

UNOFFICIAL TRANSLATION

**JOINT RESOLUTION OF THE PRESIDENT OF MONGOLIA AND
THE MINISTER OF FINANCE**

11 Aug, 2010

No 475/182

Ulaanbaatar city

Amendment to the regulation

The resolution is issued based on the clause 1 of the article 2 of the section 28 of the “Law of Central Bank” and on the article 6 of the section 35 of “ Law on Banking”

1. The regulation of “Assets classification, establishment and use of assets’ risk fund” is amended as shown in the annex.

2. The regulation will be valid from 16 Aug, 2010

3. Should not be considered as re-conditioned loans in accordance to the article 2.9 of this regulation if changed before 1 July 2010, if met one of the below said conditions.

1) The initial loan term from loan disbursement day to last repayment day is not more than 1 year and re-scheduled term not more than initial loan term,

2) The initial loan term from loan disbursement day to last repayment day is more than 1 year and rescheduled term is not more 50% of the initial loan term.

4. The loans re-conditioned before 1 July, 2010 should be classified as followings if met one of the following conditions

1) The initial loan term from loan disbursement day to last repayment day is not more than 1 year and the rescheduled loan term is more than the initial term, the rescheduled loan term should be equal to the initial loan term.

2) The initial loan term from loan disbursed date to last repayment day is more than 1 year and if rescheduled term is more 50% of the initial loan term, the the rescheduled loan term should be equal to 50% of the initial loan term.

5. The articles 2.12, 2.16 of this regulation, must be validated from the 1 Jan, 2011 for the loans disbused before 1st July, 2010.

6. In relevance of this regulation, the joint resolution of the President of Mongol Bank and the Minister of Finance 459/207 in 2004, 147/94 in 2006 and 125/50 in 2009 are invalidated.

7. The Board of Directors and Chief Executive Officers shall follow this regulation.

8. The Supervision department of Mongol Bank (B. Lkhagvasuren) and finance and economic policy department of the Ministry of Finance (B. Batbayar) should take responsibility for supervision of the implementation of this regulation.

PRESIDENT OF MONGOL BANK

L.PUREVDORJ

MINISTER OF FINANCE

S. BAYARTSOGT

ASSETS' CLASSIFICATION, ESTABLISHMENT AND USE OF THE ASSETS' LOSS PROVISION FUND

ONE. General provisions

- 1.1 This regulation is issued based on the articles 5,6 of the section 35 of the “Law on Banking” and article 1 of the section 27 of the law of savings, payments and loans of banks and licensed legal entities. The regulation shall be required to adhere to classify and to secure possible loss in paying loans and other assets same as loans (hereinafter to be called as “Loans” and guarantee, circular note and other possible obligations (hereinafter to be called as other possible obligations) of banks and non bank financial institutions (hereinafter to be called as “lender”) and Bonds of Mongol Bank , government bond up to 1 year term, other securities other than securities of bank restructure (hereinafter to be called as securities), overdraft, other owned fixed assets, receivables other assets same as receivables (hereinafter to be called as “other assets”) shall be required to adhere to establish and use of the loss provision fund to prevent from the possible loss.
- 1.2 The lender shall classify loans, securities, possible obligations and other assets in accordance to the terms of quality indicators given in the annex of the regulation and to establish the loss provision fund.
- 1.3 The lender should assess the risk of assets and establish assets' loss provision fund and this assets' loss provision fund shall not be less than as said in this regulation.
- 1.4 This is prohibited to use the loss provision fund established to secure loans, securities, possible obligations and other assets' other than stated in this regulation.
- 1.5 The terms and terminologies used in this regulation shall be understand in the following ways:
- 1.5.1 “possible obligations” shall be understand as stated in the article 1 of the section 5 of the “Banking Accountanting Standards” regulation.
- 1.5.2 “assets” shall be understand as liabilities that borrower obligated in a form of loans, securities, possible obligations and other assets ,
- 1.5.3 “obligator” shall be understand as an entity or individual who obligates to repay back loans, securities, possible obligations and other assets ,
- 1.5.4 ”overdraft” – shall be understand as short term loans within given maximum limit to withdraw more than the amount in an account.

TWO. Assets classification

2.1 The lender shall classify loans, securities, possible obligations and other assets in accordance to the terms and quality indicators as shown below

2.1.1 Current ;

2.1.2 Default ;

2.1.3 Non qualified ,

2.1.3.a non current ;

2.1.3.6 doubtful ;

2.1.3.B loss/bad .

2.2 The lender shall classify assets other than owned fixed assets by terms and quality and other owned fixed assets shall be classified only by term indicator. After classification by terms, it shall be classified by its quality. For obligators which has no financial statements the quality assessment shall be done in accordance 1st and 3rd sections of 1b annex and total points shall be multiplied by 2 to identify total quality score.

