

# 2015

## ANNUAL REPORT

A black and white photograph of a monument, possibly a lighthouse or a tower, with many pigeons perched on it and flying in the sky. The monument has a striped section and a large dome at the base. The pigeons are in various poses, some perched, some in flight. The sky is a uniform light gray.

## MISSION

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To become the leading insurer who offers the most reliable, trustworthy and transparent services that meets the demands and the needs of our clients, guarantees our clients their peace of mind, leads the to success, and respects their social responsibilities



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# GREETINGS FROM THE CHAIRMAN OF THE BOARD



Dear Clients, Partners, Shareholders and Colleagues

First and foremost, I wish you all the best of success, health and happiness.

"Ard Daatgal LLC successfully ended 2015 and we aspire to achieve even greater success in upcoming year of 2016.

In the past years, together we have successfully overcome difficult circumstances in some areas including business, politics and economy. Although it has not been easy to make important decisions in order to find effective solutions to aggravated problems and to ensure smooth operations of the company activities. With confidence, I am first and foremost, delighted to say that we have left the hardest times behind. The company experienced a loss in the annual financial performance report due to the large receivables and delayed hidden payables shown in the balance sheet from the previous years. We have taken essential actions to pay the long overdue, necessary payables from the past and have collected premium receivables from the debtors by restructuring the payment terms. In addition, we have made a remarkable improvement on risk management, corporate governance, as well as fund management and administration.

In 2014, there was a big change in the company's composition of shareholders. Unfortunate delay of the deal carried between Ventures One and Ard Financial Group LLC caused many barriers in our work progress. Notwithstanding obstacles along the way, Venture One's cooperation, we have overcome the barriers and we have successfully cleared and reconciled the misunderstanding among the shareholders. This cooperation created a stronger foundation for future operations with

Ventures One. In the first quarter of 2015, due to the incomplete attendance of shareholders, the shareholders meeting could not be held. However, throughout the year, the Board of Directors held three ordinary and one extraordinary meetings, which successfully resolved the difficult problems the company was facing. The Governance and Compensation committee of the Board discussed and supported the appointment of Mr. GantulgaBulgan /Executive Director of Suu JSC/ as an independent member of Board of Directors, appointing and approving Gantulga as a member of Board until the next shareholders meeting.

The Board of Directors also established the Standing Committee that included the Audit Committee with three officially appointed members and the secretary of the committee. In addition, an internal auditing department was established in order to monitor the potential risks that threaten smooth company operations and to maintain smooth company activities.

In the August of 2015 Board of Directors meeting, company's corporate structure, proposal to sell shares of some shareholders and the increase of company's paid-in capital by MNT 750 million were each thoroughly discussed. Also, in this meeting, the secretary of the Board was appointed.

Due to expedience, Mr. Batbold. Ariyasuren was appointed as the CEO of the company in July 2015. The extraordinary shareholder's meeting held in September, approved the re-appointment of 7 members of the Board of Directors and contract of the executive director appointment, approved the contracts and performance indicators in addition to making few essential changes in accordance to the company's laws and

regulations. On the 20<sup>th</sup> of November 2015, we have announced the extraordinary meeting of the Board of Directors, in which we have successfully reached the decision to increase the paid-in capital of the company and approved.

I wish the best of success to our former CEO of 7 years, Chuluuntsetseg Dagvabaljir, as we look forward to collaborating with her on shareholders and board levels. I hope she will continuously contribute to the company's growth and support us in taking the leadership position in the market. On the other side, to our new CEO, we look forward to you having a close cooperation with the shareholders and the Board of Directors, capturing their standpoints in the company operations as well as providing customers with the best service by putting their best interest in our top priorities in addition to achieving the goal of becoming a top insurer in the market. The Board of Directors meeting held at the end of the year on December 1<sup>st</sup> 2015, approved the operations plan and the budget for 2016, have made the decision re-establish the branch office in Bayanzurkh district. In addition to the Board of Directors and Audit Committee, Governance, Risk and Investment Committees were each established and are prepared to commence their duties and responsibilities.

We have approved the quantitative and qualitative indicators that will potentially make us a leader in the field. In order to achieve these goals, we need to collaborate closely with the executive management team. Along with this, I am confident that the largest shareholder, "Ard Financial Group" and its daughter, affiliated companies as well as related networks associated with the group will provide great support as the additional channels that help enhance its sales of products of Ard Daatgal. Lastly,

I wish our customers, clients, partners, shareholders and employees, happiness and prosperity.

Sincerely,

**GANHUYAG** Chuluun  
Stronger. Together!

## MESSAGE FROM THE CEO



by analyzing each insurance product, carefully considering its marketing and product distribution channels. If necessary, we must change the terms of the products in accordance with the needs and demands of customers, which can lead to increase in sales. We also need to push and sell other insurance products through the rural branches. Although it is inevitable to work with brokers and insurance agents, we must adhere to unified policy in terms of fees and commissions in order to prioritize the company interests and focus on the quality of contracts. Although we introduced housing, loan protection insurance, renter responsibility as well as doctor responsibility as new products, we must analyze and evaluate the sales of each product and take necessary measures to increase sales. We have improved our financial management, financial control, have stabilized the preparation of budget planning and presentation of summary report, which enabled all financial transactions to be carried out quick and efficient.

The accounting and finance department will further work on strengthening the financial discipline and improving the quality of asset, which will lead the company's budget, assets, and financial performance forward.

At the beginning of last year, the Board of Directors made the decision to invest total of MNT 1.6 billion purchasing new office in the primary location of Ulaanbaatar city.

Certain plans were executed to ensure the reliability of the software that is used for purpose of company operations. However, we still lack a modern software program that is user friendly, reliable, powerful, develops information quick, fast and efficient.

I would like to inform you that our company was re-elected to the Association's Board at the recent Insurers Association's Meeting. This allows us to continue to serving to develop the entire insurance sector, protect the common interests of insurance companies and raise awareness to the public on the importance of insurance.

In conclusion, to all of our loyal customers, insurers, shareholders, partners and employees, we are glad to present the 2015 Annual Report.

Sincerely,

**BATBOLD** Ariyasuren

To all the insurers, shareholders, customers and staff of Ard Daatgal LLC, I wish you good luck and prosperity in the upcoming year of the Monkey.

The economic and social condition, the economic recession worldwide, political instability and the fall of raw material price made the year 2015 tough, but such conditions also challenged our capability and vitality of the company.

