months the amount of MNT 2,925,313 million in 2016 (2015: 3,061,076 million).

Significant non-monetary transactions are as follows:

	Addition MNT'000	Disposal MNT'000
Investment activities:		
Assets held-for-sale	3,000,000	-
Loans provided to IET LLC	3,159,080	-
Share exchange of Ard Financial Group Closed JSC	3,665,788	-
Equity instruments exchanged	-	9,824,868
	9,824,868	**9,824,868**

44. RELATED PARTIES

Identifying related parties
A party is related to the another party if a Party, directly or indirectly, has a significant influence to the decision making for the financial and operating activities of the another party or controls over the financial and operating activities of the another party, and a Party is related to another party if the Company is under control of a party or the conditions above mentioned are reverse. The Company's related parties are individuals and other entities.

The Company has a related party relationship with the following entities and individuals.

Name of related parties	Relationship	significant transaction
Nomiin Khishig LLC	Investee company	Receivables, payables, intercompany transaction
Institute of Engineering and Technology LLC	Company of shareholder	Receivables, payables, intercompany transaction
Ard Assets SLC	Investee company	Receivables, payables, intercompany transaction
Mongol Post SC	Associate	Receivables, payables, intercompany transaction
Batkhishig.Kh	Shareholder	Receivables, payables, intercompany transaction
Investor Nation SC	Investee company	Receivables, payables, intercompany transaction
Intergroup International LLC	Shareholder	Dividend
Luna and Luna LLC	Shareholder	Dividend
Ventures One	Member of board of directors, Shareholder	Salary, bonus, dividend
Bruno Raschle	Member of board of directors, Shareholder	Salary, bonus, dividend
Ganhuyag.Ch	Executive director, Member of board of directors, Shareholder	Salary, bonus, dividend
Gereltuya.S	Shareholder	Salary, bonus, dividend
Oyungerel.J	Chairman of board of directors	Salary, bonus
Odbayar.O	Member of board of directors	Salary, bonus
Soronzonbold.L	Member of board of directors	Salary, bonus
Batbayar.P	Member of board of directors	Salary, bonus
Tsogbadrakh.G	Member of board of directors	Salary, bonus
Anthony Hobrow	Member of board of directors	Salary, bonus

44. RELATED PARTIES *(continued)*

Transactions with related parties and outstanding balances are as follows.

Receivables/(payables) from related party	At 31 Dec 2016 MNT’000	At 31 Dec 2015 MNT’000
Ard Active SCC	74,761	28,066
Investor Nations JSC	2,904	(398,154)
Shareholders	27,792	13,052
Receivables from/(payables to) members of the BOD	(2,381)	32,233
Receivables from the executive management	12,825	6,647

Transaction with related parties are as follows.

	2016 MNT’000	2015 MNT’000
Sales	769,937	25,911
Purchase	9,902	43,290
Loans provided	100,000	480,000
Loans received	272,330	1,155,125
Repayment of loans received	(697,174)	(1,133,756)
Investments in related parties	20,500	72,307
Savings on related parties	68,999	106,999
Lease payment	(266,505)	(286,773)

45. SEGMENT INFORMATION

Description of products and services that represent the revenue sources of each reporting segments are detailed below

The Group comprises of 5 operating segments.

- **Investment consulting** – The principle activities of Group are investment and investment consulting and generates 60% of the Group's total revenue (2015:59%).
- **Insurance services**– The Group offers 15 types of general insurance services over Ulaanbaatar city and 21 provinces of Mongolia with Special License No. 2/16. Insurance service is contributed 30% of the Group's total revenue (2015:33%).
- **Non-banking financial activities** – The Group carry out the activities on lending, investment and finance advisory as well as foreign exchange in accordance with the special permission No.1/222 on non-banking financial activities issued by resolution No.108 of Mongolian Financial Regulation Committee on 21 April 2011.
- **Broker, Dealer and Underwriting activities** – Underwriting, Broker, Dealer and Investment consulting service generates 1% of the Group's total revenue (2015:1%)
- **Other**– 0.14% of Group's total revenue (2014:0.11%) comprises of web design development, software and other operations.

Factors that management uses in determining the Group's reportable segments

The Group's reporting segments are strategic business units that offer different products and services. As each business requires different technology and market strategy, they are managed separately.

Operating segments are reported in accordance with the responsible entity's reporting activities.

Measurement of profit, loss, assets and liabilities of operating segments

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS.

