



Stronger. Together.

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Board Report by the Chair

Dear Shareholders,

Although 2016 was a difficult year in terms of economy and politics in Mongolia, Ard Financial Group achieved remarkable progress on many fronts thanks to the hard work of management, support and involvement of the Board, and, most importantly, trust placed by our shareholders in the Company, and the values we, collectively, stand for.

Our Board met three times in plenary sessions. Management and standing committees of the Board prepared well for these meetings. We held our annual shareholders meeting in April and shareholders mandated the Board to press ahead with our ambitious expansion plans and listing on the local market.

BDO Audit continues to do an excellent job of auditing our financial statements for the past three consecutive years and we were pleased to hire them once again for 2016 financial statements audit for the whole Group.

The most important job of the Board is to provide a strategic guidance and oversight to the CEO. We continue to excel in this role directing him to create positions of Chief Compliance Officer, Chief Risk Officer, both of which report directly to the Board. An Internal Auditor was hired and the Board created a full time position for the Board Secretary in 2016.

Mr. Nemehbaatar, CEO of Zag, stepped down from our Board after he swapped all his shares in the Company for IET shares at the end of the year. He served on this Board since 2012 and he served well. We would like to thank him for his invaluable contribution to the development of Ard and wish him well in his future endeavors.

Mongolyn Alt(MAK) LLC's CEO, Ms. Tselmuun Nyamtayshir, who joined this Board since 2013, decided to resign from the Board due to conflict of interest. In November she nominated Mr. Ariuntugs, Director of Investment and Risk Management Department of Mongolyn Alt(MAK). Governance, Nominations and Remuneration Committee of the Board shall make a final recommendation to the Board on this matter in early 2017.

Mr. Bathishig Hishigdorj joined our Board, following the Mongol Post acquisition agreement with H.Bathishig, according to which, he became our single largest shareholder.

We anticipate certain changes in the Board going forward as well – the Board identified a need to become more streamlined and efficient in this new phase of our growth. We will be making recommendations to this effect at our Annual Shareholders Meeting in 2017.

The Board reviewed a number of strategic deals and provided their comments and approvals. In January management approached the Board to take part in the historic privatization of Mongol Post. As a result of swift and coordinated action by both the management and the Board, we ended up becoming the largest private sector player in Mongol Post. Later in the year we approved the deal to increase our stake to 30.56 percent in Mongol Post through acquisition of additional 13 percent stake from H.Bathishig.

After a number of unsuccessful negotiating rounds over the past several years we were able to exit our fifty percent stake in the Institute of Engineering and Technology (IET) in a deal that involved long-term loan financing, real estate and share capital. We commend the management for their unwavering will in bringing this transaction to a successful close.

The Board approved mandatory capital increases for Ard Credit, our lending arm, and Ard Securities, our brokerage and investment banking arm, in 2016. We decided to raise the capital for Ard Management and Ard Life as well going forward. Ard Holdings increased its stake in Ard Insurance by 27.72 percent and we own 80.7 percent of Ard Credit at the end of the year - we are pleased to report that all of the abovementioned investments were funded by internally generated sources with minimum disruption to the business and dilution to our shareholders.

Listing of Ard Holdings on the Mongolian Stock Exchange remains the highest priority for the Board. We asked the management to develop a roadmap and after the Board's approval execution of this plan is underway. According to our current plan Ard Holdings will reverse into Investor Nation, once it's merger with Jinst Uvs is complete in 2017.

Shareholders of the Company approved a new stock remuneration program until 2020 whereas the Board and key executives are to be handed out 10 percent of the Company's outstanding shares

as a compensation for the successful execution of our strategic goals. Directors were required to make their performance self-assessments for the second year in a row, and based on the Board's review and approval 2016 stock allotment will be handed over to them.

Our shareholders number continues to climb as a result of increasing trust in the Company - at the end of the year the number of our shareholders reached over 3,000 (only 502 of new shareholders were officially registered within 2016). Close to MNT14.2 billion worth of our shares exchanged hands last year. This is a record turnover and we intend to keep the momentum going. As

things stand currently, our largest shareholder, Bathishig, holds 12 percent, Intergroup is in the process of divesting their shares, Mr. Bruno Raschle acquired an additional 4 percent and the management is on the lookout for new strategic investors and deals.

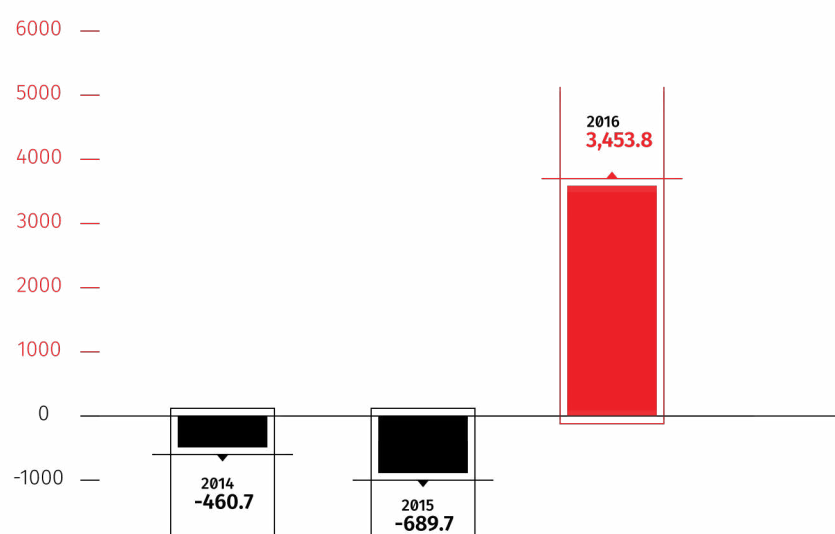
As we stated in our mission statement, creation of the long-term value for our shareholders is of highest priority to us. The holding company made a profit of MNT3.5 billion in 2016 and value of your share of stock in the Company went up to MNT2,453.7 as a result. This outcome would not have happened without our shareholders trust and support. All the congratulations and thanks are due to you. I wish you all the best going forward.

Oyungerel Janchiv
Chair

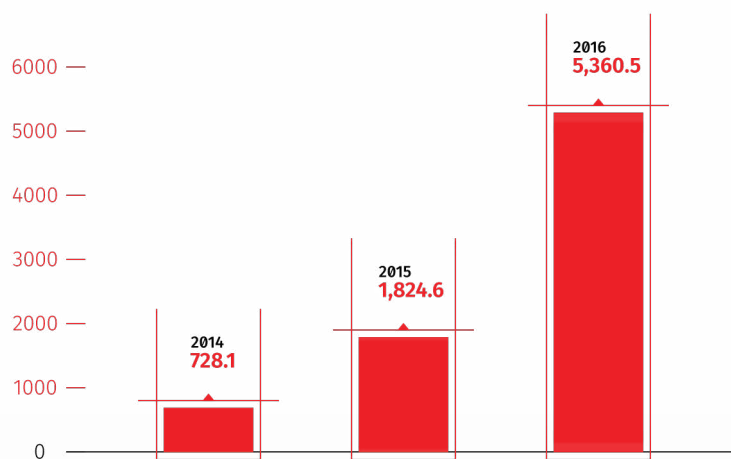
The Year in Numbers

in million MNT unless otherwise stated	2015	2016	Change
Total Assets	39,895.3	39,392.4	-1%
Loan Portfolio	1,824.6	5,360.5	194%
Fixed Assets	862.4	676.7	-22%
Shareholders' Equity	34,006.1	37,466.0	10%
Total Liabilities	5,889.1	1,946.4	-67%
Net Profit	-689.6	3,453.8	601%
Total Income	11,831.4	12,455.4	5%
Consolidated Group Assets	35,567.1	39,201.5	10%
Consolidated Group Profit	9,368,133	9,040,745	-3.5%
Number of Shares in Circulation	13,486,359	14,151,451	5%
Earnings per Share (MNT)	13.0	244.05	1,777%
Value per Share (MNT)	2,176.0	2,453.7	13%

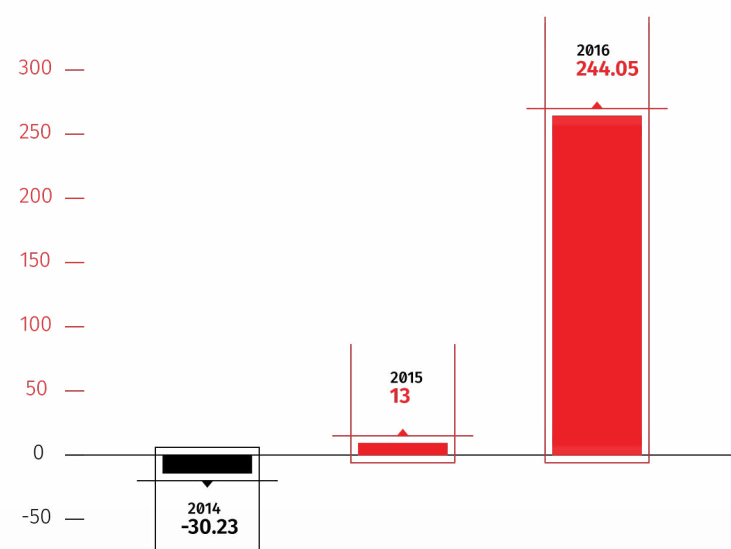
Net profit



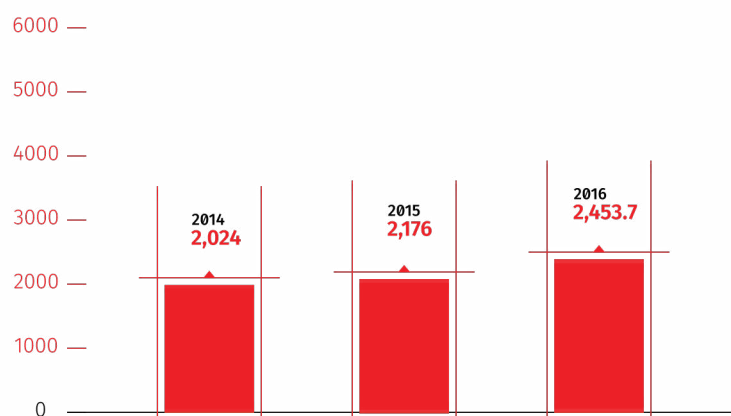
Loan portfolio



EPS



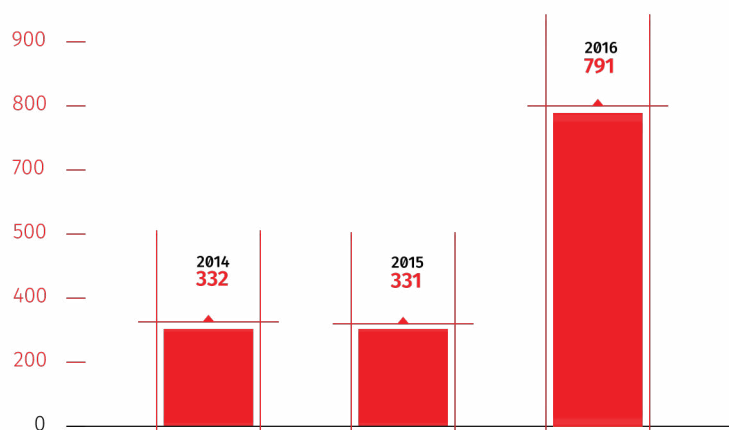
Value per share



Ratios

	2015	2016	Өөрчлөлт
Loan Portfolio to Assets	4.5%	13.6%	9.1%
Investments to Assets	52.0%	64.9%	12.9%
Debt to Assets	14.7%	5.0%	-9.7%
Investments to Capital	61%	68.2%	7.2%
Salaries to Assets	0.6%	1.3%	0.7%
Operating Expenses to Assets	2.2%	3.0%	0.8%
Financial Expenses to Assets	0.2%	0.3%	0.1%
Net Foreign Exchange Position	-	-	-
ROE	-2%	9.21%	11.21%
ROA	-1.7%	8.76%	10.46%

ROE



Milestones of
2016





- USD6.2 million for 4.26 percent of TenGer Financial Group arrived on our accounts. Prevailing exchange rate at the time was MNT1,995 per USD.
- Ard Holdings took part in the privatization of Mongol Post and acquired 17.38 percent for MNT3.2 billion.
- Ard Holdings acquired 20.1 percent of its shares in circulation from its two largest shareholders for MNT5.4 billion through Ard Securities. Altogether MNT11 billion worth of shares were acquired back by the company in 2016.
- Investor Nation movement was initiated. By the end of the year it became a closed joint stock company. Application to merge with Jinst Uvs was filed with authorities.
- Ard Management was licensed to conduct fund management activities.
- Ard Holdings acquired an additional 30 percent of Ard Insurance from minorities bringing its holding in the insurance business to 85 percent of which 2 percent is owned by Investor Nation.
- Ard Holdings injected MNT1 billion in Ard Credit and, at the same time acquired 12.7 percent from a minority shareholder bringing its stake in the lender to 80.7 percent.
- Together with Ard Securities we traded MNT14.2 billion of Ard Holdings' shares including share buybacks.
- Ard Holdings injected MNT1.5 billion in Ard Securities to enable it to maintain its brokerage, underwriting and dealer licenses on top of its investment banking services.