2.3 Assets shall be classified in accordance to the indicators 1a, 1b, 2a, 3a and 4a as shown in the annex.

2.4 Assets quality shall be assessed using the indicators included in the annex 1b.

2.5 Assets' classification shall include total quality score. Total quality score shall not exceed 50 points. The term classification shall not be changed if the total quality score is in range of 45-50. The term classification will be reduced by one level if total quality score is in a range of 30-44, will be reduced by two levels if total quality score is in a range of 0-29.

2.6 If the obligator's repayment capacity is lost, bankrupted, the classification depends on the value of collateral. If the value of collateral is enough to cover not less than 75% of total loans outstanding and interest rate, it shall be classified as doubtful , if not enough it shall be classified as loss/bad.

2.7 The lender shall request the borrower's financial statement quarterly in order to assess the quality of assets and shall require to have audited financial statements annually.

2.8 The loan loss provision fund established 100% for the assets suspected by court legally as a crime case.

2.9 Assets shall be considered as re-conditioned if repayment period is prolonged, interest rate is decreased, the principal amount per installment is reduced, accumulated interest rate is reduced and waived due to the worsened financial capacity or no repayment capacity as to the initial contract.

2.10 The lender is prohibited to receive repayments from earned interest rate of loans, securities and other assets and deposits. If repaid in this way, it shall be considered as re-conditioned loans, securities and other assets.

- 2.11 If the re-conditioned loans are classified in accordance to this regulation as current and default loans, those assets shall be re-classified as non current.
- 2.12 The lender shall re-classify assets if the obligator and its relevant parties' obligations in other banks are classified as defaulted. This re-classification shall not be higher than one level of the obligator and relevant parties' assets classification in other banks.
- 2.13 If the assets are guaranteed through inter banks markets, or deposited as liability and the assets term and quality are classified as current and default, it shall be re-classified as non current.
- 2.14 If the assets classification is lowered, it can be highered only in case the principle and interest rate are paid on time as scheduled not less than one year after lowering the classification and the amount should be not less than total obligated amount from the day of lowering classification till end of the repayment day.
- 2.15 If the banks finance one project jointly by loans, securities and possible obligations, the supervision of the loans, securities and the possible obligations can be done by one of the banks and the relevant contract shall include the supervision authority.
- 2.16 If the bank violated the limit set in the 17.3th article of the "Banking law", the loss provision fund shall be established as expenses by the higher amount of the sum of exceed amount of loans, and assets same as loans, guarantee and given to the related parties and by the sum exceeded amount of loans, and assets same as loans, guarantee and given to the other related parties. In order to identify the amount of the loss provision fund establishment to calculate the limit in accordance to the "Banking law", shall be based on the equity after establishment of the loss provision fund as stated in this regulation and after doing other adjustments to the equity.
- 2.17 The bank shall report to the Credit Information Bureau of the Mongol Bank about the borrowers' status honestly if assets' classification is changed.

THREE. Establishment and use of assets' loss provision fund

- 3.1 The lender shall establish assets' loss provision fund by the percentage stated in the 3.2 of this regulation as expenses.
- 3.2 The assets' loss provision fund shall be established by the outstanding balance per assets by the following percentage.
- 3.2.1 Current 0 %;
- 3.2.2 Default 5 %;
- 3.2.3 Non qualified assets, out of them :
- 3.2.3.a non current 25%;

3.2.3.b doubtful 50 %;

3.2.3.c loss 100 %.

3.3 The following main principles shall be followed to classify assets:

3.3.1 Loss provision fund will not be established to include current assets first time in the financial statements. Loss provision fund shall be established only in case if it is verified by the evidence that the obligator lost its repayment capacity fully or partially by the possible loss.

3.3.2 The establishment, use of loss provision fund and transactions from loss provision fund shall be done in accordance to the accounting procedure set by Mongol Bank.

3.3.3 If the types of assets changed, needs to keep the classification before changing type , and based on that next classification can be done.

3.3.4 If shares and other securities are entered in non commercial account, the loss provision fund shall be established by the difference of the initial price of shares and market price in the reporting period.

3.3.5 If 1.1, 1.3, 1.4, 1.5.1, 1.5.2, 1.5.3 of the annex 1 and documents stated in 1.6 are missing, the file quality is rated as to be “ Zero”.

3.3.6 In the following cases, the obligator’s financial capacity points should not exceed 19.

3.3.6.a One of the ratios in 2.1.2 and 2.4.1 of the annex less than other;

3.3.6.b One of the ratios 2.1.1, 2.1.2, 2.2.3, 2.3.1 of the annex and 2.4.1 decreased more than 30% from the previous reporting period.