Prices of inter-segment sales are set to be identical to that of external costumers and uses appropriate discount rate in order to comply with the requirements of the general department of taxation. This policy was consistently applied during current and previous years.

Segment assets do not include assets for taxation and corporation purposes. Assets and liabilities of the segments are reconciled with assets and liabilities of the Group for more information.

45. SEGMENT INFORMATION *(continued)*

Profit/ (loss) from segment operations for 2016are as follows:

	Investment consulting	Insurance services	Non-banking financial activities	Broker, Dealer and Underwriting activities	Other	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Sales revenue-net	11,795,102	5,842,937	1,363,844	547,968	51,901	19,601,752
Inter-segment expenses	(94,500)	(5,137)	(79,571)	(74,132)	(24,297)	(277,637)
Revenue from external customers or Group's revenue per consolidated statement of comprehensive income	**11,700,602**	**5,837,800**	**1,284,273**	**473,836**	**27,604**	**19,324,115**
Depreciation	(141,598)	(54,110)	(22,758)	(33,220)	(12,018)	(263,704)
	(141,598)	**(54,110)**	**(22,758)**	**(33,220)**	**(12,018)**	**(263,704)**
Segment profit/(loss)	**8,626,321**	**1,347,763**	**517,273**	**260,892**	**(107,121)**	**10,645,128**
Financial cost	721,298	859,893	62,024	12,143	(1,162)	1,654,196
Other income/(expense)	6,580	(98,452)	(20,084)	32,434	(1,453)	(80,975)
Other gain/(losses)	(258,913)	(13,621)	(60,198)	(3,022)	-	(335,754)
Profit/(loss) before tax	**8,157,356**	**599,943**	**535,531**	**219,337**	**(104,506)**	**9,407,661**

45. SEGMENT INFORMATION (*continued)*

Profit (loss) from segment operations for 2015 are as follows:

	Investment consulting	Insurance services	Non-banking financial activities	Broker, Dealer and Underwriting activities	Other	Total
	MNT’000	MNT’000	MNT’000	MNT’000	MNT’000	MNT’000
Sales revenue-net	11,831,372	6,427,682	1,234,028	218,380	24,422	19,735,884
Inter-segment income/(expenses)	(234,363)	(2,022)	-	(50,389)	(2,561)	(289,335)
Revenue from external customers or Group’s revenue per consolidated statement of comprehensive income	**11,597,009**	**6,425,660**	**1,234,028**	**167,991**	**21,861**	**19,446,549**
Depreciation	(123,773)	(89,633)	(24,061)	(4,088)	(11,109)	(252,663)
	(123,773)	**(89,633)**	**(24,061)**	**(4,088)**	**-**	**(252,663)**
Segment profit	**9,497,388**	**805,493**	**514,123**	**69,152**	**(267,566)**	**10,618,590**
Financial cost	214,371	681,937	69,062	4,181	(1,210)	968,341
Other income	19,947	184,166	2,662	31,540	6	238,321
Other gain/(losses)	28,415	(23,216)	(62,962)	(499)	(113,966)	(172,228)
Profit/(loss) before tax	**9,234,655**	**(37,394)**	**505,361**	**33,930**	**(152,396)**	**9,584,156**

45. SEGMENT INFORMATION *(continued)*

Segment information about the financial position at 31 December 2016:

	Investment consulting	Insurance services	Non-banking financial activities	Broker, Dealer and Underwriting activities	Other	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Segment assets	**23,153,020**	**9,447,619**	**4,894,787**	**1,520,191**	**185,870**	**39,201,486**
Segment liabilities	**802,153**	**5,163,699**	**1,766,575**	**286,732**	**257,193**	**8,276,352**
Loans	742,334	-	592,167	161,453	20,406	**1,516,360**
Total liabilities	**1,544,487**	**5,163,699**	**2,358,742**	**448,185**	**277,599**	**9,792,712**

Segment information about the financial position at 31 December 2015:

	Investment consulting	Insurance services	Non-banking financial activities	Broker, Dealer and Underwriting activities	Other	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Segment assets	**21,635,884**	**8,758,525**	**4,289,063**	**308,582**	**575,036**	**35,567,090**
Segment liabilities	**5,539,185**	**4,914,589**	**935,556**	**475,613**	**404,017**	**12,268,960**
Loans	-	-	908,646	-	19,237	**927,883**
Total liabilities	**5,539,185**	**4,914,589**	**1,844,202**	**475,613**	**423,254**	**13,196,843**

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Foreign currency transaction

Functional and reporting currency of the Group is Mongolian national tugrug. Income and expenses denominated in other currencies than the Group's functional currency will be translated using the rate at the date of the transaction incurred and receivables and liabilities, which will be collected or repaid in cash, will be translated using the official rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated into MNT at the official rates ruling at that transaction dates. Non-monetary assets and liabilities, which are reported at fair value, will be translated using the historical rate of the date that defined fair value.