- Ard Holdings span-out pension services from Ard Assets into a stand-alone pension services provider Ard Life, former MTND.
- Ard Holdings acquired an additional 13.01 percent of Mongol Post from H.Bathishig in a combination of cash and stock deal. At the end of the year our combined ownership is 31 percent of Mongol Post. Mr. Bathishig became the single largest shareholder of Ard Holdings as a result of this transaction, with 11.99 percent ownership
- Ard Holdings sold its 50 percent shareholding in the Institute of Engineering and Technology for MNT9.8 billion. The deal involves share and real estate swaps combined with long-term financing facility.
- Ard Holdings sponsored a landmark USD600,000 bond issuance by Hunnu Air underwritten and arranged by Ard Securities.
- We managed to bring the number of our shareholders to 3,000 by year-end, a tenfold increase, which makes one in 1,000 Mongolians Ard shareholder.
- Mr. Bruno Raschle invested an additional MNT1.5 billion in the Company.



Executive Summary

As you might remember, Ard Holdings welcomed 2016 with the kick-start of the Investor Nation movement and a very successful participation in the historic privatization of Mongol Post. We can now safely assume that, in the end, it was indeed a great move on our part. I would like to thank my Board for providing me with all the encouragement and support on all the initiatives and deals throughout the year.

Looking back at 2016, we can happily conclude that we, jointly, achieved significant milestones in quite an unfriendly and volatile operating environment. Below is a list of some of our achievements and successful deals of 2016. I believe they will serve as a foundation for our future success:

- Investor Nation transformed into a joint stock company with over 750 shareholders from a mere motto of ours. It became a full-fledged social movement on its own, in fact. It is set on course to get listed on the Mongolian Stock Exchange in early 2017. It will enable subsequent acquisition of Ard Holdings and position us for an RTO.

I am of the view that we should also start looking for a suitable international bourse for dual listing.

- Mongol Post privatization was admittedly the most successful privatization of any state-owned asset since 1991, when Mongolia started its transition to the market economy. Ard Holdings increased its stake to over 30 percent in September. Stock price soared to MNT339.86 from MNT185 during 2016. Introduction of corporate governance best practices and sound management was initiated by the newly assembled Board and management team, turning a new chapter in the development of this 100 year-old company. The government is contemplating privatizing the remaining 66 percent of Mongol Post in 2017. The company is planning to upgrade its postal services, enter into e-commerce and introduce financial services.

- Ard Credit grew its loan portfolio by 38 percent and returned a net income of MNT401.8 million. It started offering its own credit cards at the end of the year. Ard Holdings increased its stake in the company to 80.7 percent from 58 and the most recent acquisition was valued at 1.8 times the book value, which stands at MNT3.3 billion at the end of the year. We will explore mergers and acquisitions in 2017. P2P lending platform will be piloted and mobile/

digital money options explored. The Board decided to pay out 50 percent of the profit in dividends.

- Ard Insurance turnaround effort progressed in earnest and produced formidable results. The company made a profit of MNT431.1 million while we increased our stake in it from 55 percent to 83.03. We place the value of the company at MNT7.7 billion at the end of the year and expect to get a dividend payment for 2016. We will continue to strengthen the management bench and introduce electronic distribution channels and innovative products.

- Ard Securities made a solid MNT153.8 million in profit and is well on track to become a leading investment advisory and brokerage house in Mongolia. Company specific research capacity is being developed and the company will focus on risk management as a key area of development. Financial education provider Ard Academy will be institutionalized based on the success of the pilot performed in 2016. MNT1.5 billion of fresh capital was injected by the Group into the company and FRC granted its approval in early 2017.

- MTND, a pioneering pension services provider, underwent a major restructuring and redesigned its product offering. It is engaged with policy making on pension reforms. The company will rebrand itself as Ard Life with a major PR campaign in 2017.

Ard Holdings will inject MNT1 billion to boost the capital of this company.

- TenGer Systems overhauled its products menu and continues to provide business and accounting solutions to Ard Holdings and its subsidiaries. We moved our digital marketing and branding contracts to TenGer Systems after the sale of Wild Digital Agency. New core banking software was successfully marketed to our partner savings and loan cooperatives. The company is in urgent need of a major injection of fresh talent and new finances, if it is to play a central role in the creation of Ard Bazaar - a central digital marketplace for the Investor Nation.

- Ard Management obtained a license for fund management from FRC and continues to work on its strategy. First fund rollout is expected in 2017 along with the rebounding of the economy. The company will start helping manage insurance company's float, pension funds and Ard Holdings' real estate/property business.

- We closed a deal on the sale of our 50 percent stake in IET to its management for a price of MNT9.8 billion, after 10 years of fruitful partnership. We wish Messrs. Ganbat, Sergelen, Nemehbaatar and Ms. Uyanga well in their path forward.

- Ard Financial Group was proud to crown 2016 achievements with the successful arrangement and private placement of Hunnu Air's maiden USD600,000 dollar bond on the last working day of the year. It is a significant event in the course of development of the capital markets in Mongolia.

Major progress can be reported on the evolution of our corporate governance practices – the Board approved a Roadmap to public listing and we hired for the positions of the Board Secretary, Group Internal Auditor, and Chief Compliance Officer at the Holding Company level. Positions of CFO and CIO were filled by the CEO's of subsidiary companies on a part-time basis. We are still on the lookout for a full-time Chief Risk Officer. Me and my team continue to work on improving the reporting standards and transparency level of the Company on a day-to-day basis. It is my hope that you will appreciate our efforts in this report.

The Company's total assets stood at MNT39.4 billion despite adverse economic conditions and the fact that we repurchased MNT10.8 billion worth of our own shares through Ard Securities. Loan portfolio reached MNT5.4 billion from MNT1.8 billion and long-term investments grew from MNT20.8 billion to MNT25.5 billion. We hold MNT3 billion worth of real estate ready for sale. Our capital increased to MNT37.4 billion.

We made significant progress on investments income, loan interest income, and foreign currency exchange gains. Total expenses of Ard Holdings stood at MNT1.8 billion: we spent MNT525 million on salaries and a minimal MNT116 million in loan interest. We booked MNT356 as a one time extraordinary write-off associated with our property transactions and tax condonation.

The Group continued its rebranding and marketing thrust with vigor. In my view Ard brand became one of the most recognized and trusted names in the financial industry placing us firmly in the leadership circle and preparing us well for the public listing.

Trading of our stocks was active despite economic downturn in the country. A little less than MNT14.2 billion of stock trading took place, which compares well with MNT49 billion in turnover of stocks on MSE.

The internal valuation of the Company reached MNT34 billion with MNT2453.8 per share price.

We will be issuing our maiden bonds in 2017 to help increase leverage in Ard Credit prior to our imminent listing on MSE. Ard Life and Ard Management will activate their operations and the Group will build cash reserves to take part in the Mongol Post privatization and/or capitalization of Ard Credit to start making it the People's Bank.

Ard Holdings is positioning itself to take on a leadership role in digital transformation of the Mongolian society - we arrived at the doorstep of monumental changes. I want to lead this Company into the new era under the new "Banquiers Sans Frontieres" or Bankers Without Borders motto. May the Power of Eternal Sky be with us all.

Ganhuyag Ch. Hutagt,
President and CEO

History



In 2000, the United Nations Development Program, and the US non-government organization Mercy Corps donated MNT600 million to the employee investment trust fund of XacBank. Employees of XacBank exchanged their shares for the shares of XAC-GE, a parent company of XacBank, to unify their voice in the management of the Company.

XAC-GE then was renamed to TenGer Financial Group and expanded to become a group of companies that provide financial services. Ard Financial Group was established at the initiative of XacBank's founder as an "Employee Investment Trust" or EIT in September of 2005 and became the foundation of the first institutional investor in Mongolia.

EIT started with MNT1.2 million and 10 shareholders in 2005. By the end of 2016, the Company had MNT40 billion in assets and over 800 shareholders. In 2013, we re-formulated our strategy and decided to operate under the Ard Financial Group brand. Following our new vision to build Ard Holdings, continuous investments are being made in Ard Credit, Ard Insurance, Ard Securities and Ard Assets. Ard Management was licensed by the Financial Regulatory Committee in 2016. Ard Life will be activated to service pension accounts in 2017. In 2016 Ard Holdings became the principal investor in Mongol Post following its historic privatization on the Mongolian Stock Exchange.

We believe that people should own the assets they help build. We believe that people should own their own banks. And as such, Ard Financial Group tirelessly pursues a goal to trade publicly. We changed our legal status to a Closed Joint Stock Company by the end of 2015 in this quest. We will file to get a public listing in 2017. We will continue to pursue a full banking license.

Mission: Optimize investment returns by maintaining a balanced view on profits and risks.

Vision: We will strive to become the strongest financial services group of the Nation delivering superior services and value to our Investors

Guiding Principles and Ard Strengths



Guiding principles

Create, maximize and protect value for the shareholders;

Formulate and uphold the highest standards of ethics. Meticulously comply with all Mongolian laws and regulations;

Strive to maintain a healthy balance between risk and return;

Implement and adhere to the best practices of corporate governance and maintain transparency of operations at all levels of the organization;

Adopt an open and flexible mindset, stay alert to changes in the market, and develop a capacity for rapid execution;


All companies in the Group lead in their respective markets and innovate continuously;

All companies in the Group will strive to maintain highest levels of customer service and satisfaction;

We will assemble the most powerful, professional and lean teams throughout the Group and entry level bar will be set high for job applicants. Requirements for the job holder will be stringent and individual accountability will be strictly enforced.



Strengths



Financial services group with a unique market position;

Transparency of operations, good governance, and proven management;

Innovator in the financial sector;

Technologically advanced and experienced marketing team;

Reputable companies and individuals as shareholders and investors;

Competitive edge through effective partnerships;

Consistent delivery of high returns on investments;

Ready to capitalize on the opportunities presented by the market.

Economic Context and the Financial Sector



Economy

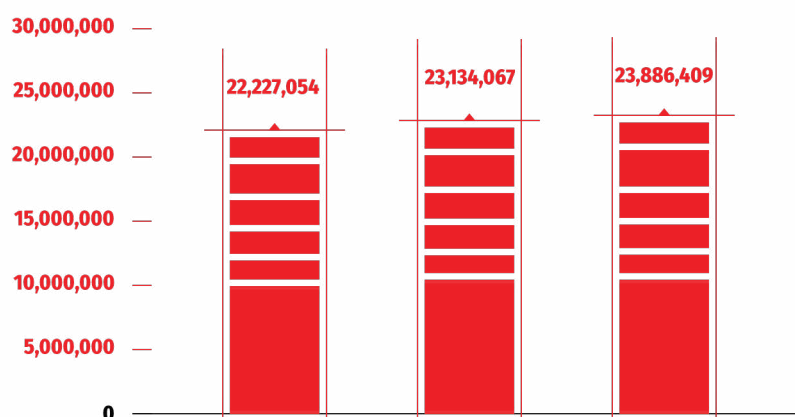
In 2011, Mongolia grew 17.4 percent - the highest real economic growth rate in the world. Unfortunately, this growth gradually slid into single digits in the years that followed and by 2016 the Nation faced a threat of economic recession. However, official statistics showed a GDP growth of 1 percent last year. Although this growth is higher than most forecasts (IMF, World Bank and ADB), it is the lowest rate of growth recorded in the past seven years. Economists highlight that this growth is a positive sign during difficult times, and attribute it to the contribution of the private sector. Agriculture was responsible for the majority of GDP growth, with contributions coming from the intensification of projects in the mining sector, specifically, Oyu Tolgoi copper and gold project managed by Rio Tinto, and rebounding of the prices for coal driven by demand in China in the second half of the year.