In 2015, we completed 70% of the plans the Board of Directors affirmed. Compared to the previous years, the economic growth of the country fell rapidly with 2 percent decrease in inflation rate and MNT rate weakened by 15-20 percent, in addition to the fall of percent, foreign investment like we've never seen before.

We successfully overcame the hard times of economic recession and the management team proved that they were capable of delivering superior performance under extreme pressure. In 2015, there was a major change in the shareholders structure, in which Ard Financial Group became a major shareholder of Ard Daatgal LLC, owning 55.31 percent stake. Ard Financial Group operates in sectors such as banking and finance, insurance, capital markets and management of investment services. Furthermore, the Group strives to maximize investment return and to become the top financial group in the market.

In the last year our company collected a total of MNT 9 billion in insurance premium, paid MNT 2 billion in re-insurance premiums and earned a total of MNT 7 billion in net premium income. In 2015, we provided a total of MNT 3.8 billion in indemnity payments. With such performance, we earned ourselves a position in the top 5 insurance companies in the Mongolian insurance market, confirming our position as one of the top 5 insurer.

However, we should also focus on indicators of quality. We must get ahead of our competitors by improving our current performance, bettering the loss and expense ratio and solvency ratio. Finally, the most important indicator that determines our performance is to maximize profitability.

At the end of last year, the Board of Directors successfully approved the 2016 budget, which allowed us to increase the employee salaries by certain percentage. The decision to cover all our employees with Ard Assets SCC's (member of ARD Financial Group) pension fund services and a long-term retirement savings fund was made and implemented in September.

Furthermore, based on the employee performance and the time they're worked with us, the company will increase the percentage it pays into employee retirement savings. Employees also have the opportunity to receive loan and financial services in addition to savings services from member organizations of Ard Financial Group.

At the end of the year, we invite all the branch managers of the rural offices who help us keep the company reputation high and provide them with necessary training, consulting and guidance. It is important for the head office to focus on improving and developing the skills and expertise of our branch representatives, constantly recharging their knowledge and always supporting and inspiring them. We have the opportunity to expand on the market and increase the sales in rural areas. At the end of the year, we have restored and stabilized the operations of the Eastern Regional Center in Bayanzurkh district. I would like to wish a great success to all the new employees of the newly established Eastern Regional Center. In addition to sales, our insurance managers need to focus on the quality of contracts. We must work flexibly

# CORPORATE GOVERNANCE, STRUCTURE



In late 2014, a change in Ard Daatgal LLC shareholder structure led to Ard Financial Group to become the largest shareholder of Ard Daatgal LLC by acquiring 55.31 percent of total stakes. At the beginning of 2016, the FRC officially permitted Ard Financial Group to be the rightful shareholder of Ard Daatgal LLC and registered Ard Financial Group in the national registration office.

The CEO of Ard Financial Group, Mr. Ch.Gankhuyag was appointed as the Chairman of Board of Directors, Ts.Togtokhbayar, D.Chuluuntsetseg, and Antony Hobrow were appointed as members of Board of Directors. Mr. O.Odbayar, Vice President of "Altai Holdings" LLC and CEO of "Chinggis Hotel" and Mr. B.Gantulga, CEO of "Suu" JSC, were also appointed as independent members of Board of Directors. To complete the team, the Board of Directors has Mr. A.Batbold as its representative of executive management.

In addition to Board of Directors, Governance and Compensation Committee, Audit Committee, Risk and Investment Committee were newly established to stabilize company operations. In 2015, the approval of Board of Directors' operations and Audit Committee manuals were crucial to corporate governance of Ard Daatgal LLC as the company continues its operations effectively under the new manuals.

All members of the Board have attended corporate governance trainings and they fully meet and satisfy the requirements set by the FRC.

Throughout 2015, ordinary and extraordinary Board of Directors conferences were held 4 times and shareholders' conferences were held 2 times in order to discuss and resolve the immediate issues the company faced. The December of 2015 Board of Directors meeting confirmed company organizational structure and 2016 budget plan in addition to approving the decision to increase paid-in capital and the proposal to establish new branches.

## BOARD COMMITTEES

### Audit Committee:

Chairman of the Committee:

Ts.Togtokhbayar

Committee Members:

O.Odbayar, B.Gantulga

Secretary of the Committee:

E.Javkhlanbayar

### Governance and Compensation Committee:

Committee Members:

Ch.Gankhuyag,  
D.Chuluuntsetseg, Anthony Hobrow  
B.Chimgee

### Secretary of the Committee:

### Risk & Investment Committee:

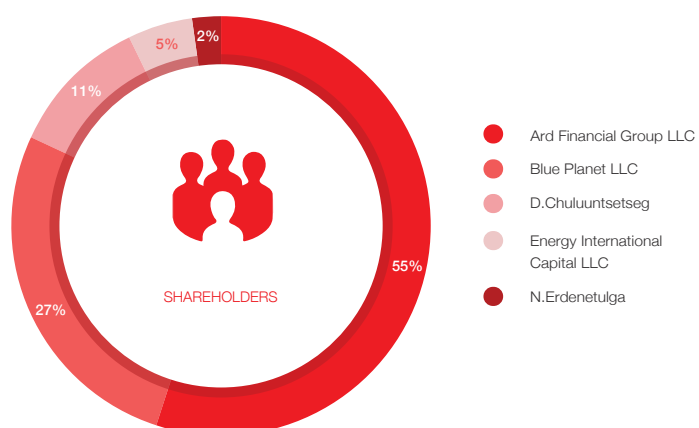
Chairman of the Committee:

Ch.Gankhuyag

Committee Members:

D.Chuluuntsetseg,  
Ts.Togtokhbayar, A.Batbold  
G.Bayarbat

Secretary of the Committee:



## BOARD OF DIRECTORS



Chairman of the Board  
**CH.GANHUYAG**



Board Member  
**TS.TOGTOKHBAYAR**



Board Member  
**A.HOBROW**



Board Member  
**D.CHULUUNTSETSEG**



Board Member  
**O.ODBAYAR**



Board Member  
**B.GANTULGA**



Board Member  
**A.BATBOLD**

## COMPANY STRUCTURE



# 2015 FINANCIAL AND ECONOMIC REVIEW

In 2015, there were crucial factors such as political stability, funding issues on the underground mining project of Oyu Tolgoi as well as the condition of the Finance department, expected to have important impact on Mongolian economic outlook.