All gains and losses arising on transferring of foreign currency transactions will be recorded in the Consolidated Statement of Profit or Loss and other comprehensive income.

b. Revenue recognition

The revenue from sales of goods shall be recognized if significant risks and rewards of ownership of goods have transferred to buyers and it is probable that previous payments of goods sold would be paid. If goods are delivered to buyers, this criterion shall be satisfied. If buyers have rights to return goods, the recognition of goods shall be deferred until this right are matured.
If revenue can be measured reliably and it is probable that the Group would receive payment, revenue from service shall be recognized when the service is rendered.

c. Cost/Expense recognition

The expense is recognized when a decrease in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants, have arisen that can be measured reliably.
Expenses are recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income when it incurs.

d. Leases

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, and in other cases, leases are classified as operating lease.

The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability.

For the operating lease, the total rentals payable under the lease are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e. Financial income/expense

Financial income and expenses comprise of interest income/expenses, foreign currency gain/loss, gain/loss on fair value of financial assets and liabilities, gain/loss on employee benefit plan. Interest income is recognized as it accrues in Consolidated Statement of Profit or Loss and Other Comprehensive income, using the effective interest method. All borrowing costs are recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income using the effective interest method, in the period in which they are incurred except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

f. Borrowing cost

The borrowing cost is capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use. If the interest rates of loans of related purposes or the Group’s main credit source are being used, the financial expenses are capitalized using the weighted average of interest rate.

Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed. Other borrowing costs are recognized as “finance cost” when its incurred.

g. Income tax expense

Income tax expense comprises current and deferred taxes of each consolidated company and recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates approved at the balance sheet date and any adjustment to tax payable, deferred tax assets and liabilities in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

h. Earnings/(losses) per share

Earnings/ (losses) per share are calculated based on net profit or loss distributed to the weighted average number of ordinary shares during the reporting year. It represents the current profit or loss for each ordinary share. If the Group holds any diluted financial instrument, then the Group should also calculate and report the diluted profit/ (loss) per share.

i. Related party

A party is related to the another party if a Party, directly or indirectly, has a significant influence to the decision making for the financial and operating activities of the another party or controls over the financial and operating activities of the another party, and a Party is related to another party if the Company is under control of a party or the conditions above mentioned are reverse. The company's related parties may be individuals or other entities.
The Group has a related party relationship with the following entities and individuals:

i. Subsidiaries and associates;
ii. Members of the Group's board of directors and executive management and their close family members

Regardless whether any transactions have been made between related parties, their relationships should be disclosed. Relating to the disclosures of transactions between related parties, disclose the followings.

(a) Purchases
(b) Sales
(c) Leases
(d) Loans
(e) Provision of guarantees and collateral
(f) Commitments to do something if a particular event occurs or does not occur in the future, including executor
(g) Settlement of liabilities on behalf of the entity or by the entity on behalf of another party

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j. Employee benefits

i) Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Social and health insurance
As required by law, companies in Mongolia make social security and health contributions to the Social and Health Insurance scheme and such contributions are recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as incurred.

k. Property, plant and equipment

Recognition and measurement
Property, plant and equipment are initially measured at cost. The costs of property, plant and equipment comprise their purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.
After initial recognition, property, plant and equipment are shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditures
The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income as incurred.

Significant repairs and services
Subsequent expenditures shall be recognized a separate asset or added to the carrying amount of respective asset if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k. Property, plant and equipment *(continued)*

The costs of the maintenance and service of property, plant and equipment are recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income as incurred.

Gains and losses
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other gains/losses" in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Construction in progress
Construction in progress represents the cost of construction work, which have not been fully completed or installed. The part of construction completed is used for the Group's operation and no depreciation is provided for construction in progress, except for those used for the operation, during the period of construction and installation.