Nominal GDP amounted to MNT23.9 trillion or MNT16 trillion in real terms (taking 2010 as a base year for prices). The budget deficit hit the record high of MNT3,667.8 billion, roughly 15 percent of GDP. Current account had USD449 million deficit, capital account produced a surplus of USD92 million, financial account came out with a deficit of USD615 million, with overall account reconciliation of USD277 million which resulted in a balance of payments deficit of USD18 million.

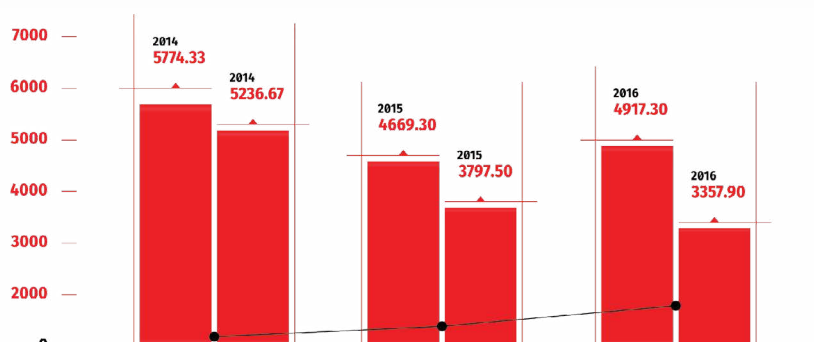
Between 2011 and 2016, total loans owed by Mongolia to foreign entities increased by 152 percent to USD24.3 billion, and foreign currency reserves decreased by USD1.5 million or 115 percent to USD1.3 million. Also during this period, currency exchange rate (MNT/USD) increased by 76 percent reaching MNT2,482.6 per USD at the end of 2016. The Bank of Mongolia reported on recent economic developments, and noted that in order to stabilize the currency exchange rate, the Bank made a currency intervention of USD1.2 billion, but still the national currency slid by 24 percent against USD in 2016. As of December 2016, the Central Bank's bills issued equalled to MNT578.3 billion. The inflation rate stood at 1.1 percent nationwide and 0.5 percent in Ulaanbaatar.

In 2016, the total external trade turnover reached USD8,275.3 million, of which USD4,917.3 million was exports and USD3,357.9 million of imports. Surplus in external trade balance reached USD1,559.4 million - it has risen by USD687.6 million from USD871.8 million in 2015.

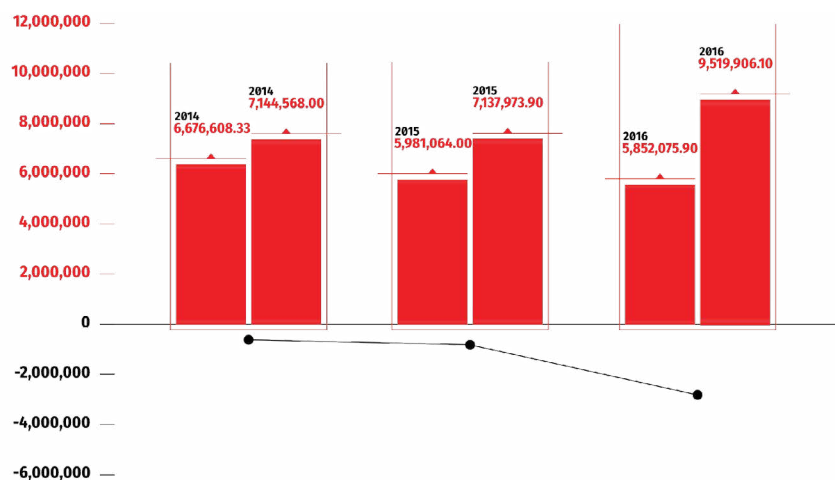
GDP through manufacturing
(MNT million)



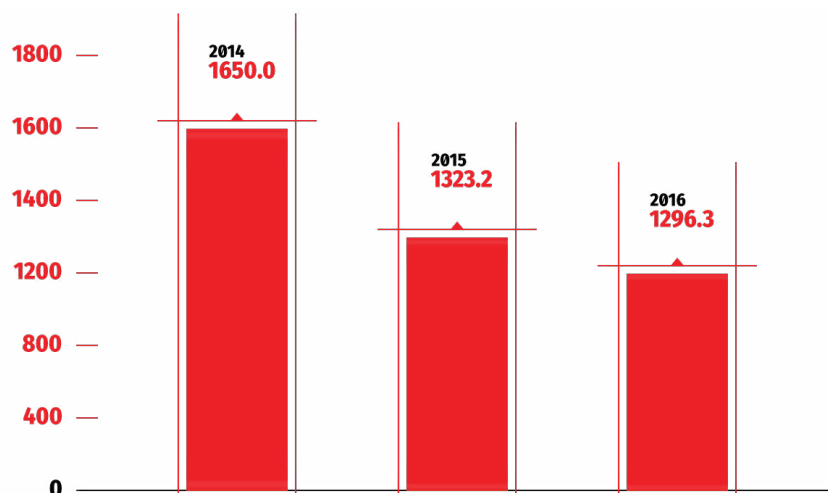
Foreign trade
(MNT million)



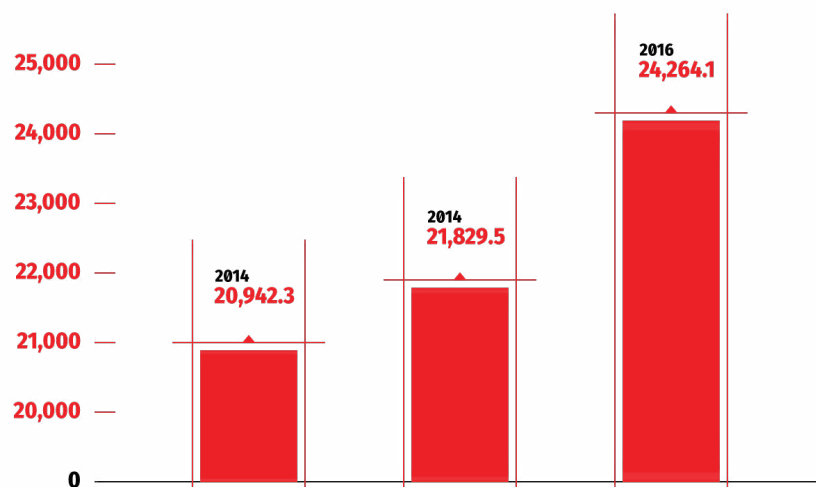
Mongolia National Balance
of Payments, In- and Out-
flows
(MNT million)



Foreign Currency Reserves
(USD millions)



Total External Debt
(USD million)



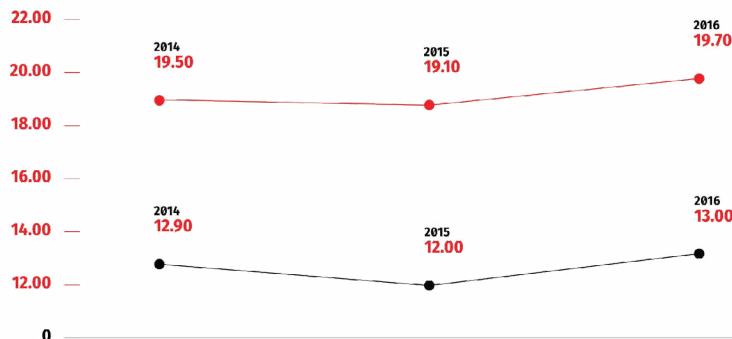
Financial Sector

According to the Bank of Mongolia, money supply (broad money or M2) reached MNT12 trillion at the end of December of 2016, growing by MNT1,927 billion or 19.2 percent compared with the same period of 2015. This growth was due to an increase in savings deposits by MNT172.3 billion, current accounts by MNT133 billion, foreign currency savings deposits by MNT107.8 billion and other accounts by MNT32 billion, but foreign currency current accounts decreased by MNT83.2 billion. Also, the currency in circulation increased by 16.6 percent or MNT117.0 billion reaching MNT823.6 billion.

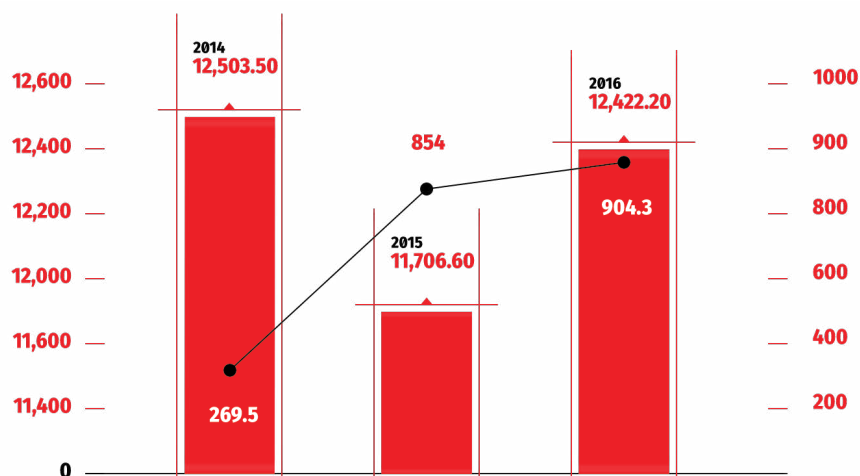
In 2016, total outstanding loans increased by 6.1 percent or MNT716.1 billion amounting to MNT12.4 trillion at the end of the year. Unfortunately, principals in arrears increased by 6.9 percent or MNT58.8 billion reaching MNT912.8 billion, which is equal to 7.3 percent of total outstanding loans. Non-performing loans of the banking system increased by 24.5 percent or MNT213.0 billion amounting to MNT1,082.8 billion, which is equal to 8.7 percent of total outstanding loans.

During 2016 MNT462.9 billion of securities trading took place at the Mongolian Stock Exchange. Although the value of securities traded decreased by 48.5 percent or MNT435.6 billion mainly due to lower volume of Government bonds trading, the number of securities traded increased 2.3 times indicating smaller denominations of securities and larger participation of retail investors and broadening of the participants base. One of the main indices of the Mongolian Stock Exchange, TOP-20 average index, decreased by 6.16 percent or 673.3 points closing at 11,605.7 at the end of the year.