Unfortunately, majority of the factors above had negative outcomes. The failure to maintain political stability in 2014 negatively affected the business sector by causing delays, failing to make decisions in timely manner and lacking of funding.

A change in the newly formed government structure caused difficulty in regaining investor's trust.

The delaying of investment in Tavan Tolgoi project had negative impact on the economy. However, on the other hand, the second funding of Oyu Tolgoi underground mining was finalized, but it could not help with the immediate recovery of the economy.

USD18 billion worth of foreign direct investments in projects are expected in 2016. If these projects plans are finalized, investments and funding are available in timely manner, they will have a greater impact on the economic condition of 2016. Project plans include:

- The second funding of Oyu Tolgoi
- TavanTolgoi Project
- TavanTolgoi Power station
- Telmen Thermal Power Station
- Nine 1,167.6 km Road Project
- Establishment of Mining metallurgical complex project
- Tuul, Songino water resource complex project

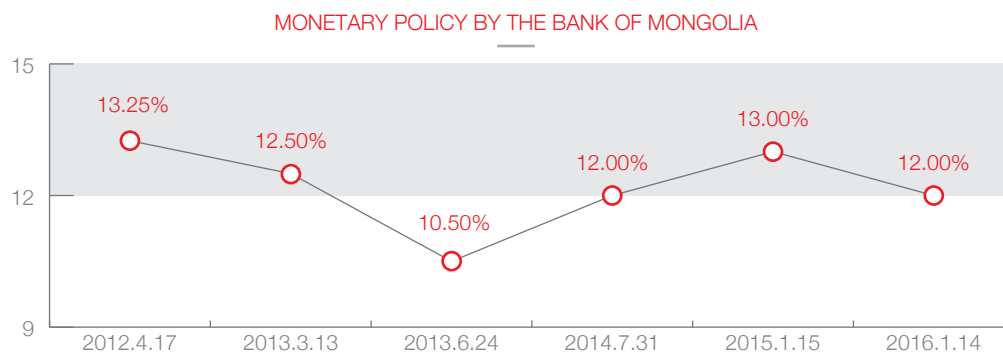
## MONEY SUPPLY

Due to the slowing economic activities, the approval of loans also decreased, causing money supply to continuously decline.

Last December, The Bank of Mongolia lowered the policy interest rate down by 1 percent to 12 percent. The implementation of the one unit decrease in January 2016 will have a positive influence on the acceleration of the market economy.

The slowing of domestic lending activity growth and the reduction of foreign net assets were the key factors affecting the decrease of supply

The loans granted within the framework of non-traditional monetary policy by the Bank of Mongolia are slowly repaid in accordance to the repayment schedule. However, the decline in the funding resources of the Development Bank negatively impacted on the growth of money supply. The decrease in demand and supply of loans also had a key role in reduction of money supply. As a result, the monetary policy committee of the Bank of Mongolia reduced the policy interest rate in order to show a positive influence of money supply by easing strict monetary policy recovering the appreciation of the market economy.

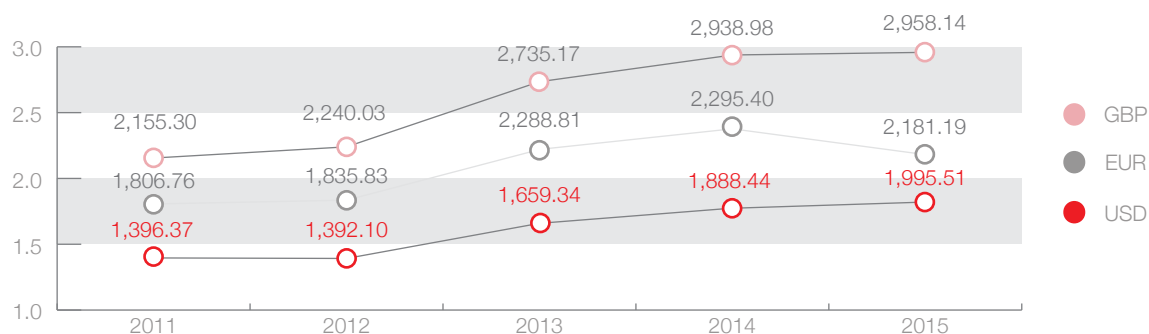


## FOREIGN TRADE

The reduction of government and personal consumptions resulted in decrease in import volume and compared to the last year /2014/, the profit in foreign trade increased by 62 percent. In comparison to 2014, exports decreased by USD 1,104.8 million and import decreased by USD 1,493.0 million. Such statistics show major decrease in overall foreign trade turnover.

## EXCHANGE RATE

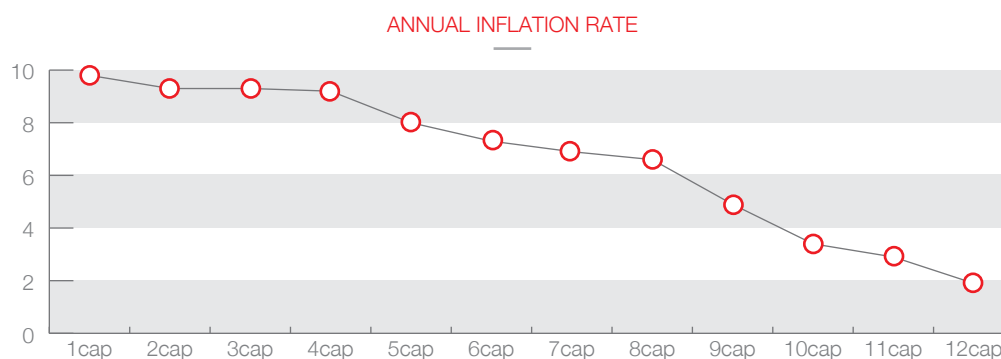
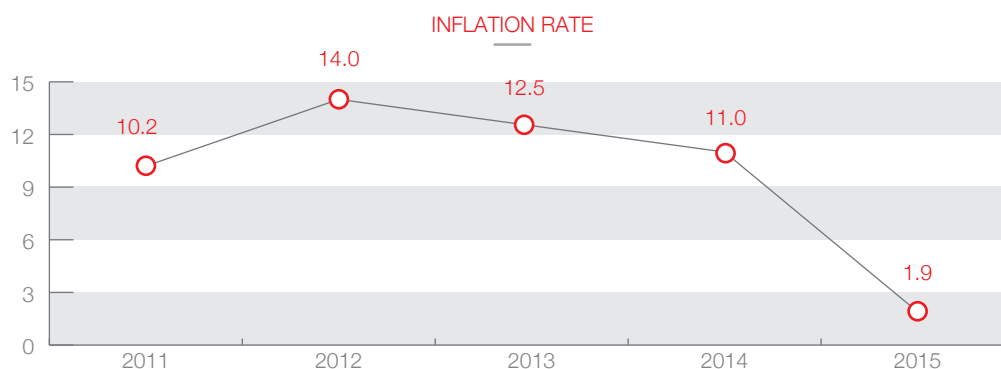
As of the end of December of 2015, the average exchange rate of MNT to the USD equaled MNT 1,995.84, 6 percent decrease from the same time of previous year. Linked to the decline in foreign direct investment, the shrink in foreign exchange reserves and the MNT rate continues weaken.