Depreciation
Depreciation is recognized as current year expense on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciable cost is initial cost of assets less residual value at which the item can be sold at the end of useful life.
The estimated useful life of items of property, plant and equipment are as follows:

▪ Building	40 years
▪ Machinery and equipment	10 years
▪ Vehicles	10 years
▪ Computer, its accessories and software	3 years
▪ Furniture and fixtures	10 years
▪ Other assets	10 years

l. Intangible assets

Externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over the period of their useful lives.

m. Goodwill

Goodwill represents future economic benefits arising from other assets acquired in a business combination and are not separately identifiable or specifically recognized. For the identifiable assets acquired and liabilities assumed in the acquiree at the acquisition date, the acquirer paid for periods after the first accept the registration and recognition of the amount of money assessed at cost less accumulated amortization and any impairment losses measured.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Associate

Where the Company has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognized in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Company's share of post-acquisition profits and losses and other comprehensive income is recognized in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Company's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

o. Joint arrangements

The Company is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Company and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Company classifies its interests in joint arrangements as either:

(a) *Joint ventures:* where the Company has rights to only the net assets of the joint arrangement;

(b) *Joint operations*: where the Company has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Company considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

The Company accounts for its interests in joint ventures in the same manner as investments in Associates (i.e. using the equity method – refer above).

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o. Joint venture *(continued)*

Any premium paid for an investment in a joint venture above the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Company accounts for its interest's joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

p. Prepaid expenses and prepayments

Suppliers prepaid or funded at the expense of the future closure of non-cash assets reported in the statement of financial position recorded at cost accrued turnover.

q. Inventory

Inventories for sales are valued initially at cost and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Obsolete, redundant and slow moving inventories are identified and written down to net realizable values.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition and determined using the weighted average cost method.

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r. Trade and other receivables

Trade and other receivables are initially recognized and recorded when the contractual rights to receive cash flows or financial assets from another entity is established and subsequently are measured at fair value less any impairment loss of receivables. Allowance for impairment of trade and other receivables is estimated based on the reasonable assurance which receivables might not be collected fully in accordance with initial conditions. The allowance is difference between carrying amount and the recoverable amount which is the present value discounted using the market interest rate of similar instruments on the market. The amount of allowance is recognized in the income statement.

Carrying amount of receivables denominated in foreign currency will be converted into MNT using official rate of issued by the Bank of Mongolia at the reporting date. Realized foreign exchange gains and losses are calculated due from the amount denominated in foreign currency paid in MNT.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

s. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash balances at banking and financial institutions, special purpose funds, other cash equivalents and deposits with the terms up to 3 months.

t. Financial assets

Depending on the purpose for which the asset was acquired, the Group classifies its financial assets into one of the categories discussed below.

(i) Fair value through profit or loss

The fair value gain or losses include financial assets measured only useful derivatives. This category of financial assets included in the consolidated statement of financial position at fair value in response to changes in the fair value of the consolidated financial income or expense line of the income statement should be included.

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed or identifiable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t. Financial assets *(continued)*

(iii) Available for sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognized in other comprehensive income and accumulated in the available-for-sale reserve. Exchange differences on investments denominated in a foreign currency and interest calculated using the effective interest rate method is recognized in profit or loss.
Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in profit or loss.
Purchases and sales of available for sale financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the available-for-sale reserve.
On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

(iv) Held to maturity

Fixed determinable payments and fixed maturity are non-derivative financial assets and businesses that intention and ability to hold to maturity are optimistic that includes assets. Initial cost can be measured and reported in subsequent periods measured at amortized cost using the effective interest rate.

u. Financial liability

Depending on the purpose for which the liabilities were acquired, the Group classifies its financial liabilities into one of the following categories.

(i) Fair value through profit or loss

This category comprises only out-of-the-money derivatives (see "Financial assets" for in the money derivatives). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

(ii) Measured at amortized cost

The Group's financial liabilities Trade and other liabilities measured at amortized cost, depends on the long-term and short-term bank loans. The amortized cost of a financial liability at amortized cost using the effective interest method evaluated and measured.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

v. Compound financial instruments

The Group creates financial liabilities and the owner side recognizes and presents the components of financial instrument, which gives the option to convert the instrument to the equity instruments, separately in the Statement of Financial Position.