3.3.6.c If 2.1.5 of the annex is negative ;

3.3.7 The obligator’s financial capacity points should not exceed 4 points if one of the ratios of 2.1.2 and 2.1.4 of the annex are negative.

3.3.8 The points for other quality indicators states 1v annex should not exceed 9 if the next conditions apply :

3.3.8.a The ownership right of the collateralized assets not fully transferred to the lender;

3.3.8.b The guarantor for assets lost its repayment capacity;

3.3.8.c The obligator is rated CCC+ or less by internationally accepted rating agency (standard and Pruis or any other rating agency compared to S&P)

3.4 Every time when the lender changes the classification of assets, the loss provision fund shall be established by the percentage stated in the article 2 of the section 3 of this regulation. If loss provision fund was established less than required , it shall be added as

expenses, if established more than required , it shall be deducted from expenses' account , if the amount exceeds it shall be covered from the other income account.

- 3.5 The lender can only deduct the assets in the following conditions based on the following documents:
- 3.5.1 By the decision of BoD of bank if the obligator didn't repay fully after 180 days of court decision;
- 3.5.2 By the court decisions, if the obligator will be responsible only for some portion of repayment, the other portion can be deducted. ;
- 3.5.3 By the resolution of judge, by senior executer about the suspension of the court decision implementation.;
- 3.5.4 By the CEO's decision if assets are less than 1% of the equity, by the BoD decision if the assets are more 1% of the equity after half year of classification as loss in the condition if it was not possible to make a court decision.
- 3.6 The lender shall classify the possible obligations not entered in the balance sheet, and loss provision fund shall be established in accordance to the 3.2 of this regulation and account shall be opened in the loss provision fund.
- 3.7 If the obligator is a shareholder of the lender, 3.2.1 of this regulation will not apply and if the shareholder can not repay back first collateral should be sold out, if income from collateral is less than total amount of principle and interest rate , shares should be sold to the lender to repay back assets.
- 3.8 If loans, securities and other assets are written off from balance sheet, they shall be entered into out of balance account , should intensively work to get it paid.
- 3.9 If the written off loans, securities and other assets are paid back , it shall be entered into other non operational income account.
- 3.10 Banks shall submit monthly reports of assets' classification before 5th of next month to the supervision department of Mongol bank in accordance to the annex 5a.

FOUR. Supervision, responsibility

- 4.1 The lender's management has responsibility to set an appropriate mechanism to monitor the risks of assets.
- 4.2 Assets shall be classified in accordance to the term and quality indicators, and loss provision fund shall be established based on the percentage set in this regulation. Establishment and use of the fund shall be supervised by the internal auditor of the lender and shall be reported to Board of Directors.

4.3 Mongol Bank can increase the percentage of loss provision fund set in 3.2 of this regulation. If the fund size is established more than set in this regulation, the justification should be provided and documented.

4.4 Mongol bank shall do on-site and off-site supervisions to check whether the bank taking appropriate actions to protect its assets and to check whether the assets' classification is done properly.

4.5 Mongol Bank should take legal actions for bank management, internal audit department, assets and liability committee if during the on site and off site supervisions identified that assets are not classified in accordance to this regulation and misused

1a annex

Table of loan classification by terms

<i>Classification</i>	<i>Current</i>	<i>Default</i>	<i>Non current</i>	<i>Doubtful</i>	<i>Loss/bad</i>
-----------------------	----------------	----------------	--------------------	-----------------	-----------------

Term indicators	Principle and interest rate of loans are paid on time as scheduled .	Principle and interest rate are not paid up to 90 days	Principle and interest rate are not paid 91-180 days .	Principle and interest rate are not paid 181-360 days.	Principle and interest rate are not paid more than 361 days
-----------------	--	--	--	--	---

1b annex

Table of Overdraft and other non scheduled loans' classification

<i>Classification</i>	<i>Current</i>	<i>Default</i>	<i>Non current</i>	<i>Doubtful</i>	<i>Loss/bad</i>
Term indicators	Obligations are paid on time as scheduled .	Obligations are not paid up to 90 days	Obligations are not paid 91-180 days .	Obligations are not paid 181-360 days.	Obligations are not paid more than 361 days

2a annex

Table of securities classification

<i>Classification</i>	<i>Current</i>	<i>Default</i>	<i>Non current</i>	<i>Doubtful</i>	<i>Loss/bad</i>
Term indicators	Payment of securities and interest rate of securities are paid on time as scheduled .	Payment of securities and interest rate of securities are not paid up to 90 days	Payment of securities and interest rate of securities are not paid 91-180 days .	Payment of securities and interest rate of securities are not paid 181-360 days.	Payment of securities and interest rate of securities are not paid more than 361 days