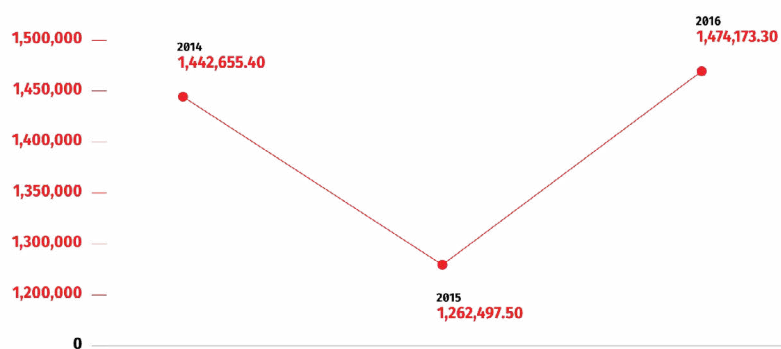
Average Commercial Bank Cost of Credit, in percent, MNT vs. USD rate



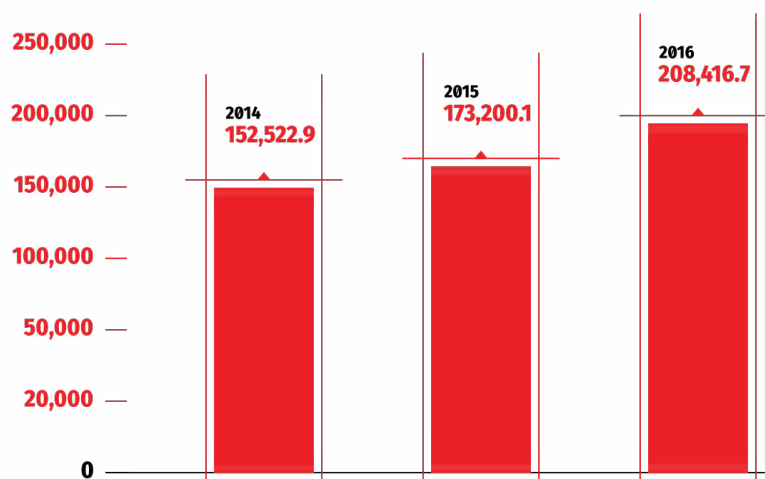
Total Loans Outstanding and non-performing Loans (MNT billions)



Total Mongolian Stock Market Capitalization
(MNT million)



Insurance Sector Total Assets
(MNT million)



Valuation and Comments



	2014	2015	2016	Ownership % as of 2016	Valuation Methodology	Comment
Long-term investments						
TenGer Financial Group LLC	11,685	-	-	-	Liquidation value	Divested
Mongol Post JSC	-	-	9,681	28.5%	MSE closing	Upside
IET LLC	9,825	9,825	-	-	Liquidation value	Divested
Ard Insurance	6,637	6,337	7,688	83.03%	Last transaction	Upside
Ard Credit	1,600	1,853	3,818	80.70%	Cash-flow	Upside
Ard Securities	983	983	2,126	100.00%	Cash-flow	Upside
Nomyn Hishig	1,382	1,382	1,780	20.00%	Liquidation value	Upside
Other	219	464	824			
Short-term investments	959	3,326	8,362			
Total	33,290	24,171	34,279			
Fixed assets	897	862.5	726			
Cash	408	1,328	166			
Net receivable	-596	2,229	-1,163			
Unrealized Gain*			716			
Total valuation	34,000	29,351	34,724			

Even though the Group owns 27.55 percent, shares owned by Altan Horomsog, a subsidiary company by Ard Financial Group, 1.05 percent is included in the valuation.

Loan issued to subsidiary companies to purchase shares of the Group is not included, real estate purchased for the purpose of trading is included

Unrealized gain due to real-estate sales



In 2016 Ard Financial Group closed several large deals and booked significant upside on them. Following the privatization of Mongol Post we pursued to increase our stake and ended up with combined 30.6 percent (27.55 percent held directly by the holding company) of the 34 percent public float. In the valuation sheet, shares held by the two subsidiary companies, Altan Horomsog and MTND, are included. If initial stakes were acquired at MNT185 per share, Mongol Post's stock price closed the year at MNT339.86 allowing us to book a gain of MNT2.58 billion.

Ard Holdings added to its position in Ard Insurance and Ard Credit, showing returns of -7.8 percent and 33.9 percent, respectively. The Group is expecting an increase in the value of Ard Insurance since the insurance company underwent management changes and started generating profits from Q3 of 2016 after several

quarters of losses. Ard Credit has a large upside potential in our view. The Group intends to realize this potential by expanding the non-bank's loan portfolio, enhancing its market position through low-cost financing and accelerating its development, which will, ultimately, result in a full-fledged banking license.

Ard Securities' management overhaul produced a high profit and the new management team is developing the business according to a sound plan. Still cash-flow based valuation of Ard Securities shows downside as it stands currently.

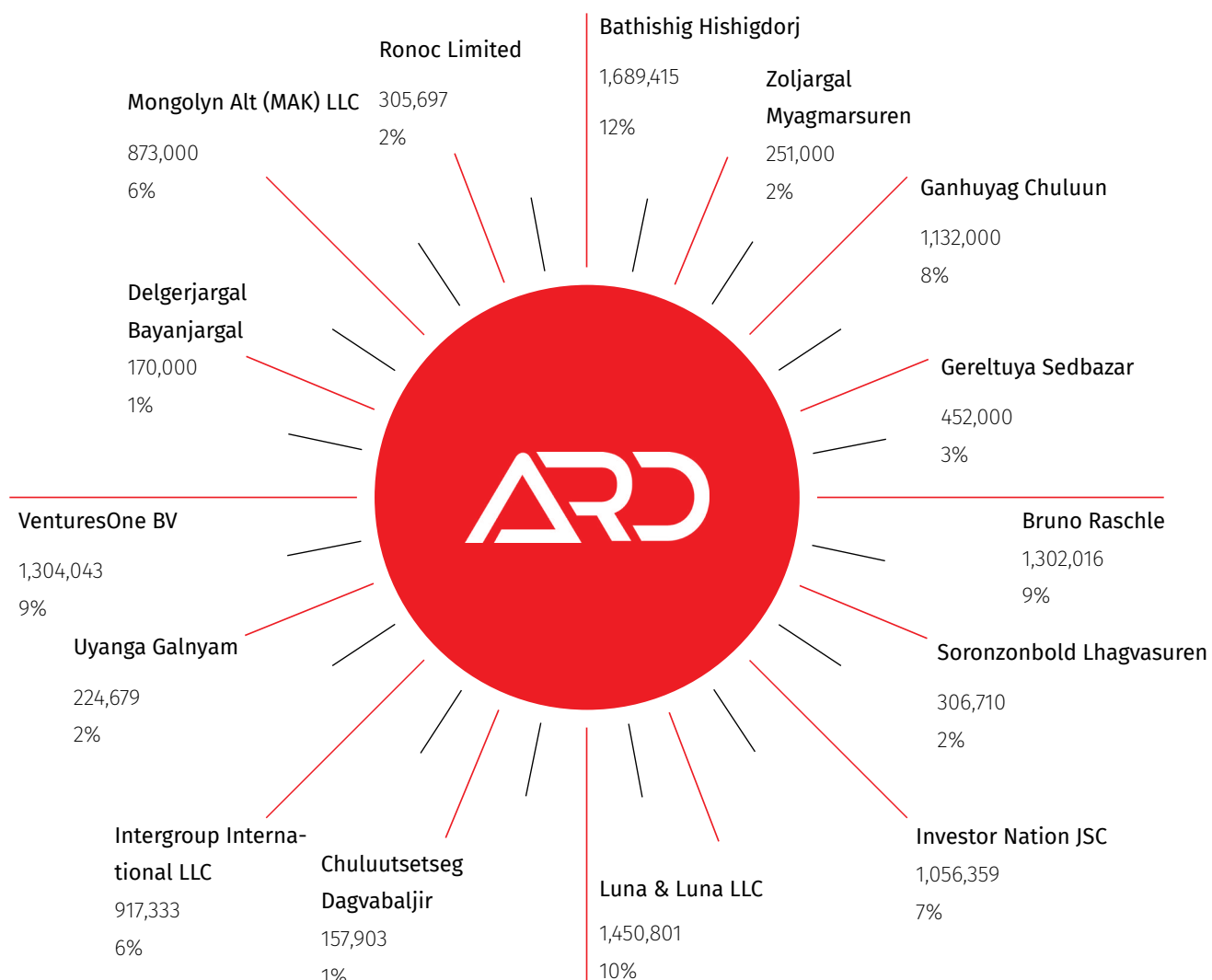
The Group liquidated its position in IET through cash, fixed assets and share swaps. Ard Holdings sold its fixed assets having unrealized gain of MNT716 million.



Company's structure



Shareholders' Structure



	2014		2015		2016	
Total of 15 shareholders	12,628,484	82%	10,339,607	77%	11,592,956	82%
Other shareholders	2,862,806	18%	3,146,752	23%	2,558,495	18%
Total shares in circulation	15,491,290	100%	13,486,359	100%	14,151,451	100%
Treasury stock (AS, AM, AL)	1,703,074		3,708,005		3,042,913	
Shares issued and outstanding	17,194,364		17,194,364		17,194,364	

Corporate Structure

Management Team

Ganhuyag Ch. Hutagt	President and Chief Executive Officer
Iderbat Ariuna	Chief Investment Officer, Ard Securities CEO
Ganzorig Chuluun	Chief Financial Officer, Ard Credit CEO
Haliunaa Soronzonbold	Chief Compliance Officer
Altangunii Jargalan	Chief Operating Officer
Munh-Erdene Munhbat	Internal Auditor
Tamir Bilegt	Chief Marketing Officer, Investor Nation CEO
Zolzaya Jargalsaihan	Board Secretary

Committees

Investment, Risk and Finance Committee

Batbayar Purevjargal (Committee Chairman)
Tsogbadrah Galbadrah,
Anthony Hobrow,
Ganhuyag Ch. Hutagt

Governance, Nomination and Remuneration Committee:

Bruno E.Raschle (Committee Chairman)
Batbayar Purevjargal,
Odbayar Odonchimed
H.Bathishig

Audit Committee:

Ariuntugs Tsogbadrah (Committee Chairman)
Anthony Hobrow
Soronzonbold Lhagvasuren



Board Composition

Oyungerel Janchiv

Luna and Luna LLC
CEO
1,450,801

Ganhuyag Ch. Hutagt

Ard Financial Group
CEO
1,132,000

Bathishig Hishigdorj

Hishig Arvin Industrial
CEO
1,689,415

Bruno Raschle

ADVEQ Holding AG
Executive Chairman
1,302,016

Anthony Hobrow

VenturesOne Asia CEO
1,304,043

Odbayar Odonchimed

Mon International CEO
452,000

Soronzonbold Lhagvasuren

TDB Deputy CEO, Independent Board member
306,710

Ariuntugs Tsogbadrah

MAK Chief Trade, CIO
873,000

Batbayar Purevjargal

Resilience Mining Mongolia Pty
Non-Executive Director
11,000

Tsogbadrah Galbadrah

Independent Director
74,890

Bayarjargal Vandantseren

Intergroup International CEO
917,333





Operating Results and Management Discussion



Ard Holdings held on a steady course to develop itself into the financial services superhub. We have produced significant growth across all institutional dimensions. We have grown stronger as an organization and as a team.

At the beginning of the year we bought out two of our large shareholders, namely UBIG and Apollo Ventures for MNT5.4 billion. Collectively, these two shareholders represented 20 percent of our total outstanding shares. We made a decision to fund this purchase through a loan to Ard Securities and treat them as treasury stock at the time. The funding came from the share sale proceeds of TenGer Financial Group's remaining stake of 4.2 percent.

Altogether, the Company acquired MNT5.4 billion of our own stock in various deals with shareholders throughout 2016. We sold back MNT6.3 billion shares and another MNT2.5 billion worth of shares exchanged hands during 2016. This high turnover of our shares compares well to MNT23.7 billion of total trading volume of MSE's companies with Classification 1 for the year. It also highlights the potential of public listing of Ard Holdings.

The Board of Directors continued to assert itself as the ultimate decision maker in the Company. For the first time in our history we employed a full time Board Secretary in 2017. The Board meetings became more streamlined, decisions were made in timely fashion and Board Committees performed their tasks seamlessly.

The Board approved a so-called IPO Roadmap calling for certain actions in its April meeting and it called for the creation of the positions of compliance and risk positions reporting directly to the Board. CFO and CIO positions were filled on a part-time basis by the CEOs of Ard Credit and Ard Securities, respectively.

Accounting policies and procedures were drafted and enacted. Reporting continued to undergo continuous improvements. We followed through on the recommendations of our auditors. The Company is planning to introduce ERP and CRM solutions in our operations in 2017.

Ms. Altanguniy, COO, will be out on a maternity leave for 2017 and we do not intend to fill her position in the interim. Ms. Battsengel stepped up to perform accounting of the Holding company when Ms. Selenge went on a maternity leave mid-year.

We paid MNT524.9 million in HR related costs for the year including bonuses and stock awards. The Company contracted full time security services from Akela Securities for its head office towards the end of the year.

Management went on a PR offensive in 2016 with the launch of Investor Nation movement. This is reflected in our income statement and operating results. We spent MNT288.9 million on PR and promotion and the brand of Ard Holdings' and its subsidiaries is steadily becoming household name in the country. Although, we managed to bring our rental price down our rental expense stayed on the same level because of high level of MNT depreciation against USD. MNT depreciated by 25 percent in 2016 and our rental contract is written in USD. This loss is, however, offset by the fact that we have a large USD loan exposure to the 80 percent shareholder of our property.