## INFLATION

The reduction in domestic demand and the decrease in food price led the inflation rate to the lowest level.

As of the end of 2015, the annual inflation rate decreased to 1.9 percent nationwide and 1.1 percent in Ulaanbaatar city. Shrink in domestic demand, lowering of demand related inflation pressures and decline in import volume contributed to such low annual inflation rate.



# INSURANCE MARKET

In 2015, 15 general insurance companies, 1 long-term life insurance company, 1 agricultural re-insurance company, 34 insurance brokers and 24 loss assessor companies operated in the insurance industry.

Nº	PROFESSIONAL PARTICIPANTS	2011	2012	2013	2014	2015
1	General insurance company	16	17	16	16	15
2	Long term life insurance Company	1	1	1	1	1
3	Re-insurance company					1
4	Insurance agents	2057	2357	3187	3260	3314
5	Insurance broker	8	17	20	30	34
6	Loss assessor	9	9	14	20	24
7	Actuary	13	18	15	15	15

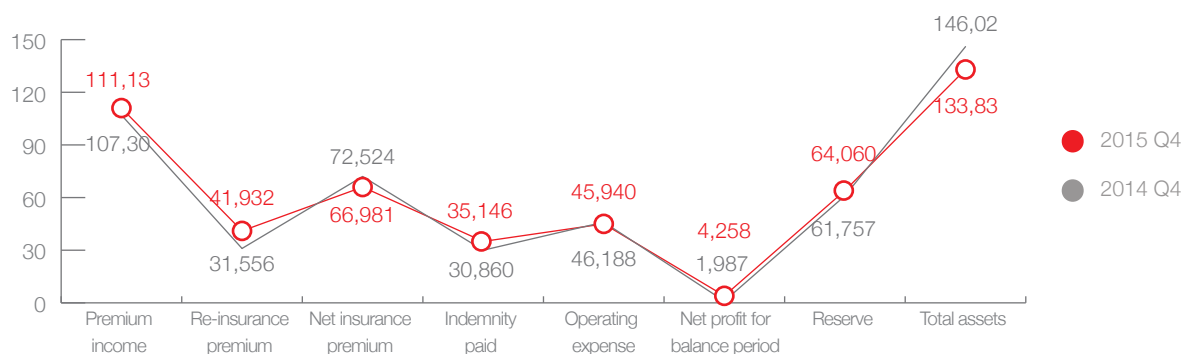
There are total of 15 insurance companies that provide conventional insurance services nationwide through 255 branches and 3314 agents. During the reporting period, total assets of general insurance companies were MNT 133 billion, which is an 8.4 percent decrease from the same time of previous year. The dissolution of Monnis Insurance Company and reduction in assets of some major insurance companies directly influenced the above asset decrease in the insurance market.

However, during the reporting period, the total reserve funds of conventional insurance companies reached MNT 65.3 billion, showing 3.7 percent increase or MNT 2.3 billion higher compared to the same time period of last year.

In 2015, MNT 111 billion were collected in premium income from 14 different types of insurance services. The amount, compared to the same time period of the previous year, it is MNT 3.8 billion higher or grew by 3.6 percent.

In 2015, the insurance market paid a total MNT 35 billion in indemnity payment. In comparison to the previous year results, it increased by MNT 4.2 billion or increased by 13.9 percent. Indemnity ratio reached 0.51 units, which is 0.08 units higher than the previous year result.

Nº	FINANCIAL PERFORMANCE	2014 Q4	2015 Q4	Amount	CHANGE
					%
1	Premium income	107,305.63	111,134.88	3,829.25	3.6%
2	Re-insurance premium	31,556.24	41,932.66	10,376.42	32.9%
3	Net insurance premium	72,524.1	66,981.47	(5,542.64)	-7.6%
4	Earned premium	71,476.22	66,981.47	(4,494.75)	-6.3%
5	Indemnity paid	30,860.59	35,146.98	4,286.39	13.9%
6	Loss ratio	0.43	0.52	0.09	21.5%
7	Operating expense	46,188.59	45,940.52	(248.07)	-0.5%
8	Net profit for balance period	1,987.44	4,258.28	2,270.84	114.3%
9	Reserve	61,757.49	64,060.52	2,303.03	3.7%
10	Total assets	146,025.07	133,831.87	(12,193.19)	-8.4%



# INSURANCE OPERATIONS REPORT



Ard Daatgal LLC provides all range of insurance services that meet the demands and the needs of our individual customers and entities. We provide financial, property, motor own damage, driver's TPL and personal accident insurance in the sectors including mining, manufacturing, service, finance and trade through our 24 branches, sales managers from head office and 375 insurance agents.

We successfully maintained our market share in the market, enhancing premium incomes of branches in rural areas steadily. We took actions that aim to boost profitability of branches and spending efficiently regarding economic circumstances. We closed down some branches in Ulaanbaatar as well as in some rural areas leading to the rearrangement of staff.