3a annex

Table of other owned fixed assets' classification

<i>Classification</i>	<i>Current</i>	<i>Default</i>	<i>Non current</i>	<i>Doubtful</i>	<i>Loss/bad</i>
-----------------------	----------------	----------------	--------------------	-----------------	-----------------

Term indicators	Not sold out within 30 days after its ownership transferred	Not sold out within 31-60 days after its ownership transferred	Not sold out within 61-90 days after its ownership transferred	Not sold out within 91-120 days after its ownership transferred	Not sold out within 121 days after its ownership transferred
-----------------	---	--	--	---	--

4a annex annex

Table of other assets' classification

<i>Classification</i>	<i>Current</i>	<i>Default</i>	<i>Non current</i>	<i>Doubtful</i>	<i>Loss/bad</i>
Term indicators	Within 30 days	Not paid within 31-60 days	Not paid within 61-90 days	Not paid within 91-120 days	Not paid within 121 days

Annex 1b

TABLE OF ASSETS' CLASSIFICATION BY QUALITY

QUALITY INDICATORS		POINTS
1. Assets file completion	1.1. decision of the authorised body in accordance to the lender's regulation, lender's conclusion about obligator 1.2. Loan application 1.3. Amendments to the assets payment contract and other contracts 1.4. Resume, charter, founding contract and state registration certificate of of obligator 1.5. Collateral related materials: 1.5.1 Reference 1.5.2 Evaluation document 1.5.3 certificate of state registration if real state 1.5.4 examined document 1.6. Guarantee and collateral contract 1.7. Projects to be financed by loans possible obligations, securities and assets 1.7.1 if required to be approved by authorised body 1.7.2 Operational documents 1.7.3 changes in the project 1.7.4 documents relevant to the project 1.7.5 project and performance of planned work 1.7.6 relevant contract 1.7.7 source of assets repayment 1.8. financial statements 1.9.examination material for assets use 1.10. information about the lender from relevant information bureas	10
2. Financial performance of obligator	2.1 Payment capacity 2.1.1 Current assets /short term liabilities 2.1.2 (cash assets+short term investment +recievables)/short term liabilities 2.1.3 Total income /recievables 2.1.4 equity / assets 2.1.5 whether earn enough income from main operation 2.2 profitability 2.2.1 total profit /total income 2.2.2 total expenses /total income 2.2.3 return on assets 2.2.4 range of ROA 2.2.5 Return on equity 2.3 Assets management 2.3.1 turnover receivables /average/ 2.3.2 turnover receivables /end of reporting period	25

	/ 2.3.3 turnover of goods /average/ 2.3.4 turnover of goods /end of reporting period / 2.3.5 turnover of fixed assets 2.3.6 turnover of total assets 2.4 Liability management 2.4.1 profit before tax and interest rate /interest rate expenses 2.4.2 total liabilities /assets 2.4.3 short term liabilities / total liabilities	
3. Other	3.1 Collateral and guarantee 3.1.1 whether market price of collateral is enough to cover principle payment of assets and interest rate 3.1.2 whether ownership right is transferred to lender 3.1.3 whether assets has an external guarantor 3.1.4 if assets has a guarantor to check whether guarantor has payment capacity. 3.2 Information from CIB 3.2.1 whether has default loans 3.2.2 history of obligator 3.3 other information 3.3.1Information from rating agency 3.3.2 Information from audit agency 3.3.3Other (state and non governmental agency, public media) 3.3.4 general economic trend of sector which borrower operates	15
		50

Annex 5a

REPORT OF ASSETS' LOSS PROVISION FUND

Loans

(by thousand tugrug)

		Loans outstanding	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				
3	Non qualified a/ non current б/ doubtful в/ loss/bad				
4	Total (1+2+3)				

Securities

		Amount of securities	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				

3	Non qualified a/ non current б/ doubtful в/ loss/bad				
4	Total (1+2+3)				

Equity

		Amount of assets	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				
3	Non qualified a/ non current б/ doubtful в/ loss/bad				
4	Total (1+2+3)				

Overdraft and other assets

		Amount of overdraft and other assets	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				
3	Non qualified a/ non current б/ doubtful в/ loss/bad				
4	Total (1+2+3)				

Possible obligations out of balance sheet

(by thousand tugrug)

		Amount of possible obligations	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				
3	Non qualified a/ non current б/ doubtful в/ loss/bad				
4	Total (1+2+3)				

Loans to relevant parties and assets same as loans, guarantee

		Outstanding loans	Funds established in accordance to the regulations of Mongol Bank	Bank established funds	Surplus (+), deficit(-)
1	Current				
2	Default				
3	Non qualified				
	a/ non current				
	б/ doubtful				
	в/ loss/bad				
4	Total (1+2+3)				