After long deliberations and debate we agreed that it was best for the Group to bring all its subsidiaries under one roof and consolidate and centralize all of our management. Following this decision Ard Credit and Ard Insurance moved in together into Ard Holdings offices at Nomyn Hishig in the summer. It allowed for greater coordination of our management at this time of economic uncertainty combined with rapid growth of the organization and resulted in cost savings and higher rent income for the holding company. Ard Credit stopped its lease and moved to Ungot Hevlel building bringing all their staff. Although, Ard Insurance acquired new premises we decided that it will rent it out or sell altogether. Management is of the opinion that this property should be moved to a specialized fund to be created by Ard Management along with all other real estate owned by the Group.

The Board gave a go ahead for MNT1 billion bank bridge facility in March and the management used this loan to facilitate various deals and provide for short-term liquidity shortfalls. This bank loan was repaid in the first quarter of 2017 with the proceeds of the first closed bond issuance which was approved by the Board in December of 2016.

Management continued to work with Board to improve the reporting standards of the Company. Continuous effort is being exerted and improvements are remarkable. Ard Holdings can boldly state that we are at the forefront of corporate transparency in Mongolia. We not only use traditional media to introduce our results but we became the first company to use social media to report

to our shareholders through live videos, podcasts and online reports. 2016 preliminary report was distributed to our shareholders through the postal network as well for the first time.

We worked out our balance sheet and cleaned it up from various inter company receivables and payables. The short-term receivables from subsidiaries and staff were consolidated on Ard Credit's balance sheet boosting its credit portfolio. Ard Securities loan is offset by the shares it owns in the parent. This was done because there is a legal constraint for the company to buy and sell its own stock. So we treat the shares held by Ard Securities as treasury stock and net it out from our valuation but still maintain the freedom to sell them.

There is one particular large loan on our books - and it is USD750,000 loan given to the 80 percent shareholder of Ungot Hevlel building where we own 20 percent. This loan was given back in 2015 and we hold the property title as collateral. Interest rate is deducted from our rental payment, which was MNT266.5 million in 2016, according to the contract.

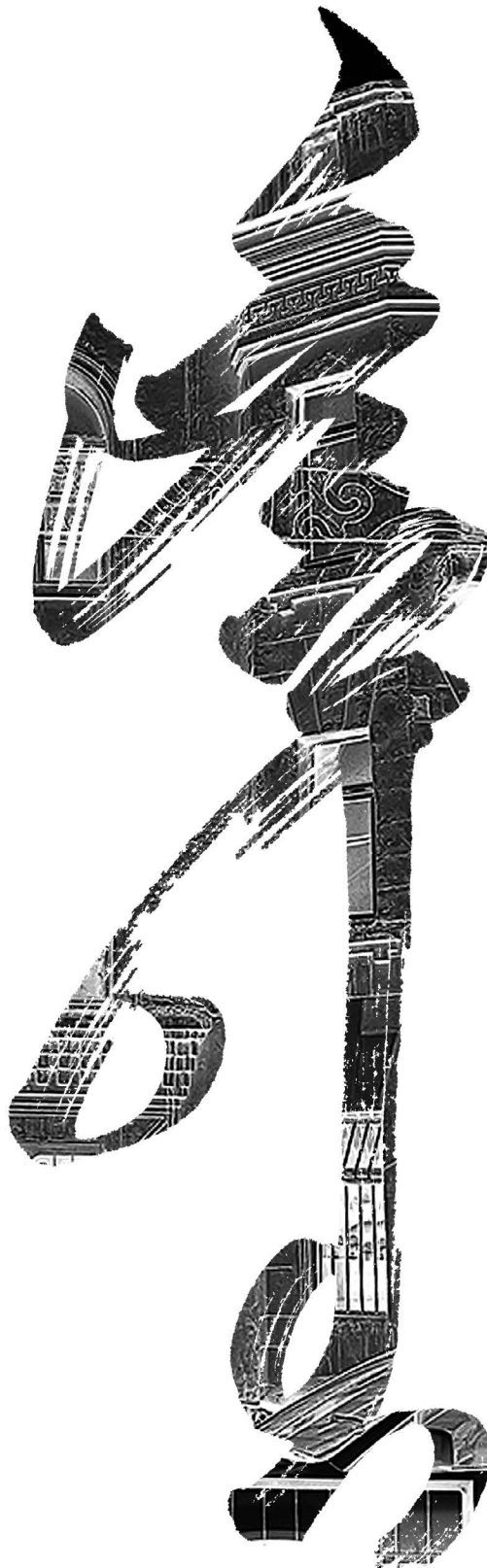
Management was able to increase our holdings in all of our major subsidiaries and portfolio companies in 2016. We view it as a significant success given the difficult economic situation in Mongolia and the fact that 2016 was an election year. MNT1 billion was injected into Ard Credit to meet the minimum statutory capital

requirement by the regulator and in December we decided to acquire an additional 12 percent of the company from one of the minority partners for MNT570 million, which brought our stake to 80.7 percent. We are currently waiting for the necessary approvals from Financial Regulatory Commission for these transactions. About MNT2 billion was mobilized from internal sources to acquire an additional 30 percent of Ard Insurance. The deal involved deferred cash, stock and property exchanges and we are proud to have been able to execute this complex transaction successfully. We now own 85 percent of Ard Insurance (2 percent is held currently by Investor Nation). 13 percent of Mongol Post was added to our holding in a deal that involved MNT1.2 billion cash consideration and 11.99 percent of the Company's stock. We currently own little below 31 percent of Mongol Post with 3 percent floated on the Mongolian Stock Exchange and 66 percent held by the government. MNT1.5 billion of fresh capital was injected into Ard Securities and the approval from the regulator was granted in the Q1 of 2017.

Ard Holdings booked a profit of MNT3.5 billion in 2016. This result does not include some of the results produced in the real estate transactions made during the year. We do not intend to pay dividends for this year. Ard Holdings, on the other hand, anticipates dividend payments from Mongol Post, Ard Credit and Ard Insurance on the back of strong performance in 2016. We will work to increase the number of our investees paying out steady dividends in the future years.



Significant Transactions



TenGer Financial Group Exit

Ard Holdings sold its holding of 706,596 shares for USD8.77 each to ORIX (210,798), EBRD (210,798) and MFS (285,000) for USD6,196,847 total consideration. At MNT1,995 exchange rate prevailing at the time we received MNT12,362,709,605 in January of 2016.

Of this MNT54 billion (USD2,598,000) was used to buy out UBIG and Apollo Ventures' 20.9 percent stake in Ard Holdings through Ard Securities. MNT3.3 million went to purchase 17.4 percent stake in Mongol Post in January. MNT2.3 million was invested in various deposits and loans. MNT1.2 million went to repay debts to various parties.

Ard Insurance Ownership Increase to 83.03 percent

In May 2016 Ard Financial Group acquired 27.72 percent of Ard Insurance. 16.72 percent owned by Blue Planet LLC was acquired in a combination of real estate and deferred cash of MNT1.2 billion, another 11 percent was acquired from Ms. Chuluuntsetseg in return for 157,903 Ard Financial Group's shares valued at MNT2,426 per

share, and MNT383.1 million in deferred cash payment. These two deals increased Ard Financial Group's ownership to 83.03 percent giving us full control to complete the company's turnaround. Another 2 percent was acquired by Investor Nation.

Mongol Post Privatization

Ard Financial Group successfully participated in the privatization of Mongol Post in January 2016. The company bid for the whole 34 percent being offered and was able to acquire 17.38 percent, with the remaining 16.62 percent going to other bidders.

In Q3 2016 the company acquired an additional 13.01 percent of Mongol Post from Mr. Bathishig Hishigdorj. Ard Financial Group purchased this stake for MNT1.2 billion in cash and 1,689,415 Ard Financial Group's common shares valued at MNT1,750 per share, making Mr. Bathishig Ard Holding's single largest shareholder with 12 percent ownership stake.

IET Deal

In December 2016, Ard Financial Group successfully sold its 50 percent stake in the Institute of Engineering and Technology to the management of the school for a total consideration of MNT9.8 billion. The deal consisted of MNT3 billion real estate, MNT3.2 billion

of USD and MNT denominated loans, and MNT3.6 billion in share swaps. Ard Financial Group acquired a 50 percent ownership stake in IET in 2008 for a total of MNT1.9 billion and successfully exited its investment with a 411 percent return on investment after 8 years.

Ard Credit Deal

In 2016, Ard Holdings managed to increase its holdings in Ard Credit, one of its strategic investments, from 58 percent to 80.7 percent in two separate deals.

First, the Board of Directors of Ard Credit decided to increase the company's share capital by MNT1 billion to meet the regulatory capital hurdle and expand the company's operations. With all shareholders but Ard Financial Group waiving their preemptive rights to participate in the investment round, Ard Financial Group bought all newly issued shares at 1.7 times book value, increas-

ing our stake from 58 percent to 68 percent. This investment was mostly funded by a convertible loan from Ard Financial Group to Ard Credit.

An additional 12.7 percent or 1,667 shares of Ard Credit was acquired by purchasing all shares owned by N. Erdembayar for a total consideration MNT570 million at a valuation of 1.8 times book value in deferred cash increasing our shareholding in Ard Credit to 80.7 percent. The deal was paid up in the first quarter of 2017.

Investor Nation

Investor Nation JSC was formed as a joint venture of 560 individuals who entrusted their money to Ganhuuyag. As a result of swapping MNT400 million worth of Ard Holdings shares with Investor Nation shares, Ard Financial Group and its related entities became a 32 percent stakeholder of Investor Nation. At the end of

2016 MNT1.7 billion was raised and invested in government bonds, shares of Ard Financial Group JSC, Mongol Post JSC, Ard Insurance LLC and trust account of Ard Credit NBFI. Consequently, gains from these investment reached MNT744 million and increased the overall company valuation to MNT2.3 billion.



Financial Results and Analysis



In 2016 total assets of the holding company decreased by 3 percent to MNT394 billion. After the sale of TenGer Financial Group's remaining shares, the main growth drivers for Ard Holdings' became our investments in Mongol Post, Ard Insurance, Ard Securities, and Ard Credit. Total long term investments reached MNT25.8 billion from MNT20.8 billion, up 24 percent for the year. Fixed assets decreased by 21 percent to MNT677 million. The total loan portfolio of the holding company increased by 194 percent to MNT54 billion, primarily, as a result of the sale of 50 percent of IET to its management in a deal that involved loans, share and real estate swaps. Consequently, we received MNT3 billion of real estate as part of the payment and issued MNT1.6 billion and USD640 thousand of loans to IET. Another MNT4 billion of loans were extended to various Ard subsidiaries to finance the purchase of treasury stocks.

We managed to cut our liabilities by 67 percent from MNT6 billion to MNT2 billion at the end of 2016. Of this MNT712 million is a loan from Khan Bank, carrying interest rate of 21 percent obtained in March. We plan to close this loan in the first quarter of 2017 with the proceeds of the bond issuance. Total equity increased to MNT374 billion, up by 8 percent. The growth was primarily driven by unrealized investment gains in the portfolio

Ard Holdings' main cash income comes from short term investments, interest income on deposits and loans, dividend payments from subsidiaries, rental income, management fees paid by subsidiaries, and full and/or partial exits from our long-term investments.

The total realized investment income stood at MNT1.7 billion for 2016. Interest income earned grew by 126 percent to MNT476 million. There were no dividends paid by subsidiaries (however, we plan to receive dividends from Ard Credit, Mongol Post, and Ard In-

surance based on 2016 results). Rental income increased to MNT177 million, up by 36 percent - the main drivers for this growth was the fact that Ard Insurance and Ard Credit moved their offices to Ard Holdings premises.

As we started preparing for IPO, our operating costs increased by 50 percent to MNT1.8 billion. This was mainly driven by increase in marketing, human resource, administration, and financial costs which were up by 24 percent, 113 percent, 43 percent, and 41 percent, respectively.

In 2016 MNT depreciated 24.7 percent against USD. Thanks to our long USD position, we have booked net forex revaluation income of MNT481 million, up 477 percent from last year. As a result, net income stood at MNT3.5 billion up by 1,972 percent from the previous year. In addition, please note that we have generated MNT716 million of gains in a deal to acquire additional 28 percent stake in Ard Insurance.

The main objective of the management to become operationally break-even at the holding company level was achieved - on a stand-alone basis Ard Financial Group LLC became cash-flow neutral. The interest income, rental payments and management fees cover for the cost of salaries and rent of the holding company.