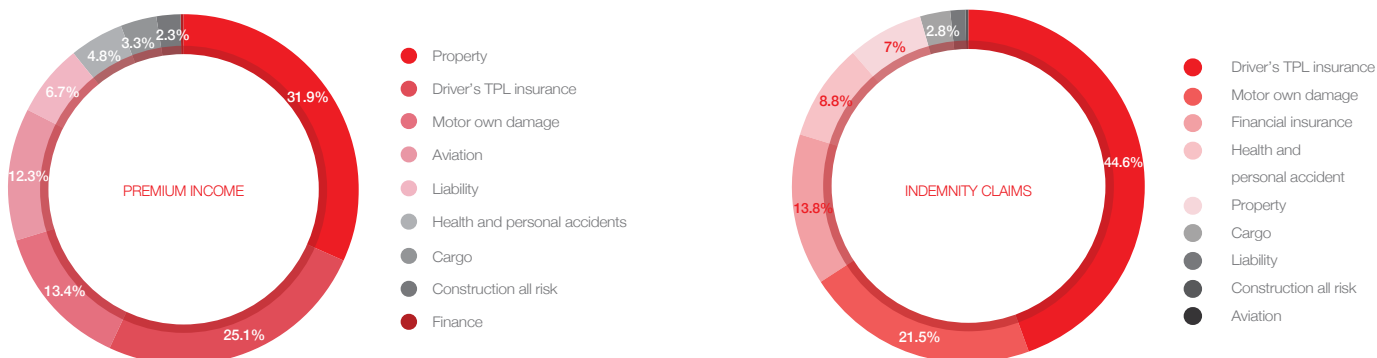
In 2015, we cooperated with brokers and re-insurers from companies like Marsh, AIG, Allianz, UIB, INGOCCTRAH in the categories of facultative and treaty re-insurance. We also were selected as fronting insurer of AIG and Allianz in Mongolia.

In 2015, following and based on the civil law of Mongolia, insurance law, the regulation and instruction of FRC and contracts of insurances. We paid total 6,000 indemnity payment. The driver's TPL compulsory insurance and homeowner's liability insurance take the majority of overall accidents of indemnity.

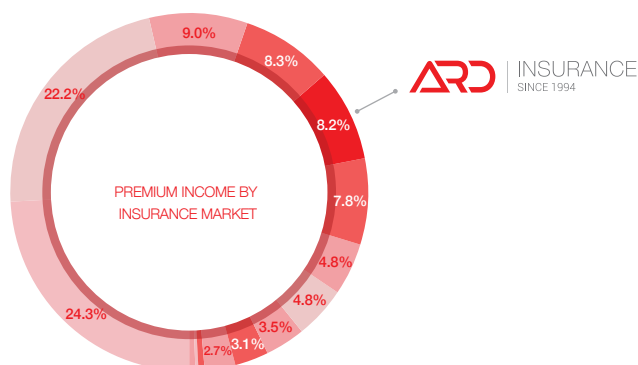
We recognized the demand to provide high quality, express, efficient and satisfying service to our customers, which enabled us to create new position of service operators that provide customer service by answering phone calls from customers with loss of accidents, helping customers register and letting them know their process of indemnity, as well as receiving complains and complements in addition to assisting customers with all sorts of information they need. We continue our operations by teaming up with Auto SOS LLC, united network of auto services and other organizations that assess losses.

## PREMIUM INCOME AND INDEMNITY

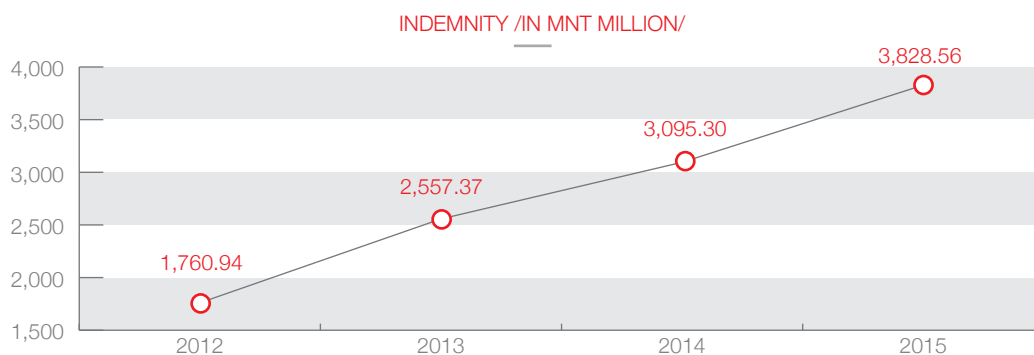
In 2015, the company collected a total of MNT 9.16 billion in premium income, of which the majority of premium income came from the sales of property insurance. In 2015, we paid a total of MNT 3.8 billion in indemnity claims, 45% of which goes to driver's TPL insurance.



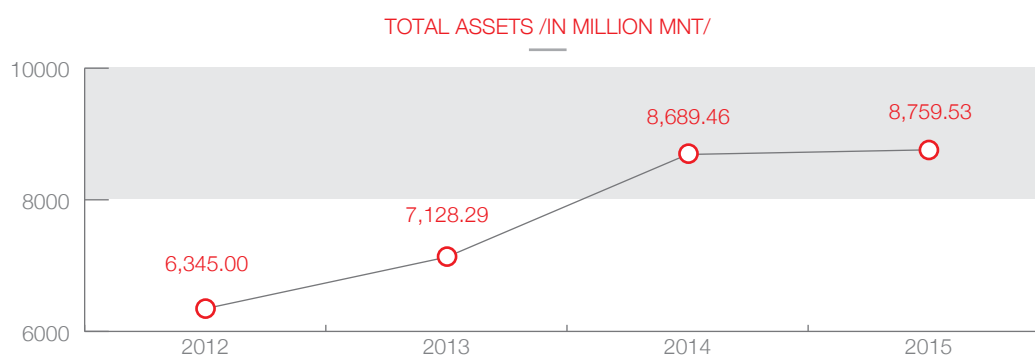
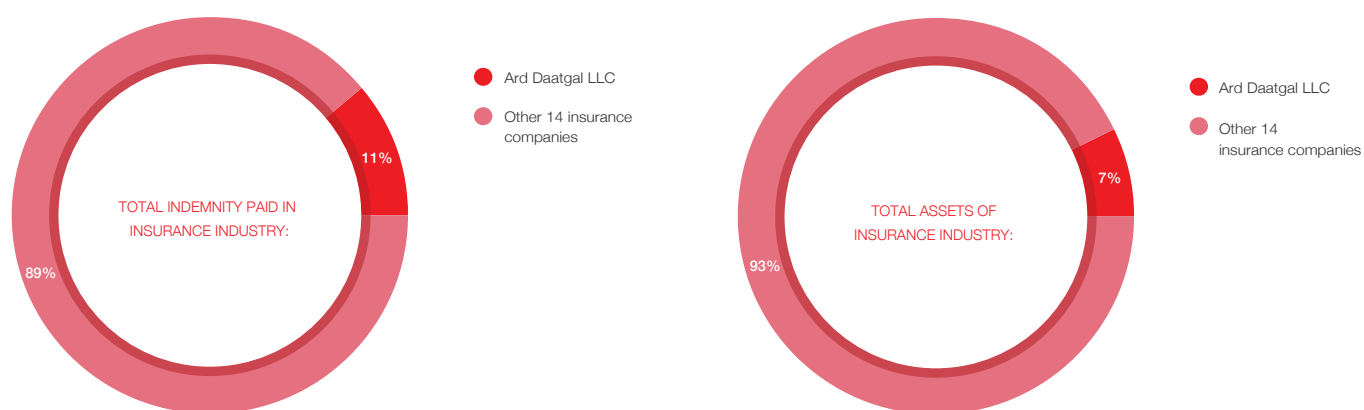
In 2015, 15 insurance companies collected a total 111.1 billion MNT in premium incomes. We make up 8% of insurance market positioning among the top 5 insurance that collected highest amount of premium income.



