

Third Quarter reports of 2015

Dear Board,

It is my pleasure to share with you this discussion by the management of operating and financial results of Ard Financial Group for the 3rd quarter of 2015. We continued to make a steady progress on almost all ends towards achieving long-term vision and short term goals set forth by the Board. And I am happy to report that much has happened in and around the Company during this period. Mostly positive stuff, I must add.

Operating Environment: Political and economic situation in the country remains rocky with a clumsily executed reshuffling of the cabinet (MPP kicked out of the coalition and its 6 ministers replaced) fueling political tensions ahead of next year's general elections. It was combined with a further slowdown in the economic growth on the back of weaker still demand for commodities in China. Currently, the budget deficit stands at MNT867 billion with the budget revenue short of its target by MNT800 billion and spending missed by MNT1.2 trillion. The national currency hovers near its record high level against major international currencies, standing currently at MNT1,991.67 against US dollar. On the positive side inflation went down to a single digit number and OT's second-phase development seems to be proceeding smoothly in spite of negative news hitting Mongolia from all sides. The bank funding of USD4.2 billion is expected to be drawn already this year and we will see USD1 billion spend by OT annually in the coming 7-8 years to develop the underground mine, which is a very significant amount for an economy with a GDP of USD10 billion. Banking loan book quality continues its downward slide (33 percent of all loans to the mining sector is delinquent). The amount of sovereign debt accumulated since last elections and its repayment capacity have been a focus of public debate in the recent months. The government has submitted a budget amendment to the Parliament along with 2016 budget proposal. Both assume about MNT1 trillion deficits and both speak of austerity measures. Trade balance is shrinking but remains in surplus. Foreign direct investment has dried up and is close to nothing.

Shareholding structure: Mr. Bruno Raschle of Adveq became the newest shareholder in Ard Holdings and accepted our invitation to serve on the Board, making it the highlight for the quarter. His ownership represents 2.68 percent of the Company. We currently have 305 shareholders on the Company's registry with 17,194,364 outstanding shares. The top 20 shareholders control 87.15 percent of the total issued and outstanding shares of Ard Holdings.

The Company was able to register itself with the Mongolian Securities Clearing and Central Depository House (MSCCDH) as part of the strategic roadmap for listing on the Mongolian Stock Exchange in October. It means that Ard is close to becoming a so-called Closed Joint Stock Company, according to the Mongolian law, as a result. From now on all share transactions in the Company's stock will have to now go through MSCCDH, eliminating the need for the cumbersome process that we used to have with the State Registration as soon as someone closed a share transaction. As a reminder, I would like to mention that, as part of the above-mentioned roadmap, Jinst Uvs, a publicly traded shell company, was acquired at the beginning

of this year positioning Ard Holdings within one short step from becoming an MSE quoted company.

We have been working to resolve the issue raised by some shareholders of Ard Insurance about validity of our share swap agreement dated late 2014 with VenturesOne, which owns 7.58 percent of Ard. Finally, after long and tough negotiations, we decided to recirculate the offer to all shareholders of Ard Insurance and the offer period will end on November the 9th. Thanks God.

Board of Directors: Board and relevant committees met at the end of August and Mr. Bruno Raschle and Anthony Hobrow of VenturesOne attended the meetings in person for the first time since joining our Board. The Board reviewed and commented on the reports, reshuffled the standing committees, and provided guidance on two major issues facing the Group: divestiture from TenGer and the shareholder confrontation at the Insurance business.

The Board reviewed and debated some proposals that were submitted such as divesting from IET by selling to ZAG and incumbent management, commercial bank acquisition, etc. The Board recommended to continue investigating these proposals and report back once these were finalized. The Board reviewed and approved the 2015 KPIs for the CEO of Ard Holdings, and it also decided to impose spending limits for all executives within the Group. It was also recommended to curb the lending ability by the Holding and limit it to the Group's subsidiaries.

Most importantly the Board agreed to review and approve the strategic business plan of Ard Financial Group during its December meeting. As a follow-up to this recommendation the management of the Group held a strategic off-site retreat with the participation of the Chair of the Board. The senior management brainstormed on the 5-year strategy of subsidiaries and the Group for 2 days.