Compound financial instruments, the carrying amount of the original debt and equity prices in parts of the distribution of the fair value of the instrument separately determined for the liability component is assigned the residual amount after deducting all amounts. In other words, the carrying amount of the equity instrument represented by the option to convert the instrument into common shares of the entire instrument shall be considered and evaluated the combined fair value of financial instruments are determined by deducting the fair value of the liability.

w. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Financial instruments issued by the Group, which does not qualify definition of financial asset and financial liability shall be classified as equity instrument.

Instruments that evidence residual interest left from assets after deducting all of its liabilities are called equity instruments.

x. Dividends

Dividends are the redeemed part of benefits of investment in the Group's of shareholders. Whether to declare dividends and the amount to be offered per share will be defined by the decision issued by the Board of Directors and amount declared is recognized as liabilities during the related reporting period.

y. Trade and other payables

Trade and other payables are initially measured at cost. Payables are recognized when there is a contractual obligation to deliver cash or another financial asset to another entity.

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z. Reserve

The Group shall recognize following reserves for each type of insurance product in accordance with Insurance law and insurance rules, regulations in Mongolia:

- Unearned premium reserve
- Incurred but not reported reserve
- Reported but not settled reserve
- Possible loss reserve

Unearned premium reserve

Unearned premium estimated based on premium received for remaining insurance contract term. 8/1 method was applied for estimation. If the insurance period is other than 1 year, unearned premium is estimated using pro rata method for related insurance policy.

Incurred but not reported reserve

Incurred but not reported reserve reflects the total amount owed by the insurer to all valid claimants who have had a covered loss but have not yet reported it. This reserve fund is estimated by actuarial estimation based on historical fact of claims and charged to earned revenue quarterly. The Company using following actuarial methods for its estimation of IBNR reserve and actual reserve charged for each form of insurance by increasing estimation by 30 – 100 percent:

- Chain-ladder method
- Average cost method
- Loss ratio method

Reported but not settled reserve

Reported but not settled reserve is recognized with amount of claims received from insured in current reporting period and it is charged to IBNR reserve or Unearned premium reserve in relation with the period of occurrence of casualty.

Possible loss reserve

Possible loss reserve is the reserve intended to cover actual claim amount exceeded over estimated reserves for reporting period. Possible loss reserve shall be estimated for each form of insurance and following formula is applied for its estimation.

When [(Claims paid from Earned premium + IBNRR charged) / Earned premium] x100% < X

PLR = [X – (Claims paid from Earned premium+IBNRR charged/Earned premium) x100%] earned premium

46. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z. Share based payment

Closing stock options granted to employees as equity options are granted at fair value at the date of the consolidated statement of comprehensive income recognized over the vesting term. Reinforced by adjusting the number of equity instruments that are considered to reflect market conditions and insured so that in the future vesting of the options vesting period of the amount of accumulated based on the number recognized. Non-vesting conditions and vesting multiplied by the fair value of options granted in market conditions. Given all other vesting conditions are satisfied, regardless of the market conditions are fulfilled or not, it will be recognized in the statement of comprehensive income. If verifiable market conditions cannot be met or non-vesting condition is not complied, then the accrued expenses will not be adjusted.

Before the vesting period of the options, if there are any changes in conditions of growth, the change in the fair value of the option before or after the remaining vesting period measured directly recognized in the consolidated statement of comprehensive income.

Other employees of the issuance of those equity instruments for goods and services received at fair value recognized in the consolidated statement of comprehensive income.

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS NOT YET EFFECTIVE

a) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2016

The following new standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Company's future financial statements are:

IFRS	New IFRSs for 31 December 2016 year ends-IFRSs, IFRICs and Amendments	Effective date
Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint ventures	(i) The amendments clarify that so long as the entity's ultimate (or intermediate) parent produces financial statements that are in compliance with IFRS 10 (including an investment entity that accounts for its interests in all of its subsidiaries at fair value rather than consolidating them), the exemption is available to the intermediate parent entity from presenting its own consolidated financial statements. (ii) The amendments clarify that an investment entity parent consolidates a subsidiary only when - The subsidiary is not itself an investment entity - The subsidiary's main purpose is to provide services that relate to the investment entity's investment activities (iii) The amendments clarify that an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss is required to present the disclosures to investment entities as required by IFRS12 (iv) The amendments clarify that for an entity that is not itself an investment entity but has an interest in an associate or joint venture that is an investment entity, the non-investment entity may, when applying the equity method, retain the fair value measurement applied by the investment entity associate or joint venture to account for its own interests in its subsidiaries.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.
Amendments to IFRS 11 Joint Arrangements	The amendments require an entity to apply all of the principles of IFRS 3 when it acquires an interest in a joint operation that constitutes a business as defined by IFRS 3. The amendments also include two new illustrative examples.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS NOT YET EFFECTIVE (*continued*)

a) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2016 (continued)