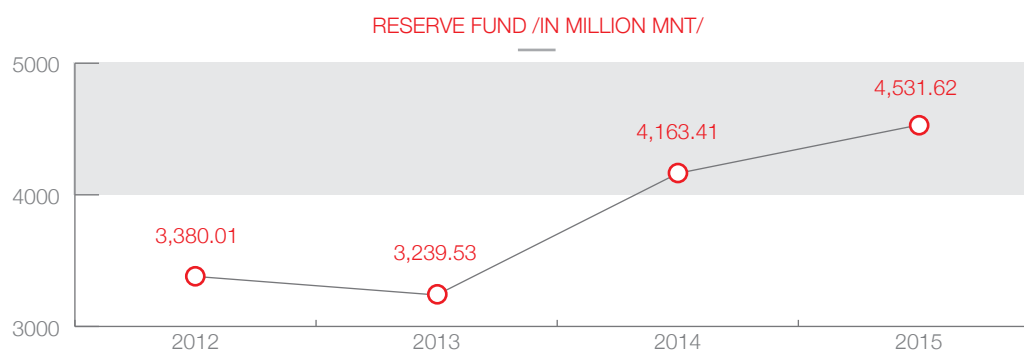
The indemnity that Ard Daatgal LLC Company pays increases year by year.



In 2015, the insurance industry paid a total MNT35.1 billion in indemnity claims. 11% of all indemnity claims was paid by Ard Daatgal LLC, which also resulted us to be in the top 5 insurance companies in this category.



Total assets of the company continue to increase year by year and reached MNT 8.8 billion in 2015, which is 7 percent of total assets in insurance industry worth MNT 133.8 billion.



The reserve fund of Ard Daatgal LLC has steadily increased year by year and reached MNT 4.5 billion in 2015.

# FINANCIAL PERFORMANCE

As of the end of 2015, total assets of Ard Daatgal LLC reached MNT 8,758.53 million, a whole 1% increase or MNT69.07 million higher compared to the 2014 performance.

At the end of 2014, the balance amount of the reserve fund was MNT 4,163.41 million. However, as of the end of 2015, the amount reached MNT 4,531.62 million, 9 percent or MNT 368.20 million increase from end of 2014.

In terms of total premium income, it reached 9,159.63 million MNT, which is 9 percent lower compared to the previous year result.

In 2014, the company paid MNT 3,095.30 million in indemnity claims whereas at the end of 2015, the company paid MNT 3,828.25 million in indemnity claims, a staggering 24% or MNT 733.25 million increase from 2014. Investment income reached 580.46 million MNT, a whole 165 million MNT short from the previous year. The main reason for the decrease in investment income was the purchase of a new office building in 2015.

INCOME STATEMENT	2014.12.31	2015.12.31
Total insurance premium revenue	10,106.26	9,159.63
Re-insurance premium	1,816.25	1,841.97
Insurance premium returned	94.66	239.05
Net insurance premium	8,195.34	7,078.60
Total earned premium income	7,371.95	6,427.68
Total indemnity paid	3,095.30	3,828.56
Reserves	1,707.99	1,906.07
Non-premium related income	749.62	668.84
Gross operating income	4,700.77	3,475.68
Operating expense	4,360.62	3,854.23
Operating profit (loss)	340.15	(378.55)
Non-operating profit (loss)	35.96	222.64
Profit before tax (loss)	376.11	(155.91)
Income tax expense	62.36	58.05
Net profit (loss)	313.75	(213.95)

## INSURANCE PREMIUM, INDEMNITY PAID AND RE-INSURANCE /IN MNT MILLION/

	2012	2013	2014	2015
Premium	8,520	10,094	10,106	9,160
Indemnity paid	1,761	2,557	3,095	3,829
Re-insurance	3,005	4,234	1,816	1,842

## TOTAL ASSETS AND RESERVES /IN MNT MILLION/

	2012	2013	2014	2015
Total assets	6,345	7,128	8,689	8,759
Reserves	3,380	3,240	4,163	4,532

FINANCIAL STATEMENT	2014.12.31	2015.12.31	Change Amount	%
Current assets				
Cash and cash equivalents	4,961.55	4,917.54	(44.00)	-1%
Short-term investment	200.45	140.00	(60.45)	-30%
Receivable	2,390.09	1,754.18	(635.90)	-27%
Inventories	33.87	10.96	(22.90)	-68%
Prepaid expense	546.61	384.12	(162.50)	-30%
Total current assets	8,132.56	7,206.80	(925.76)	-11%
Non-current assets				
		1,411.71	1,411.71	100%
Fixed assets	421.07	308.64	(112.43)	-27%
Other fixed assets	(164.17)	(168.63)	(4.46)	3%
Accumulated depreciation	256.90	1,551.72	1,294.82	504%
<b>Total non-current assets</b>	<b>8,389.46</b>	<b>8,758.53</b>	<b>369.07</b>	<b>4%</b>
Total assets	61.72	415.54	353.82	573%
Equity and liabilities	4,088.41	4,531.62	443.20	11%
Short-term payables	4,150.13	4,947.15	797.02	19%
Reserves	3,500.00	3,500.00	-	0%
Total liabilities	739.33	311.37	(427.95)	-58%
Equity	4,239.33	3,811.37	(427.95)	-10%
<b>Retained earnings</b>	<b>8,389.46</b>	<b>8,758.53</b>	<b>369.07</b>	<b>4%</b>

# HUMAN RESOURCE

The company's key to and bases of success is our multi-skilled and honest employees with high level of professionalism, work ethic and performance.