Ard Holdings: We continued our negotiations with Mongolia Opportunity Fund and, eventually, EBRD and ORIX, on the sale of 4.26 percent stake in TenGer Financial Group. The draft SPA was received at the end of August and we signed the deal in October. Waivers from two of our partners are pending at the time of the writing of this report. This deal will bring in cash of MNT13 billion of which roughly MNT5.4 billion is earmarked for share buyback, further MNT2 billion will be paid in taxes. Net cash of approximately MNT6 billion is to be invested in the expansion of our existing operations.

The Holdings' loan book stands at MNT2,061.1 thousand comprised of 5 loans denominated in USD, except for one loan of MNT1.2 million outstanding to Wild Digital Agency. These loans earn 12-18 percent interest on USD and 24 percent on MNT denominated loans. Please, refer to the annex for more details on these loans.

MNT214.4 million of rental expenses for our headquarters had a big negative impact on our bottom line. The rental income, which we have anticipated in the beginning of the year, did not materialize due to slow economic activity. Big hit to our cash flow projections was a bankruptcy of the second major tenant of the property. We are working to proactively resolve the situation by facilitating a long-term lease with steady cash flows. A large one-time write-off of a receivable from BSP resulted in the loss of MNT452.4 million – this was a legacy loan to a large

construction project disbursed in 2009. MNT118.6 million was spent this year on PR, marketing and grants to social causes, and this line also includes corporate representation expenses. A tax liability of MNT419.8 million was brought down to MNT314.5 million and we are working to get this settled before the end of the year.

Consolidated audited financials were finalized by the auditors and the Group came to an agreement with our auditors to commence 2015 interim financial statements audits in October. Work continues on implementing the recommendations of the management letter presented by auditors.

The management approached the Board with a request to approve a bridge loan of USD500 thousand to fund the operating cash flows of the Company until the year-end at the end of the quarter and we obtained USD250 thousand in October from one of our shareholders. We are working to get the balance.

Investments: The total valuation of the Group stands at MNT35.48 billion staying basically at the same level from MNT35.58 billion of the previous quarter, resulting in the valuation of MNT2,063.72 per share. There are positive changes mostly attributed to the exchange rate adjustment for our shareholding in TenGer, where we have fixed the price in USD with the offsetting decrease in our cash holdings and increase in payables. Please, refer to the attachment for more details.

Ard Insurance: The Board made a decision to replace the CEO of the Insurance Company after it has posted losses in the first 2 quarters of 2015. This decision is in line with a proposal of the Audit and Governance Committees of the Board from January of 2015 to take action against the CEO following disappointing results of 2014. Mr. Batbold Ariyasuren was appointed as an interim CEO at the beginning of August. He and his team are working to overhaul the operations and financial management of the Company and target to bring the Company's bottom line to black at the end of this year. Past due receivables from major clients, such as Hunnu Air, large insurance payments, discrepancies in the financial reporting continue to present major challenges to regulatory compliance and plague the balance sheet of the Company. On top of this there is a major shareholder dispute that has been dragging on for over a year and it needs urgent resolution.

As of Q3 2015, total asset of Ard Daatgal LLC have reached MNT 8.8 billion, a 4 percent increase compared to last quarter. The company's gross written premium (GWP) as of Q3 totaled MNT6.2 billion, while the GWP collected during the reporting period alone stood at MNT1.7 billion. OPEX stands at MNT2.9 billion, which is a decrease of MNT482.4 million or 14 percent compared to Q3 of last year. Expense ratio is 47 percent and loss ratio is 49 percent.

Ard Securities: Following the departure of Mr. Batbold Ariyasuren, CEO, Mr. Ganhuyag Ch. Hutagt, CEO of the Group, is acting as CEO of the Company assisted by Ms. Handaa and Ms. Enhbileg in managing Ard Securities, which is focused mainly on the listing of Ard Financial Group, registration of the fund management company, Ard Management, and general investment advisory to the Group. During the reporting period, the Company intermediated MNT2.0 billion worth trading in Ard stocks for the first time and has successfully completed new shareholders' registration.

Ard Credit: The Company's total balance sheet stayed basically unchanged at MNT3.6 billion of which MNT3.2 billion is in the loan portfolio. The management is focusing on bringing down the portfolio at risk, which currently stands at 7.5 percent triggering higher provisioning in the third quarter resulting in the risk coverage ratio of 62.2 percent. However, we have a positive outlook for Q4 as it relates to the financial position - we are receiving financing from MDF and other sources. In Q3 we disbursed MNT1.1 billion of loans to 53 clients and the average outstanding loan balance stands at MNT17 million. Net income is MNT237 million and we expect to fall short of the profit target for the year. New loan product is being launched together with the IET to fund the tuition fees. Going forward the priority will be given to wholesale loans to rural savings and loan cooperatives in close collaboration with ARMD. Moreover, the management is working on introducing new products – credit card and financial leasing – within this year.