Another achievement for this year worth highlighting is a total of MNT124 billion of new investments was made without undue burden to our shareholders. The cash was internally generated and shareholders experienced minimal dilution. The success is more apparent if we add the fact that Ard Holdings facilitated close to MNT14.2 billion of its own share trading of which MNT5.4 billion was stock repurchases.



Investment Portfolio and Lending Activity



Mongol Post Investment

On the 8th of January 2016 the Group successfully bid for 17.38 percent of Mongol Post, buying a total 17.3 million shares for cash of MNT3.3 billion, at a share value of MNT185. As 2016 progressed Ard Financial Group sold a total of 989,143 Mongol Post shares to Ard Insurance and Investor Nation at an average price of MNT291 per share, realizing cash returns of MNT105 million. These deals were done based on liquidity concerns at the holding company level.

In 3rd quarter Ard Financial Group added to its position by acquiring an additional 11.16 percent from Mr. Bathishig Hishigdorj in two separate deals that sent MNT2.95 billion of Ard Financial Group shares, at MNT1,750 per share, to Mr. Hishigdorj, and an additional MNT680 million in cash for 11.1 million Mongol Post shares at MNT326 per share. At this moment we own 27.55 percent of Mongol Post directly and 30.56 percent in total combined with our subsidiaries' holdings.

Mongol Post Investment Performance

After an investment of MNT6.65 billion in total, Ard Financial Group owned a total of 27.4 million shares, or 27.55 percent, of Mongol Post at an average cost of MNT242.6 per share. Mongol Post shares closed at a price of MNT339.8 per share on the Mongolian stock exchange on 31st of December, 2016, placing the value of our investment at MNT9.32 billion, resulting in a capital gain of 40 percent, or MNT97.2 per share.

In two deals with Ard Insurance and Investor Nation the Group was able to realize cash returns of MNT105 million selling a total of 989,143 shares. Apart from cash and capital gains through share price appreciation, Mongol Post operations improved with net profits rising from MNT94 million in 2015 to MNT1 billion 2016. The Group expects a dividend payment of MNT82.6 million in the first half of 2017 from Mongol Post.

Ard Insurance Investment

To increase the Group's control over Ard Insurance's operations and deployment of its float fund, Ard Financial Group continued to increase its ownership percentage in the company from an initial 55.31 percent in January 2016 to 83 percent in December 2016. Ard Holdings acquired 16.72 percent owned by Blue Planet LLC, and

11 percent by D. Chuluuntsetseg. A total of 413,690 Ard Insurance shares were purchased for MNT2.2 billion in a complex deal involving real-estate swaps, Ard Financial Group shares and deferred cash. We realized an extraordinary one-time upside of MNT716 million in this transaction.

Ard Insurance Investment Performance

With improved insurance underwriting, more efficient operations, and cost savings, Ard Insurance was able to turn a 2015 MNT138.9 million net annual loss into an MNT431 million net profit in 2016.

The improved profitability and operations of Ard Insurance's increased its total valuation from MNT6.3 billion to MNT7.7 billion. Dividend payment is expected in the first half of 2017.

Ard Credit Investment

Ard Holdings increased its ownership in Ard Credit from 58 percent to 80.7 percent in two separate deals, after investing MNT1 billion in capital, and purchasing an additional 12.7 percent or 1,667 shares owned by N. Erdembayar for a total consideration MNT570 million

at a valuation of 1.8 times book value in deferred cash increasing our shareholding in Ard Credit to 80.7 percent. The deal was paid up in the first quarter of 2017.

Ard Credit Investment Performance

Ard Credit's valuation increased from MNT1.85 billion in 2014 to MNT5.9 billion at the end of 2016 based on the last transaction, a growth of 218 percent. Main drivers for this increase in the value was Ard Holdings MNT1 billion capital injection, good performance of the loan portfolio combined with cost-efficiency. The company

continued to grow its assets and plans to raise additional debt financing in 2017 to continue growth. IPO of the company is on the table as well.

Ard Securities

Ard Holdings invested an additional MNT1.5 billion capital in Ard Securities to meet the minimum capital requirement by regulators and support the company's development into a leading domestic brokerage and investment bank. Regulators have approved this investment in January 2017.

The company increased its profits from MNT73 million in 2015 to MNT157 in 2016. Combined with the equity capital increase of MNT1.5 billion, Ard Securities valuation increased to MNT2.1 billion at 2016 year end although the company still carries a negative MNT491.6 million of accumulated losses.

TenGer Financial Group Exit

The Group exited its 4.28 percent position in Tenger Financial Group for a total of MNT12.36 billion in cash. Shares in TFG, where acquired for a total of MNT2.86 billion in a period prior to 2008. Us-

ing 2008 as the cut-off date, the investment by Ard Holdings in TFG yielded a return of 332 percent over 8 years, or 41 percent annually.

IET Investment Exit

Ard Financial Group successfully exited its investment in the Institute of Engineering and Technology after an eight year investment period. During 2006-2008 the company acquired 50 percent of IET for MNT1.92 billion and exited it for a total consideration of MNT9.82 billion in share buybacks, real-estate, and loans. The total return

on the investment is 411 percent over 8 years, or 51 percent per annum. Although the Company was not able to receive any cash from the deal IET paid USD50,000 in Hunnu Air bonds as a loan repayment in January.

Ard Holdings Lending Portfolio

Ard Financial Group had a total MNT5.3 billion of commercial loans outstanding with USD and MNT denominations. 90 percent of the loans were issued to Nomyn Hishig, Institute of Engineering and

Technology, and Ard Securities. Please see the table below for major loans issued by Ard Financial Group.

Borrower	MNT Principal	USD Principal	Interest p.a.
Nomyn Hishig		\$750,000	12%
IET	1,579,541,250.10		10%
IET		\$639,482	8%
Other	272,085,059.44		

Other Investments

We own 3 townhouses in the Hiymori luxury housing complex valued at MNT3 billion in total. We will transfer these assets to Ard Management's Real Estate Fund in 2017. We held USD20 thousand

of Hunnu bonds and added USD50 thousand in January of 2017 as a repayment by IET.

Stock Repurchases and Trading

A total of 2,758,435 shares worth MNT5.4 billion was repurchased during 2016 and a total of 3,624,765 shares worth MNT6.3 billion was sold back. In addition, 1,737,633 shares worth MNT2.5 billion exchanged hands during the year. Currently we have 1,602,164 in treasury stocks, 3,103,409 shares are held by our various subsidiaries for trading purposes.

Ard Financial Group privately places its shares through its subsidiary company, Ard Securities, and total trades executed amounted to 8,120,833 shares worth MNT14,220,791,691 in 2016. Mongolian Stock Exchange reported that in total 93.7 million shares of 126 companies valued at MNT49 billion were traded as of the end of 2016. Comparing these statistics, value of Ard Holdings' stock trading equals to 29 percent of total stock trades in MSE.

Next Steps

Ard Holdings is working to become listed on the Mongolian Stock Exchange through a merger with Investor Nation/Jinst Uvs later in 2017. We will work towards reverse takeover of Jinst Uvs by Investor Nation in the first quarter and the management already started eyeing the potential of listing on one of the junior western bourses through a RTO as well.

Ard Financial Group's next phase of growth will happen under Banquiers Sans Frontieres motto to usher us into the digital age. We will lead the transformation of Mongolia's economy in the Fourth Industrial Revolution through our exclusive partnership with Mongol Post and its strategy to enter into logistics business and e-commerce.

Ard Bazaar is an idea which will enable our ever growing shareholders base to access a single digital marketplace for different products and services. We are developing a p2p lending platform and will investigate blockchain technology and introduce cryptocurrency into the market. The thinking is to build the Nation's first true FinTech company. Ard Credit will target to become an Apex lending organization for non-banks, savings and loan coops and smaller banks in the short run. In the longer term it will obtain a full commercial banking license. We are considering listing this company at the MSE as the first ever publicly owned NBFI.

Ard Management is contemplating a real estate fund and a privatization fund beside managing our pension fund and insurance float. Ard Securities is set to become a leading M&A and investment banking advisory in the market.

Post Reporting Period Events:

- MNT2.0 bonds were privately placed with over 60 investors. It carries 19.2 percent annual coupon payable quarterly with 24 months maturity. We used the proceeds to repay a bank loan, taxes and other payables. The balance was loaned to Ard Credit.
- MNT1.032 billion was paid for two properties to IET. This amount was deducted from the loan outstanding to IET.
- Ard Securities investment of MNT1.5 billion was approved by FRC in February.
- Ard Credit's MNT1 billion capital infusion was also approved in March. We are now waiting for the approval of the MNT570 million acquisition of 12 percent stake to bring us up to 80.7 percent.
- Investor Nation merger with Jinst Uvs is proceeding despite difficulties and challenges faced. The application is under review by FRC.
- Ard Credit finally issued its co-branded credit card and is marketing it.
- Ard Assets started marketing its insured deposit accounts.
- Mongol Post Board decided to pay MNT300 million in dividends (30 percent payout ratio), Ard Credit MNT200 million (50 percent). We expect Ard Insurance to announce dividends in April.
- Board strategy review ad hoc meeting took place in February. It was recommended to start pursuing a banking license.
- Our annual Shareholders meeting took place in April. Our shareholders elected seven non-executive directors to the Board (Oyungerel J., Bruno Raschle, Anthony Hobrow, Ganhuuyag Ch., Ariuntugs Ts., Bathishig H., Nomin Ch.) and 4 independent directors (Batbayar P., Odbayar O., Soronzonbold L., Munhnasan N.). We have to note that two ladies Nomin Ch.(Mongol TV), and Munhnasan N.(Monpolymet) were newly added to our Board composition.



Reports of Strategic Subsidiaries



Ard Insurance



Major changes were made in the shareholding structure of the company in 2016: Ard Financial Group owns 83.03 percent of Ard Insurance LLC up from 55 percent at the start of the year. Investor Nation acquired 2 percent of our shares from a minority shareholder. The Board of Directors composition changed accordingly and Ms. Chuluuntsetseg resigned from the Board and the Board decided to fill in the vacancy by adding an independent director. Ms. Munhnasan Narmandah, CEO of Monpolymet LLC, was endorsed by the Board of Directors as interim director in its November meeting.

In 2016 Ard Insurance collected MNT7.2 billion in total premium income and paid MNT1.3 billion in outwards reinsurance premium, and the net premium income stood at MNT5.7 billion. The company operates a total of 23 branch offices throughout the country with 400 insurance agents, and 19 insurance brokers. Ard Insurance paid MNT2.6 billion in indemnity payments last year.

In July 2016 Ard Insurance entered into Treaty Agreement with reputable insurers such as Hannover Re and Scor Re. UIB, international reinsurance broker, provided services for this Treaty program. We will continue reinsuring our portfolio under the Treaty agreement in the coming years ceding our risks to reinsurers as it is the primary way to increase our risk bearing capacity and profitability.

During 2016 we made certain amendments to cooperation agreements with insurance brokers and reduced their commissions. This measure led to decrease of premium income, affecting largely compulsory drivers' liability insurance premium collected from brokers. Compared to the previous year the premium income on drivers' TPL insurance has decreased by 0.8 times and the product accounts for 24.6 percent of the total premium income. Due to the decrease of the premium income, the claims for drivers' TPL decreased by 0.6 times and the claims for this type of product comprise 39.6 percent of total claims.

We have improved the traveler's medical expense and personal accident insurance product, offering the clients with wider coverage and decreased premium. Starting from April 2016, we launched our own emergency service unit in order to improve the customer service. As a result our customer service quality and responsiveness improved a lot.

As of the end of 2016 the total assets of the company stood at MNT9.54 billion, which is 8.94 percent or MNT 782.62 million increase compared to the last year. As for the investment income, we have earned MNT801 million from investments increasing by MNT 220.91 million or 38 percent from last year.

The net income of the company for 2016 was MNT431 million. ROE stood at 10.2 percent with ROA of 4.5 percent. Loss ratio improved by 134 percent and reached 36 percent and total expense ratio stood at 53 percent.