IFRS	New IFRSs for 31 December 2016 year ends-IFRSs, IFRICs and Amendments	Effective date
IFRS 14 regulatory Deferral Accounts	The scope of IFRS 14 is narrow, with this extending to cover only those enitites that: - Are first time adopters of IFRS - Conduct rate regulated activities - Recognize associated assets and/or liabilities in accordance with their current national GAAP. Entities within the scope of IFRS 14 would be afforded an option to apply their previous local GAAP accounting policies for the recognition, measurement and impairment of assets and liabilities arising from rate regulation, which would be termed regulatory deferral account balances. Any regulatory deferral account balances, and their associated effect on profit or loss, would be recognised and presented separately from other items in the primary financial statements.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.
Amendments to IAS 1 Presentation of Financial Statements	*Disclosure Initiative* The amendments made to IAS 1 include: - Materiality - Line items in primary financial statements - Notes to the financial statements - Accounting policies In addition, the following amendments to IAS 1were made which arose from a submission received by the IFRS Interpretations Committee: - Equity accounted investments	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets	*Clarification of Acceptable Methods of Depreciation and Amortization* IAS 16 has been amended to prohibit use of revenue-based methods of depreciation for items of property, plant and equipment. IAS 38 has been amended to incorporate a rebuttable presumption that amortization based on revenue is not appropriate. The presumption can be rebutted if either: - The intangible asset is expressed as measure of revenue; or - Revenue and the consumption of the economic benefits of the intangible assets are highly correlated.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS NOT YET EFFECTIVE (*continued*)

a) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2016

IFRS	New IFRSs for 31 December 2016 year ends- IFRSs, IFRICs and Amendments	Effective date
Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture	*Agriculture: Bearer Plants* The amendments extend the scope of IAS 16 to include bearer plants and define a bearer plant as a living plant that: - Is used in the production process of agricultural produce - Is expected to bear produce for more than one period; and - Has a remote likelihood of being sold The changes made result in bearer plants being accounted for in accordance with IAS 16 using either: - Cost model, or - The revaluation model Bearer plants are no longer within the scope of IAS41. However, the agricultural produce of bearer plants remains within the scope of IAS 41. The amendments include the following transitional reliefs for the purposes of first time application: - Deemed cost exemption - Disclosures	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.
Amendments to IAS 27 Separate Financial Statements	*Equity Method in Separate Financial Statements* The amendments include the introduction of an option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment. A consequential amendment was also made to IAS 28 Investment in Associates and Joint Ventures, to avoid a potential conflict with IFRS 10 Consolidated Financial Statements for partial sell downs	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted. EU endorsement status: endorsed on 18 December 2015.
IFRS 5 Non-current assets Held for Sale and Discontinued Operations (amended as part of Annual Improvements to IFRSs 2012-2014 cycle)	*Changes in methods of disposal* The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted. EU endorsement status: endorsed on 15 December 2015.

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS NOT YET EFFECTIVE (*continued*)

a) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2016

IFRS	New IFRSs for 31 December 2016 year ends-IFRSs, IFRICs and Amendments	Effective date
IFRS 7 Financial instruments: Disclosures (amended as part of Annual Improvements to IFRSs 2012-2014 cycle)	The amendments to IFRS 7 dealt with two aspects: servicing of contracts and the applicability in interim financial statements of the offsetting amendments made to IFRS 7 in December 2011. *(i) Servicing contracts* The IASB clarified the circumstances in which an entity has continuing involvement from the servicing of a transferred asset. The amendment is required to be applied retrospectively in accordance with IAS 8. However, the amendment does not need to be applied for any period beginning before the annual period in which the entity first applies the amendments. *(ii) Applicability of offsetting in condensed interim financial statements* A further amendment to IFRS 7 has clarified that the application of the amendment Offsetting Financial Assets and Financial Liabilities issued in December 2011 is not explicitly required for all interim periods.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted. EU endorsement status: endorsed on 15 December 2015.
IAS 19 Employee benefits (amended as part of Annual Improvements to IFRSs 2012-2014 Cycle)	*Discount rate-regional market issue* The guidance in IAS 19 has been clarified and requires that high quality corporate bonds used to determine the discount rate for the accounting of employee benefits need to be denominated in the same currency as the related benefits that will be paid to the employee.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted. EU endorsement status: endorsed on 15 December 2015.
Amendments to IAS 34 Interim Financial Reporting	*Disclosure of information 'elsewhere in the interim financial report'* IAS 34 requires certain disclosures to be presented in the notes to the interim financial report, unless they are presented elsewhere in the interim financial report (such as a front end management report). If the disclosures are presented 'elsewhere' in the interim financial report, such as in the management commentary or the risk report of an entity, a cross reference must be made from the notes to the interim financial statements to where the disclosures have been made.	Mandatory adoption for periods begining on or after 1 January 2016. Early adoption permitted.