Ard Assets: Assets of the Company reached MNT400 million with MNT329 million in savings deposits. Loan portfolio comprises MNT285 million disbursed to 65 clients with near perfect quality – only two minor loans are past due. We have 420 members with 260 pension account holders.

Jinst Uvs: The company stayed idle.

Ard Management: Registration and licensing is still pending.

TenGer Systems: The long awaited Terblum new core banking solution is finally being rolled out to Ard Assets and Ard Credit. We are hoping to start marketing the new product starting in January. The Board decided to not discontinue Genius Banker, as originally planned, with the introduction of the new product but instead to not only maintain it, but to, actually, upgrade it to cater to the needs of customers who cannot afford, for technical and/or financial reasons Terblum.

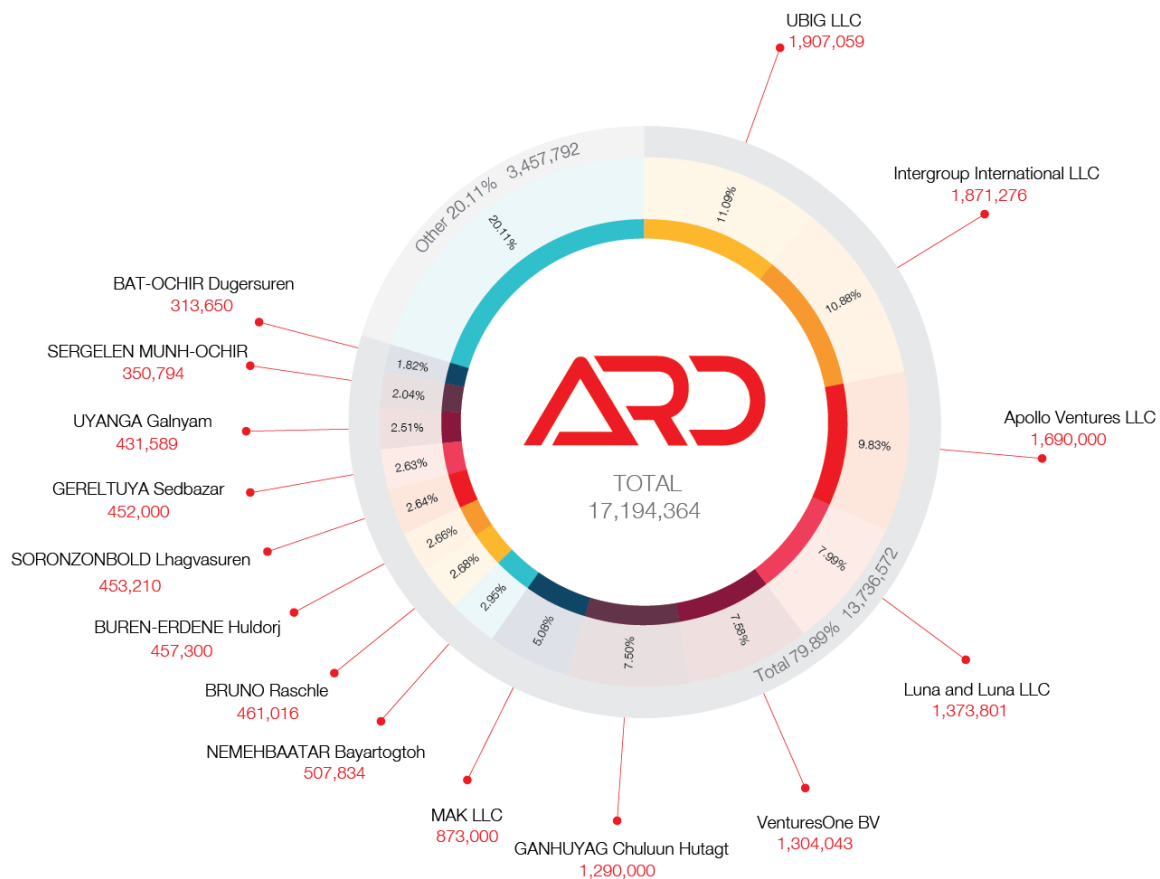
Wild Digital Agency: Issues around governance and management of the company seem to be finally subsiding and sales are on the increasing pattern.