At the end of 2014, the company operated with 100 employees whereas at the end of 2015, the company operated with 98 successful employees. 30 percent of our workforce work at the head office in Ulaanbaatar and the rest 70 percent of our workforce work across 21 provinces and 3 branches in Ulaanbaatar city, providing insurance services to our customers and insurers.

## GENERAL HUMAN RESOURCE STATISTIC

	2014	2015
Number of employees	100	98
Rural and country branches	80%	70%
Head office	20%	30%
Employee gender ratio	male/female	
Branches	40:60	34:66
Head office	29:71	30:70
Average age of employees	34-41	26-33

The company provided training sessions, not to increase the number of employees as the purpose, but to develop and expand its employees', new and old, knowledge and professional skills further more.

Employees of the company are covered by retirement fund services in cooperation with Ard Active ADI.A in which a tripartite contract is established between employee, company and unions. The contracts enabled employees to receive a long-term savings account and a low interest loan services.

The employees working at the head office are covered for preventative health and medical checkups at "UB Songdo" Hospital.

The company team successfully participated in sports competition held between various insurance companies for Insurers Day by winning first place in the table tennis category and won a gold medal.

During the reporting period, the FRC awarded 3 outstanding employees with "Honorary Certificate". The Mongolian Insurers Association awarded 1 outstanding employee as the "Indemnity Manager of the Year" and 1 more outstanding employee was awarded "The Financier of The Year"

## THE HONORARY CERTIFICATE OF FRC



Department of Financial  
Administration – Director  
Battengel. T



General Insurance Manager  
– Battulga.D



Manager of Emergency  
Team – Altansoyombo.G

## MONGOLIAN INSURERS ASSOCIATION AWARDS



"The Financier of the Year"  
Head of Accounting  
Department – Angarag.D



"Indemnity Manager of the Year" Indemnity  
manager - Battsetseg.B

## SOCIAL RESPONSIBILITY AND COOPERATION

- In 2015, the company paid 318 million MNT in tax and accumulated MNT 207 million in social insurance. As our social responsibility, we donated MNT 15.4 million to governmental and non-governmental agencies/entity's operations with purpose to better and improve society.



- The company distributed 250 gifts to "SOS – children's town" orphanage in Dari-Ekh, and spent the day with the kids. .



- We put our contribution in the development of classical art by sponsoring the brand new opera "Lucia di Lammermoor", performed in Mongolian State Academic Theatre of Opera and Ballet.
- We gave our full support to Javzmaa.O / athlete of national wrestling team, wrestler of Ard financial group/ by sponsoring her in the World Championship of Judo.
- We took part in organizing 4x4 off-road racing competition in cooperation with off-road amateur club, where we worked as a general sponsor.
- As an organization, we joined together in the aid campaign for a girl who suffered a major burn throughout her body and volunteered to give her a financial donation.



- We sponsored the 106th and 107th secondary schools soccer teams, located in Songinokhairkhan district, in the "Sensation-2020" kids football competition, which is organized nationwide by "The Sensation of Great Step" non-governmental organization.

The team of 107th secondary school won the first place in girl's category for 11 year olds and was awarded with a trophy. The team of 107th secondary school won the third place in girl's category for 13 year olds and prized with bronze medals.



- We sponsored the arrangement of the pavilion for Mongolia at the international fine art exhibition-"Nord Art 2015", held in Buldesdorf, Germany. During the exhibition, the art works of 250 artists from 50 countries were shown to the audience of 8000.
- "The green light, white line" is a campaign that gives knowledge about basic traffic regulation and how to safely engage in traffic to school aged children. This year, our employees successfully sponsored the campaigns that took place in provinces of Selenge, Gobi-Altai and Gobisumber.

# AUDIT REPORT

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF ARD DAATGAL LLC

#### Report on Financial Statements

We have audited the accompanying financial statements of Ard Daatgal LLC, which comprise the statement of financial position as at December 31, 2015, and the statement of profit or losses and other comprehensive income, statement of the changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of these financial statements in accordance with the Accounting Law and a set of insurance regulations that are effective in Mongolia, 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.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### AUDITOR'S OPINION

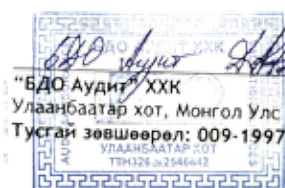
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ard Daatgal LLC as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and a set of insurance regulations that are effective in Mongolia.

### OTHER MATTERS

Mongolian parliament has approved law on Supporting Economic Transparency (tax amnesty program) on 7 August 2015 which would be effective from date of approval to 20 February 2016. In accordance with this law, it is prohibited to disclose name of any applicants those who submitted an one-off disclosure return for any of historical non-compliances for the scope and purpose of the law. Thus, we have not reviewed whether the Company has submitted disclosure in the scope of this law and we have not performed any audit procedure addressed any adjustment made to the period prior to 1 April 2015.

### USE OF THIS REPORT

This report is made solely to the shareholders of "Ard daatgal" LLC, as a body, in accordance with Article 95.1 of Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Огноо: 2016.04.15

## INDEPENDENT AUDITOR'S ADDITIONAL REPORT ON LEGAL AND REGULATORY REQUIREMENTS

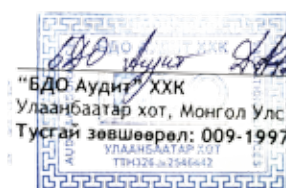
### Report on Other Legal and Regulatory Requirements

We have audited the financial statements of Ard Daatgal LLC which comprise of the Statement of Financial Position as at 31 December 2015, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended and notes to the financial statements and issued an auditor's opinion.

In accordance with Law of Mongolia on Insurance, we reviewed the financial activities of Ard Daatgal LLC for compliance with Mongolian laws and a set of insurance regulations.

During our audit work, we performed various tests to review whether the company complies with rules and regulations on financial reporting process of insurance companies as issued by the regulatory body. Based on our review, except for matters described in a paragraph below, nothing has come to our attention that the Company's financial activities are not in compliance with laws and rules that are effective in Mongolia.