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS (*continued*)

b) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2017

The following new standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Company's future financial statements are:

IFRS	New IFRSs for 31 December 2017 year ends-IFRSs, IFRICs and Amendments	Effective date
IFRS 9 (2014) Issued: July 2014	IFRS 9 Financial Instruments (2014) is the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement. It incorporates the final requirements on all three phases of the financial instruments project - classification and measurement, impairment and hedge accounting. The Classification of financial assets are as follows: • Amortised cost; • Fair value through Other Comprehensive Income -FVTOCI • Fair value through Profit or Loss- FVTPL (residual caterogry) and • Fair Value through Other Comprehensive Income -FVTOCI (optional for some investments in equity insturments). The classification of financial liabilities are as follows: • Amortised cost • Fair value through Profit or Loss	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.
IFRS 15 Issued: May 2014	IFRS 15 Revenue from Contracts with Customers supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Trasfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services). The objective of this standard is that an entity recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or service. The standart requires the application of the following five steps: 1. Identify the contract 2. Identify the performance obligation(s) 3. Determine the transaction price 4. Allocate the transaction price to each performance obligation 5. Recognise revenue when each performance obligation is satisfied.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.

47. NEW STANDARDS, INTERPRETATION, AND AMENDMENTS (*continued*)

b) New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2017 (continued)

IFRS	New IFRSs for 31 December 2017 year ends-IFRSs, IFRICs and Amendments	Effective date
IFRS 15 Amendments Issued: April 2016	In September 2015, the IASB issued an amendment to IFRS 15 to defer its effective date by one year to 1 January 2018. Further, in April 2016, the IASB issued the following clarifications to the standard: -Identification of performance obligations -Principal vs agent considerations -Licensing agreements -Transitional relief	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.
IFRS 16 Issued: January 2016	IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of the Transactions Involving the Legal form of Lease. The major changes are lessees, with IFRS 16 setting out a single model for which eliminates the distingction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts.	Mandatory adoption for periods beginning on or after 1 January 2019. Early adoption permitted, but only if IFRS 15 has also been adopted.
Amendment to IAS 7- Disclosure Initiative	These amendments aim to imprive disclosures about an entity's debt. Disclosures are required to enable users of financial statement to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non- cash changes. The reconciliation would include: • Opening balance • Moviments in the period including: - Changes from financing cash flows - Changes arising from obtaining or losing control of subsidiaries or other businesses, - Other non-cash exchanges (e.g changes in foreign exchange rates, new finance leases and change in fair value), • Closing balance.	Mandatory adoption for periods beginning on or after 1 January 2017. Early adoption permitted
Amendment to IAS 12 Issued: January 2016	The amendment to IAS 12 clarifies the accounting for deferred tax assets related to debt instruments measured at fair value but are not deemed to be impaired. Deductible temporary differences arise from unrealized losses on debt instruments measured at fair value.	Mandatory adoption for periods beginning on or after 1 January 2017. Early adoption permitted

47. NEW STANDARDS, INTERPRETATIONS, AND AMENDMENTS (*continued*)

b) *New standards, interpretations, and amendments effective for annual periods beginning on or after 1 January 2017*