Ard Insurance is working with Ard Holdings' other subsidiaries to sell insurance products and, in turn, facilitate cross-selling of their products and services through our branches. We believe that by offering complimentary Health and Personal accident insurance product to Ard Life's pension product we can improve the sale of both products. We also offer all types of insurance products along with Ard Credit products. Ard Credit cards, which have credit balance insurance protection from Ard Insurance, will be much preferred by the customers over credit cards from the banks. Starting from 2017 we will commence an official cooperation with Mongol Post and start selling insurance policies through Mongol Post network in every corner of the country. The Board of Directors of Mongol Post fully supported this initiative. We also plan to pilot savings deposit insurance product with Ard Assets as well.



Ard Credit



In 2016 the company managed to grow the total assets by 22 percent, the equity by 74 percent and loan portfolio by 38 percent. We made MNT401.8 million in net income or 19 percent ROE despite deteriorating socio-economic environment. We disbursed a total of 379 loans worth MNT5.5 billion and number of outstanding customers stood at 382.

Since Ard Holdings acquired the company in 2013, we worked to become a frontrunner in the market in terms of corporate governance, transparency, and corporate social responsibility. In the reporting period, we held 7 Board meetings. Board committees were active and the internal audit function was introduced. We boosted the capacity of the Board by inviting one of the Young Global Leaders of World Economic Forum, V. Ganzorig, as an independent member. As a result, the Board consists of 7 directors, including 2 independent directors.

Significant changes occurred in the shareholding structure of the company. First, as we planned, we raised our share capital by MNT1 billion to meet the regulatory capital hurdle to support the expansion of operations. Ard Holdings increased its stake to 80.7 percent by purchasing the shares from the capital raise and minority shareholder at 1.7-1.8 times book value.

As mentioned in our Vision statement, we continuously strive to make our products and services more accessible for our clients by introducing new ways of doing business. Thanks to our team's hard work and support from the Board, we have successfully launched Ard credit card in partnership with the Trade and Development Bank, along with the www.ardcard.mn, where our customers can easily apply for the card. We became the first non-bank financial company to offer such a service in Mongolia.

After 4 years of continuous economic slowdown, both internal and external economic factors started to improve and, therefore, we expect 2017 to be a turning year for the Mongolian economy. Without doubt this will have a positive impact on our business. Hence, we project to generate better results than in previous years. We will continue to invest in our systems and people and develop a network of franchisee cooperatives and non-banks to become an apex institution with long-term view of becoming a full-fledged commercial bank and will work closely with the companies in Ard Financial Group to provide better services to our clients.



Ard Securities



In the past year Ard Securities posted a revenue growth of 140 percent with net profit growing 137 percent. Main driver of success was the continued positive developments at our parent company, and stronger emphasis on client acquisition, customer retention, and revenue per client account. New management focused on increasing staff capacity, productivity, and most importantly identifying new talent from the top to bottom. This investment has paid off handsomely and Ard Securities is poised to become one of the most prized assets within the Ard Financial Group in the coming years.

As of July 2016, the company started establishing itself as one of the leading investment banks and brokerage houses in Mongolia, with a strong focus on giving access to domestic and international capital markets to its clients, and its parent company. The first major step was made by raising MNT1.5 billion in debt funding to Hunnu Air, a domestic aviation company, through a private placement of a bond. As of December 2016, Ard Securities was mandated to underwrite MNT2.0 billion maiden bond for its parent, Ard Holdings, enabling it to grow its loan portfolio and enhance future cash streams.

Ard Securities' emergence as a key partner for medium and large corporations seeking debt and equity funding will help us in positioning the Company as a leading candidate for advisory/underwriting roles in privatizations, corporate and sovereign debt and equity funding, IPOs of SoE's and large corporations, a key driver for our revenue model going forward.

Ard Academy, a financial education initiative, was established by the staff of Ard Securities holding weekly financial training and Q&A sessions with existing and potential clients.

Over 1,200 individuals have attended our classes in Q4 2016 so far, with most of our participants becoming Ard Financial Group clients by either becoming our investors, opening a brokerage account, purchasing Ard Insurance coverage, and more.

The management of the company is introducing CRM, email lists, an interactive website, a podcast channel, and an improved presence on social media with the purpose of creating a unified customer database with actionable filters which will hopefully lead to higher conversion and sales per customer.

Ard Securities will introduce high quality equity research on MSE listed companies and provide most up-to-date market insight to our clients.



Mongol Post



On January 8th, 2016 following relevant parliamentary and government decrees, 34 percent of Mongol Post, a state-owned monopoly was privatized through IPO on the Mongolian Stock Exchange. A total of 33,859,623 shares worth MNT6,263 million were offered to the public for MNT185 per share.

Upon this historic privatization the new management team developed the new business strategy for the company. In addition to the postal services, Mongol Post aims to provide logistical and financial services. The new vision suggests changes to the management culture, introduction of new technologies and products.

At the end of December price per share increased to MNT 339.86 and the total market capitalization reached MNT33,845,421,329 up from mere MNT12 billion prior to the IPO.

Total income of MNT11,923 million shows an increase of 18 percent (MNT1,830 million) from last year. 16 percent of the total income consisted of interest income, transit service fees and exchange rate gains, which amounted to MNT 1,946.6 million.

Mongol Post is also planning to expand their Express Mail Service by increasing the number of partner countries from 38 to 191. As stated in the company's new strategy, the company seeks to enhance the competitiveness of the postal delivery services and start offering integrated financial and e-commerce services. In 2016, Mongol Post was awarded a Golden Prize from the Universal Postal Union. The company was also chosen as one of Mongolia's TOP 100 companies for the past year.



TenGer Systems



TenGer Systems started providing digital marketing and design solutions to Ard Holdings and its subsidiaries. We hired new designers to work on social media marketing and website designs of subsidiary companies.

We launched renewed version of GeniusBanker, our proprietary core banking software. With the release of new GeniusBanker software we attracted more customers and further developments are already in the pipeline. Our plan is to compete more aggressively. We strengthened our team and hired program developers to improve our core banking software. We intend to launch consumer ready version of Jupiter in the summer of 2017. Jupiter is a core banking software designed for non-banking financial institutions.

Since the summer of 2016 TenGer Systems started working as the official distributor of UK based start-up What3Words. What3Words is an innovative global addressing system and it is a rising start-up in the global tech business scene. What3Words has partnered with TenGer Systems in introducing the system to Mongolia. Mongolia plays a key role in scaling this innovative idea worldwide.

TenGer Systems is undergoing a turnaround management under the leadership of Namnandorj, who was appointed as CEO at the end of 2016. TenGer systems will focus on delivering software solutions that will meet the user requirements as well as continuing to expand our marketing and design services. Looking ahead TenGer Systems will play a key role in the Ard Holdings Digital Transformation so we can provide financial services in a more efficient, secure and reliable manner.



Ard Life



Three years ago we decided to have Ard Assets SCC offer services of Mongolia's first pension service provider MTND LLC and provide pension account services to employees of Ard Holdings.

In 2016 management made an executive decision to return pension fund service back to MNTD LLC and we developed a new strategy to change the conditions of pension account services accordingly.

We expanded our personal pension product by adding savings and investments options as well as bundling together health and personal accident insurance. As a result, we were able to increase the number of customers by 150 and our sales rose by 80 percent.

Furthermore, in cooperation with Ard Securities we started offering classes to the public in order to give more information about private pension fund and benefits of having pension accounts. Pension accounts offer what national pension insurance lacks in most aspects. Through pension accounts, customers can indirectly make investments, take part in stock markets and even receive payouts by proposing their own investment portfolios.

In accordance with the new strategy we started making short and long terms investments. Currently our investment portfolio includes savings accounts, government bonds and equities of Ard Financial Group and Mongol Post.

In 2017, we aim to further improve our pension services by using advanced technology to provide up-to-date information to our customers and by being more transparent about our company's operations. We are also planning to cooperate with relevant organizations to reform the National Pension System and to create a legal framework regarding private pension funds.

At the end of 2016, as part of a grand strategy to rebrand our company, the board changed the name of MTND to Ard life and Ard Holdings injected investment of MNT1 billion.

Following international standards, we are going to save our assets in a custodian bank. That will improve not only our asset monitoring but also our customers' asset registration and optimization.

As Ard Management is licensed by FRC to conduct fund management, they will in charge of the pension fund management. We hope to be able to offer investment portfolios with high return on investment with the help of Ard Securities' professional insights about the financial markets.



Investor Nation



Investor Nation is the first company founded through a Facebook crowdfunding initiative in Mongolia. It was founded by 560 individuals determined to invest for their future and become owners of their Nation's wealth. During our first shareholders meeting, we used Chinggis Khan's "aravt" (decimal) system to fairly and openly select and appoint the Board of Directors from the pool of shareholders. At this event, we defined our company's long term goal of becoming the first "fintech" bank in Mongolia owned by the public. As a result of our successful marketing strategy that was implemented through series of country-wide lectures and financial training sessions to the public, frequent features in the press and effective utilization of social networking sites, we were able to increase the number of our shareholders to 850 by the end of 2016.

The Investor Nation movement is drawing attention of both retail and institutional investors. Based on this demand we issued additional shares raised MNT700 millions of further capital. The

MNT1.7 billion of accumulated funds were invested in government bonds, shares of Ard Financial Group JSC (7 percent), Mongol Post (0.2 percent), Ard Insurance LLC (2 percent) and deposits at Ard Credit NBFI. Gains from these investments reached MNT744 million and increased the overall company valuation to MNT2.3 billion. Moreover, internal valuation of the shares increased by close to 50 percent and reached MNT1,473 from the initial MNT1,000.

The next big move we are working on is a public listing at the Mongolian Stock Exchange through RTO (reverse take-over) of Jinst Uvs JSC. Both parties agreed on the terms the deal is now in its final stages. Investor Nation JSC becoming a publicly listed company on the MSE will increase liquidity of our shares, will bring more protection for our shareholders and open the doors for further investment opportunities. All in all, it will be a big step towards our mission to become the People's Bank.



Ard Assets



In 2016 total assets, savings and loan portfolios of our cooperative increased by 20, 26 and 50 percent accordingly, and the total number of members reached 753, a 45 percent increase from last year.

During the year, we made several changes to our organizational structure, management system, products and services. One major event of the year was the transfer of our Private Pension product, which composed one-third of our total savings portfolio, to Ard Life company. In connection with this event, we have redefined our Cooperative mission and vision, and as part of our newly defined vision we will strive to become the first model Savings and Loan Cooperative.

In May 2016, we implemented a cash and non-transaction system, that allowed our members and member organizations get an express all-in-one service for various services, such as money transfer, cash transactions, savings account transactions. Moreover, we are pleased to inform you the fact that we are looking for oppor-

tunities to enable our members to make daily and other transactions through our Cooperative's account and to manage their own account electronically.

During the year we issued a total of MNT836.9 million of loan to 158 members, out of which 85 percent was consumer loan and the remaining 15 percent was business loan. By the end of 2016, 2 percent of the total loan portfolio were classified as non-performing loan. Therefore, starting from 2017, we planned to operate towards decreasing the default risk, issuing more small consumer loans in order to increase the loan access and availability to all our members.

Moreover, starting from December 2016, as a result of cooperation with Ard Insurance, we became the first ever cooperative in Mongolia to offer insured savings accounts. We will work towards providing a self-manageable, express micro-bank services to our members.



Independent Auditor's Report

To the shareholders of "ARD FINANCIAL GROUP" Closed JSC

Report on the Audit of the Separate Financial Statements

Opinion

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

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

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of "Ard Financial Group" Closed JSC as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards 27, Separate Financial Statements.

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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Fair value calculation of financial assets where gain or loss is recognized in other comprehensive income

KEY AUDIT MATTER

The Company recognizes its investments in subsidiaries (in shares) in accordance with IFRS 8, Financial Instruments. According to this standard, changes in fair value during the year are recognized in other comprehensive income. The fair value of the subsidiaries' shares were estimated by Ard Securities SC LLC during the year. The total fair value of the Company's investments in subsidiaries' shares as at 31 December 2016 is approximately MNT 3 billion. We have determined the management's estimation of fair value as key audit matter due to its high level of estimation uncertainty.

AUDIT RESPONSE

We performed following procedures in relation to the management's estimation of fair value:

- Evaluated the management valuer's capability, qualification and objectivity.
- We assessed the relationship between the valuation method and the key assumptions used based on our knowledge and skills.
- We selected samples to review accuracy and relevance of data used in valuation. We have reached a conclusion that key assumptions are supported by relevant evidence and the fair value and amortisation rates approximate with our assumptions.