Nomyn Hishig: Rental contracts were reviewed and the Board and management are working closely together to find a solution to the first floor tenant issue.

Institute of Engineering and Technology: The school has 2,712 students vs. 2,939 a year ago and we enrolled 802 new students. The Institute of Engineering and Technology had been accredited as the first private institution, which had been successfully audited by International BDO Audit Company.

ARMD: Ard continued to work closely with the Association of Rural Microfinance Development and jointly organized conferences of savings and loan cooperatives in Central, Western and Eastern regions, drawing participation of 35 cooperatives. We attended anniversary events of 5 cooperatives as well. There were 7 cooperatives who joined as new members. We are planning to further increase and deepen the level of cooperation with ARMD and its member institutions.

Shareholders Structure



Group Structure



Board Composition



Financial Statements as of 30th of September 2015

In MNT thousands

BALANCE SHEET	2014.12.31	2015.09.30	change	%
Cash and cash equivalents	408,470	34,887	(373,583)	-91%
Receivables, short term investments, inventory	1,546,292	1,051,323	(494,968)	-32%
Prepayments	100,876	17,314	(83,562)	-83%
Fixed assets	447,862	1,123,886	676,024	151%
Long term investments	32,331,089	33,274,251	943,163	3%
TOTAL ASSETS	34,834,589	35,501,663	667,074	2%
Liabilities				
Account liabilities	796,228	828,789	32,561	4%
Tax payable	1,290	314,500	313,210	24280%
Loan	210,999	772,513	561,514	266%
Deferred tax payable*	5,212,734	4,671,005	(541,729)	-10%
Long term liabilities	136,179	129,703	(6,476)	-5%
Liabilities	6,357,430	6,716,511	359,081	6%
Equity				
Share capital	1,679,533	1,719,436	39,903	2%
Share premium	9,298,761	9,929,063	630,302	7%
Other capital accounts	13,799	13,799	-	0%
Retained earnings	17,485,066	17,122,854	(362,212)	-2%
Total equity	28,477,158	28,785,152	307,993	1%
LIABILITIES AND EQUITIES	34,834,588	35,501,662	667,074	2%

INCOME STATEMENT	2015.09.30	2015.09.30
Income from investments	107,759	4,200,999
Interest income	154,766	149,411
Income from dividends		189,029
Rental income		104,136
Gains on fair value	831,435	943,163
Administrative expenses	819,600	593,522
Profit/ (loss) from currency rate changes	43,802	94,858
Interest income	151,050	57,364
Bad debt		452,356
Other expenses	224,963	118,642
PROFIT/(LOSS) BEFORE TAX	(212,617)	4,459,710
Income tax	40,153	294,781
Deferred tax expense	83,144	94,316
PROFIT/ (LOSS) FOR THE YEAR	(335,913)	4,070,613

*Deferred taxes are calculated on the revolution income of investment assets and will be paid once they will be realized.

Valuation Sheet

In MNT thousands

	Valuation (MNT million)		Ownership Percentage	Valuation basis
	12/31/2014	9/30/2015		
Investment				
TenGer Financial Group	11,684.77	12,375.04	4.26	Trade value / 706,596*8.77\$/
Institute of Engineering and Technology	9,824.90	9,824.90	50.00	Fixed assets value
Ard Insurance	6,637.20	6,637.20	55.31	Last trade value
Ard Credit	1,600.00	1,852.90	58.00	Investment value
Ard Securities	983.00	983.00	100.00	Cash flow
Nomyn Hishig	1,382.40	1,382.40	20.00	Property value
Others	218.81	218.81		Investment value
Long term investments	32,331.09	33,274.25		
Short term investments	958.61	2,061.11		Investment value
Total investments	33,289.70	35,335.36		
Assets				
Fixed assets	897.32	1,123.89		
Cash and cash equivalents	408.47	34.89		
Account receivable/ (payable)	(595.95)	(992.47)		
Total	709.84	166.30		
TOTAL VALUATION	33,999.54	35,501.66		

Total shares outstanding	16,795,333	17,194,364
Price per share	2,024.34	2,064.73