IFRS	New IFRSs for 31 December 2017 year ends- IFRSs, IFRICs and Amendments	Effective date
Amendment to IAS 28 Issued: December 2016	IAS 28 permits an investment in an associate or joint venture to be measured at fair value through profit or loss, instead of the equity method being applied, if the investment is held directly or indirectly through a venture capital organization, unit trust or similar entities.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted
Amendment to IAS 40 Issued: December 2016	This amendment clarifies that a transfer of a property to, or from, investment property is made when, and only when, there is change in use. It also clarifies that the transfers included in IAS 40.57 are examples of evidence that may support a change in use and not the only possible circumstances in which there is a change in use.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted
IFRS 1 Amendment to IFRS Issued: December 2016	A number of short-term exemptions in IFRS 1 First Time Adoption of International Financial Reporting Standards were deleted. The relief provided by these exemptions were no longer applicable.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.
IFRS 2 Amendment to IFRS 2 Issued: June 2016	These amendments address the classification and measurement of share-based payment transactions for a number of situations where existing guidance is not clear.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.
Amendment to IFRS 4 Issued: September 2016	The amendment permits either the deferral of the adoption of IFRS 9 for entities whose predominant activity is issuing insurance contracts or an approach which moves the additional volatility created by having non-aligned effective dates from profit or loss to other comprehensive income.	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.
Amendments to IFRS 10 and IAS 28 Issued: September 2014	The amendments clarify the accounting for transactions where a parent loses control of a subsidiary, that does not constitute a business as defined in IFRS 3 Business Combinations, by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method.	Mandatory effective date deferred indefinitely.
Amendment to IFRS 12 Issued: December 2016	The scope of IFRS 12 was clarified to make it clear that the disclosure requirements in this Standard, except for those paragraphs B10 - B16, apply to interests irrespective of whether they are classified as held for sale, as held for distribution to owners or as discontinued operations in accordance with IFRS 5.	Mandatory adoption for periods beginning on or after 1 January 2017. Early adoption permitted.

48. CONTINGENT LIABILITIES

Ard Insurance LLC is entered into an Insurance Agreement №11/01/157 on 03 June 2011 effective from 5 September 2011, 12 am to 4 March 2012, 12 am. The agreement insures Ulemj LLC's accountability for third parties valued at MNT 1,250,000 thousand and MNT 6,875 thousand premium. Insurance agreement made between Ard Insurance LLC and Ulemj LLC; and guarantee received from Ulemj LLC on insurance fulfillment are combined agreement which is inseparable from each other and shall not be considered as a separate agreements. But Shangri-La Ulaanbaatar Hotel LLC argued that those agreements are separate agreements.

Ard Insurance LLC filed a formal complaint to the court arguing that an insurance agreement between Ard Insurance LLC and Ulemj LLC and insurance guarantee held by Shangri-La Ulaanbaatar Hotel LLC should be cancelled. Sukhbaatar District primary court of civil appeals conducted court proceedings on 26 October 2016 and made a Resolution №181/SHSH2016/01080 to decline the request.

The Company appealed to the Capital City court of civil appeals and after conduction an investigation the court issued a Decision № 143 decline the appeal and follow "The resolution №181/SHSH2016/01080 issued 26 October 2016 by Sukhbaatar District primary court of civil appeals".

The Company appealed to the chamber for civil cases of the supreme court of Mongolia. The Resolution № 001/ht2017/00316 of court session was issued on 21 March 2017 to cancel "The resolution №181/SHSH2016/01080 issued 26 October 2016 by Sukhbaatar District primary court of civil appeals and inspection № 143 issued on 06 January 2017 of Capital City court of civil appeals" and to investigate the issue further.

49. COMPARATIVE FIGURES

Certain corresponding figures have been reclassified to conform to the current year's presentation.

50. SUBSEQUENT EVENTS

- The BOD of Ard Credit NBFI LLC issued a Resolution No. 2017/4 on 22 February 2017 to declare MNT 200 million dividend and the dividend was fully paid on 17 March 2017.
- As at 31 December 2016, the Company did not fulfill the criteria that requires individual loans provided to shareholders, employees and related parties and other credits similar to loans shall not exceed 10 percent of owner's equity; and the total amount of such credits shall not exceed 25 percent of owner's equity (there was 2 lenders exceeding 10% criteria and the total amount of loans provided were 48.2 percent). The percentage decreased after the lenders repaid the loans, as a result, there was 1 lender exceeding the 10% criteria (11%) and total amount of loans provided decreased to 25.79%.
- On 24 March 2017, Ard Financial Group Closed JSC issued 24-month, MNT 2 billion bond at interest rate of 19.2%.

51. TRANSLATION INTO ENGLISH

These financial statements have been prepared in both Mongolian and English languages and the report in Mongolian language will prevail in the case of misunderstanding between versions in Mongolian and English languages