- The Company estimated Contingent loss reserve in accordance with "Rules to estimate, control, distribution of general insurance reserves" approved by resolution No. 232 of FRC Mongolia and result of the estimation is considered to be additions to balance of contingent loss reserve.



Огноо: 2016.04.15

FINANCIAL STATEMENT FOR THE YEAR ENDED  
31 December 2015 (MNT)

ASSETS	AT 31 DEC 2015	AT 31 DEC 2014
Property, Plant and Equipment	1,551,723	256,902
Prepayments and prepaid expenses	384,116	546,614
Inventories	10,961	33,865
Trade and other receivables	1,754,184	2,590,534
Financial assets-Held to maturity	140,000	-
Cash and cash equivalents	4,917,542	4,961,545
<b>Total assets</b>	<b>8,758,526</b>	<b>8,389,460</b>
EQUITY AND LIABILITIES		
LIABILITIES	AT 31 DEC 2015	AT 31 DEC 2014
Unearned premium	3,160,959	2,510,042
Contingent loss reserve	712,503	762,263
Incurred but not reported reserve	658,155	816,109
Reported but not settled reserve	-	-
Payable to re-insurer	284,867	-
Trade and other payables	67,995	4,153
Taxes payable	16,223	14,996
Other taxes payable	46,452	42,570
<b>Total liabilities</b>	<b>4,947,154</b>	<b>4,150,133</b>
Equity		
Share capital	3,500,000	3,500,000
Retained earnings	311,372	739,327
<b>Total equity</b>	<b>3,811,372</b>	<b>4,239,327</b>
<b>Total equity and liabilities</b>	<b>8,758,526</b>	<b>8,389,460</b>

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015

	SHARE CAPITAL	RETAINED EARNINGS	TOTAL
<b>Balance at 31 January 2013</b>	<b>2,750,000</b>	<b>1,175,575</b>	<b>3,925,575</b>
Current year profit	-	313,752	313,752
Retained earnings converted into share capital	750,000	(750,000)	-
<b>Balance at 31 December 2014</b>	<b>3,500,000</b>	<b>739,327</b>	<b>4,239,327</b>
Current year profit	-	(213,955)	(213,955)
Dividend allocated	-	(214,000)	(214,000)
<b>Balance at 31 December 2015</b>	<b>3,500,000</b>	<b>311,372</b>	<b>3,811,372</b>

\* FRC Mongolia has issued resolution No. 445 dated 17 December 2015 to postpone increase of minimum share capital until 1 July 2016 due to current economic condition and solvency issues of insurance companies.

INCOME STATEMENT FOR THE YEAR ENDED  
31 December 2015 (MNT)

	2015	2014
General insurance premium	9,159,627	9,806,255
Re- insurance premium	(1,841,975)	(1,816,253)
Premium returned	(239,054)	(94,660)
<b>Net insurance premium</b>	<b>7,078,598</b>	<b>7,895,342</b>
Changes in Unearned premium reserve	650,916	523,391
<b>Total earned premium</b>	<b>6,427,682</b>	<b>7,371,951</b>
<b>Total claims paid</b>	<b>(3,828,560)</b>	<b>(3,095,302)</b>
IBNRR*	(2,010,523)	(1,380,752)
CLR**	(103,263)	(1,741)
EP***	(1,714,774)	(1,712,808)
IBNRR charged	(1,852,568)	(1,474,164)
RBNSR charged from Unearned premium	-	-
CLR charged	(53,504)	(233,823)
<b>Total insurance premium</b>	<b>2,806,836</b>	<b>3,951,156</b>
Personnel cost	(1,249,633)	(1,416,565)
Other costs related to insurance contracts	(1,390,184)	(1,283,992)
General and administrative expenses	(1,115,980)	(1,403,024)
<b>Operating gain /(loss)</b>	<b>(948,961)</b>	<b>(152,425)</b>
Financial income/(expenses)	681,937	783,271
Other income, (expenses)	134,332	(245,425)
Other gains, (loses)	(23,217)	(9,311)
<b>Profit before tax</b>	<b>(155,909)</b>	<b>376,110</b>
Income tax expense	(58,046)	(62,358)
<b>Net profit</b>	<b>(213,955)</b>	<b>313,752</b>

\* IBNRR – Incurred but not reported reserve

\*\* CLR – Contingent loss reserve

\*\*\* EP – Earned premium

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
<b>Profit before tax</b>	(155,909)	376,110
Adjustments for:		
Depreciation and amortisation	96,258	53,826
Gain from /(loss on) disposal of PPE	21,819	9,311
Bonuses provide in kind	8,375	-
<b>Operating profit before changes in working capital</b>	(29,457)	439,247
<b>Changes in working capital:</b>	293,752	(1,338,769)
Changes in premium receivables	485,386	(79,399)
Changes in other receivables	214	30,249
Changes in other taxes and charges receivables	162,498	(8,224)
Changes in prepayment and prepaid expenses	22,904	(3,650)
Changes In inventories	650,916	523,391
Changes in unearned premium	(157,954)	93,411
Changes in incurred but not reported reserve	(49,760)	232,081
Changes in contingent loss reserve	58,444	(1,324)
Changes in trade and other payables	284,867	-
Changes in payable to re-insurer	3,882	42,570
Changes in other tax payables	1,755,149	(509,664)
<b>Changes in operating active and passive</b>	1,725,692	(70,417)
Corporate income tax paid	(56,818)	(24,859)
Interest income	(580,458)	(758,111)
Interest received	656,381	752,708
	19,105	(30,262)
<b>Net cash flows from operating activities</b>	<b>1,744,797</b>	<b>(100,679)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Property, plan and equipment	(1,447,800)	(32,371)
Acquisition of investment	(140,000)	-
Financial assets matured	-	300,000
<b>Net cash flows from investing activities</b>	<b>(1,587,800)</b>	<b>267,629</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued	-	-
Dividend allocated	(214,000)	-
	-	-
Proceeds from borrowings from commercial bank	13,000	-
<b>Net cash flows from financing activities</b>	<b>(201,000)</b>	<b>-</b>
<b>Net cash flows</b>	<b>(44,004)</b>	<b>166,950</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>4,961,545</b>	<b>4,794,595</b>
<b>Cash and cash equivalents at end of the year</b>	<b>4,917,542</b>	<b>4,961,545</b>



## NOTE







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