2. Material non-monetary transactions

KEY AUDIT MATTER

The Company 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.

AUDIT RESPONSE

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 above-mentioned transaction is supported by relevant evidence.

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 separate financial statements and our auditor's report thereon. Our opinion on the separate 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 separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the Audit of Separate 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.

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.

**BDO Audit LLC Room 1502, Level 15, Block B,
UNION Building UNESCO Street, Narnii zam-62
Sukhbaatar District-1, Ulaanbaatar Mongolia**

Date : April 17, 2017

ARD FINANCIAL GROUP

Closed Joint Stock Company

SEPARATE STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Notes	31 December 2016 MNT'000	Revised 31 December 2015 MNT'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	676,749	862,458
Intangible assets	14	17,561	-
Long-term loans receivable	16	5,151,485	1,496,985
Investment property		-	675,148
Equity Instruments	17	25,561,668	20,779,327
Total non-current assets		31,407,463	23,813,918
Current assets			
Short-term loans receivable	18	159,298	1,828,751
Prepaid expenses and prepayments	19	179,439	127,526
Held for sales assets	15	3,000,000	-
Inventories		31,719	20,151
Short-term investments		49,791	-
Trade and other receivables	20	4,398,467	12,776,819
Cash and cash equivalents	27	166,192	1,328,120
Total current assets		7,984,906	16,081,367
TOTAL ASSETS		39,392,369	39,895,285
EQUITY AND LIABILITIES			
Equity			
Share capital	21	1,879,653	1,879,653
Treasury shares	21	(160,216)	(160,216)
Treasury share premium		(512,084)	(512,084)
Paid-up capital		10,441,144	10,441,144
Retained earnings		23,075,832	22,343,804
Fair value reserve	22	2,707,839	-
Other equity instrument	23	13,799	13,799
Total equity		37,445,967	34,006,100
Liabilities			
Non-current liabilities			
Deferred tax liabilities	24	352,512	-
Total non-current liabilities		352,512	-
Current liabilities			
Short-term loans	25	742,335	-
Trade and other payables	26	817,703	5,844,769
Income tax payable		33,852	44,416
Total current liabilities		1,593,890	5,889,185
Total liabilities		1,946,402	5,889,185
TOTAL EQUITY AND LIABILITIES		39,392,369	39,895,285

ARD FINANCIAL GROUP
Closed Joint Stock Company

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 MNT'000	Revised 2015 MNT'000
Revenue from operating activities	5	11,795,101	11,831,372
Carrying amount of investments	6	(10,013,092)	(11,684,775)
Gross profit/ (loss)		1,782,009	146,597
	7		
General administrative expenses	7	(1,121,650)	(880,138)
Employee related expenses	8	(564,233)	(245,996)
Operating profit /(loss)		96,126	(979,537)
Non-operating income/(expenses)	9	166,394	131,076
Net finance income/(expenses)	10	842,420	222,394
Other profit/(losses)		(258,912)	(10,000)
Profit / (loss) before tax		846,028	(636,067)
Income tax expense	11	(100,042)	(53,575)
Net profit / (loss) for the year		745,986	(689,642)
Other comprehensive income :			
<i>Items that will not be reclassified to profit or loss :</i>			
Gain on changes in fair value of investments	22	3,010,452	-
Deferred tax expenses	22	(302,613)	-
Total comprehensive profit / (loss)		3,453,825	(689,642)
Earnings/(loss) per share-MNT			
Basic earnings/(loss) per share	12	44.05	(40.78)

ARD FINANCIAL GROUP
Closed Joint Stock Company

SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

Notes	Share Capital MNT'000	Treasury shares MNT'000	Treasury share premium MNT'000
	21	21	
Balance at 1 January 2015	1,833,551	(154,018)	-
Error adjustments	-	-	-
Adjusted balance at 1 Jan 2015	1,833,551	(154,018)	-
Share repurchase	-	(36,577)	(512,084)
Treasury shares issued	46,102	30,379	-
Profit for the year	-	-	-
Balance at 31 December 2015	1,879,653	(160,216)	(512,084)
Fair value reserve	-	-	-
Profit for the year	-	-	-
Error	-	-	-
Balance at 31 December 2016	1,879,653	(160,216)	(512,084)

Paid-up capital MNT'000	Fair value reserve MNT'000	Retained earnings MNT'000	Other equity instrument MNT'000	TOTAL MNT'000
	22		23	
9,298,761	6,225,670	16,720,433	13,799	33,938,196
-	(6,225,670)	6,313,013	-	87,343
9,298,761	-	23,033,446	13,799	34,025,539
-	-	-	-	(548,661)
1,142,383	-	-	-	1,218,864
-	-	(689,642)	-	(689,642)
10,441,144	-	22,343,804	13,799	34,006,100
-	2,707,839	-	-	2,707,839
-	-	745,986	-	745,986
-	-	(13,958)	-	(13,958)
10,441,144	2,707,839	23,075,832	13,799	37,445,967

ARD FINANCIAL GROUP

Closed Joint Stock Company

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

		2016 MNT'000	Revised 2015 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before taxation		846,028	(636,067)
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	13	141,598	123,773
Interest income		(478,909)	(41,103)
Interest expense		107,809	-
Effect of foreign exchange difference		(89,186)	(2,320)
Gain on disposal of PPE		(1,490)	-
Disposal of assets		-	10,000
Gain on disposal of investment		-	(675,835)
Operating profit/(loss) before changes in working capital		525,850	(1,221,552)
Inventories (increase)/decrease		(26,163)	(18,848)
Prepayments (increase)/decrease		74,403	(56,260)
Trade and other receivables (increase)/decrease		10,805,792	(13,370,553)
Trade and other payables (increase)/decrease		(5,750,478)	13,358,706
Cash flows used in operating activities		5,629,404	(1,308,507)
Interest received		478,909	41,103
Income tax paid		(57,945)	(291,000)
Interest paid		(79,759)	-
Net cash flows used in operating activities		5,970,609	(1,558,404)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(10,475)	(374,930)
Acquisition of intangible assets		(15,386)	-
Sale of equity investments		-	4,980,659
Sale of investment in debt instrument		-	45,000
Sale of bond and marketable securities		-	22,760
Acquisition of equity investments		(5,021,643)	(144,661)
Loans provided		(4,638,553)	(2,442,622)
Repayment of loans provided		1,781,523	602,848
Net cash flows generated from investing activities		(7,904,534)	2,689,054
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loans		1,760,000	-
Repayment of loans received		(1,018,271)	(211,000)
Net cash flows used in financing activities:		741,729	(211,000)
Net increase /(decrease) in cash and cash equivalents		(1,161,928)	919,650
Effect of foreign exchange difference of cash and cash equivalents		30,268	-
Cash and cash equivalents at the beginning of the year	27	1,328,120	408,470
Cash and cash equivalents at the end of the year	27	166,192	1,328,120

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 at December 31, 2016;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated 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.

1. Material non-monetary transactions

KEY AUDIT MATTER

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.

AUDIT RESPONSE

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 above-mentioned transaction is supported by relevant evidence.

2. Estimation of insurance claims reserve

KEY AUDIT MATTER

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.

AUDIT RESPONSE

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 Company 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.

**BDO Audit LLC Room 1502, Level 15, Block B,
UNION Building UNESCO Street, Narnii zam-62
Sukhbaatar District-1, Ulaanbaatar Mongolia**

Date : May 5, 2017

ARD FINANCIAL GROUP
Closed Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	At 31 Dec 2016 MNT'000	At 31 Dec 2015 MNT'000
ASSETS			
<i>Non-current assets</i>			
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
Held-to-maturity financial assets	23	821,782	-
Available-for-sale financial assets	25	1,230,413	1,115,914
Investments in associates	26	7,925,538	2,531,446
Total non-current assets		23,817,827	13,730,646
Held-for-sale assets	24	3,097,600	-
		26,915,427	13,730,646
Current assets			
<i>Other current assets</i>			
Prepayments and prepaid expenses	27	829,867	621,702
Inventory	28	64,329	31,111
Short-term loans receivable	29	4,378,686	4,296,316
Trade and other receivables	30	2,397,641	9,254,891
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

ARD FINANCIAL GROUP
Closed Joint Stock Company

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

	Note s	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
Paid-in capital - Ordinary shares	33	10,400,013	10,400,013
Treasury stock	32	(471,579)	(522,791)
Paid-in capital- Treasury stock		(6,144,347)	(5,547,966)
Other equity	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 loans	36	200,000	429,343
Finance leases 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 tax payable		97,083	86,700
Current portion of long-term finance leases payable	37	31,326	-
Current portion of long-term loans	36	20,406	11,976
Short-term loans	41	1,154,501	486,564
Deferred income	42	3,021,361	3,163,397
Total current 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

ARD FINANCIAL GROUP
Closed Joint Stock Company

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
Salaries and similiar expenses	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/(costs)	10	1,654,196	968,341
Revaluation gain/(loss) of financial assets held-for-sale		1,376	(75)
Share of the associate's net profit	11	394,126	187,263
Other income/(expenses)	12	(80,975)	238,321
Other gains/(loss)	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 interest expense	16	(136,916)	(59,444)
Net profit of the Group		9,040,745	9,368,133
Earnings per share-MNT	17	658	555

ARD FINANCIAL GROUP
Closed Joint Stock Company

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 tax	9,407,661	9,584,156
Adjustments for:		
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's loss	(394,126)	(187,263)
Risk provisions	131,478	69,400
Bad-debts expense	3,099	71,666
Loss from property, plant and equipment written-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 investments written-off	-	10,000
Gain on acquisition of subsidiaries	-	(38,415)
Gain on foreign exchange translation	(452,682)	-
Dividend income	-	(50,002)
Interest income	(1,610,034)	(2,032,460)
Interest expense	113,239	369,540
Operating profit before working capital changes	495,920	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	6,757,005	(6,515,603)
Increase/(decrease) in trade and other payables	(7,520,240)	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	1,502,584	5,712,593
Taxes paid	(167,012)	(391,249)
Interest paid	-	(339,174)
Net cash flows from operations	1,335,572	4,982,170

ARD FINANCIAL GROUP
Closed Joint Stock Company

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	(4,939,420)	(139,466)
Acquisition of investments	(362,322)	(126,098)
Sale of property, plant and equipment	555,848	373,973
Acquisition of intangible assets	(15,386)	(100)
Acquisition of held-to-maturity investments	(771,991)	-
Dividends received	-	50,002
Interest income received	1,575,978	1,987,240
Net cash flows from investing activities	(7,218,373)	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

ARD FINANCIAL GROUP
 Closed Joint Stock Company

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
	MNT'000	MNT'000	MNT'000	MNT'000
	32	33	32	
Balance at 01 January 2015	1,833,551	9,257,629	(156,887)	-
Treasury stock	-	-	(396,283)	(5,547,966)
Effect of economic transparency law	-	-	-	-
Issued treasury stock	46,102	1,142,384	30,379	-
Business combination	-	-	-	-
Dividends declared	-	-	-	-
Profit for the year	-	-	-	-
Balance at 31 December 2015	1,879,653	10,400,013	(522,791)	(5,547,966)
Treasury stock	-	-	(311,363)	(5,673,395)
Error adjustment	-	-	-	-
Business combination	-	-	-	-
Treasury stock issued	-	-	362,575	5,077,014
Profit for the year	-	-	-	-
Balance at 31 December 2016	1,879,653	10,400,013	(471,579)	(6,144,347)

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
	34		35	
4,202,566	13,799	15,150,659	2,684,975	17,835,634
-	-	(5,944,249)	-	(5,944,249)
87,344	-	87,344	-	87,344
-	-	1,218,864	-	1,218,864
-	-	-	(109,286)	(109,286)
-	-	-	(145,637)	(145,637)
9,368,133	-	9,368,133	59,444	9,427,577
13,658,043	13,799	19,880,751	2,489,496	22,370,247
-	-	(5,984,758)	-	(5,984,758)
(25,904)	-	(25,904)	-	(25,904)
-	-	-	(1,568,061)	(1,568,061)
-	-	5,439,589	-	5,439,589
9,040,745	-	9,040,745	136,916	9,177,660
22,672,884	13,799	28,350,423	1,058,351	29,408,774





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