

Unofficial translation

**REGULATION ON LICENSING
OF NON-BANK FINANCIAL INSTITUTIONS**

ONE.GENERAL PROVISIONS

- 1.1 The objective of this regulation is to regulate issues related with licensing to engage in Non-Bank Financial Activities by the Financial Regulatory Commission (hereinafter referred to as “Commission), establishment of non-bank financial institutions (hereafter referred to as NBFIs), it’s branches, carrying out other additional activities, amending paid in capital structure and size of a NBFI, giving permission to change the name, suspending and terminating validity of an issues license, renewing of license and other regulatory issues.
- 1.2 Non-bank financial institutions activities mean activities under the Non-bank financial activities Law.
- 1.3 Legal person granted a license to engage in non-bank financial activities from the Commission shall be considered as “NBFIs”.
- 1.4 If not provided in legal provisions otherwise, Commission shall apply the same principle and requirements for NBFIs as envisioned in this regulation regardless of paid in capital ownership, founding form and type of activity. If it considered necessary, Commission may impose policy, regulation or set limitations with regard to non-banking activities, assets and liabilities and other aspects.
- 1.5 NBFI with foreign investment means joint venture NBFIs with foreign citizens and legal persons; NBFIs established on the territory of Mongolia with investment from foreign citizens and legal persons; NBFIs which run their activities on the territory of Mongolia and shares of which are bought by foreign investors as stipulated in the Law on Foreign Investment.
- 1.6 Legal entities funded from state budget, religious and non-governmental organizations, charities are prohibited from investing into paid in capital of the NBFI and purchasing their stocks.

**TWO.REQUIREMENTS AND CONDITIONS
FOR ESTABLISHMENT OF A NBFI**

- 2.1.NBFI can be established directly by offering issuing/offering shares or by reorganizing (consolidation, merger, division, separation or transformation) in the form of Joint Stock Company)

hereinafter referred as to JSC), or a limited liability company (hereinafter referred as to LLC) as stipulated in Article 13 and 18 of the company law.

2.2. In the case NBFI is established in the form of JSC, documents stated in Article 2.3 of this Regulation shall be submitted to Commission, and after Commission makes a decision to grant a license its securities/shares shall be registered at Commission in accordance with the Article 5-9 of the Law on Securities and offered for public trading.

2.3. Legal persons applying to establish NBFI and carry out non-banking financial activities shall submit the following documents to Commission in compliance with article 11.1 of the law on Licensing of Economic Entities, Article 8, 9 and 10 of the Law on Non-banking financial Activities, and provisions of this regulation.

2.3.2. Original resolution from the founding members meeting to establish NBFI and engage in non-banking financial activities.

2.3.3. In case established by one founder copy of resolution for establishment

2.3.4. In case NBFI is established by more than one founder's, the original or certified copy of the resolution from the founding members meeting to establish NBFI and engage in non-bank financial activities.

2.3.5. The following information shall be covered in founder's resolution and related documents to be attached.

2.3.5.1. List of investors in the paid in capital of the NBFI.

2.3.5.2. Amount of authorized and outstanding shares, type of shares, nominal value, and amount of the shares purchased by the founders

2.3.5.3. If it is considered to have a Board of Directors to select members, and define the amount of the salary and incentive for them.

2.3.5.4. If it is considered to have a Supervisory Board to select members, and define the amount of the salary and incentive for them.

2.3.5.5. Provision for in relation to reimburse cost for establishing NBFI.

2.3.5.6. Original or certified copy of the company charter, operational guidelines, procedures and other regulatory documents approved by the meeting of NBFI founding members.

2.3.6. Notarized copy of registration by State Registration office of the General Department of National Taxation of the founders and legal entity.

2.3.7. The following shall be covered in the charter of the NBFI.

2.3.7.1. The NBFI's full name and [word or] abbreviation indicating its form of organization

2.3.7.2. permanent address of the NBFI

2.3.7.3. Management and structure of the NBFI

2.3.7.4. Number of the authorized common shares and amount of the paid in capital of the NBFI.

2.3.7.5. In case charter establishes preferred shares, the number of authorized preferred shares and rights of holders of such shares.

2.3.7.6. If the decided to have a Board of Directors, the number of its members;

2.3.7.7. Power of the Shareholders at a meeting of shareholders, or of the Board of the Directors or Supervisory Board, to extent such powers.

2.3.7.8. Types of business to be conducted by the NBFI

2.3.7.9. Condition for amending paid in capital structure and structure of stakeholders.

2.3.7.10. Power of management and its responsibilities, procedures to be applied excessive deals and dealt with conflict of interest.

2.3.7.11. Legal justification and other aspects provided in legal provisions for regulation of activities with regards to share trading, transfer, and reciprocal limitation.

2.3.7.12. Measurements needs to taken prior to request permission from the Commission and amend the structure NBFI in accordance with Company law.

2.3.7.13. Grounds for liquidation, principles and procedures to be applied for compensation of damages to individuals and clients incurred due to erroneous performance of NBFI management.

2.3.7.14. Other provision to be reflected in the relevant law.

2.3.8. Certificate providing the legitimate origin of monetary funds set aside for paid in capital of an NBFI from founding members.

2.3.9. Bank certificates and guarantees proving whether deposit of NBFI paid in capital is secured in banks.

2.3.10. Opening balance showing the minimum capital requirement for paid in capital as stipulated in NBFI legal provision.

2.3.11. Founding members, Chairman and members of Board of Director that fulfilled the requirements stipulated in Articles 13.5 and 13.6 of the Law on Non-Bank Financial Activities shall submit their information using the template format given in the Appendix 2 of this regulation.

a/ Management signed statement from the respective taxation authority indicating free of debt.

b/ Criminal record from the respective department of the General Police Authority.

c/ Notarized copy of diploma and national identification card

2.3.12. If due to particular reason resulted by specific norms of the foreign country, and NBFIs with foreign investment is not able to provide certificates stated in 2.3.11.a/, 2.3.11.b/, founding members shall submit a written explanatory notice on this matter.

2.3.13. Description of software, hardware and equipment, office premises shall be prepared in compliance with Appendix 4 of this Regulation, and original or certified copies of contracts concluded with other parties which covers how protection, security and safe operation of software, hardware and office premises is arranged.

2.3.14. Business plan shall be prepared on recommendations provided in Appendix 5 of this regulation.

2.3.15. If it is considered necessary other information and certificates as provided in legal provision of Anti-Money Laundering and Terrorism Financing.

2.4. The following additional requirements shall be applied for NBFIs owned by foreign investor:

2.4.1. At least 70 percent of employees to be composed of Mongolian citizens

2.4.2. In the case executive management is a foreigner, to employ full time professional interpreter.

2.4.3. When establishing a NBFIs with foreign investment and applying for a license to engage in Non-banking financial activities, documents stated in Article 2.3 shall be prepared in 2 copies in Mongolian, and if necessary translated documents shall be certified by notary.

2.4.4. If the Commission considered it is necessary to enquire relevant information shall contact the respective authorities for further details.

2.5. NBFIs granted license from FRC shall inform the FRC within 10 working days of each instance of changes made since the start of rendering non-banking financial activities in the information provided in original application documentation submitted in accordance with the Articles 2.3 and 2.4 of this Regulation.

**THREE. VERIFICATION OF THE DOCUMENTS
TO ESTABLISH
A NON BANK FINANCIAL INSTITUTION**

3.1 Based on the relevant legislation, the Commission shall undertake the following procedure of verifying documents presented by the founder (s) which are indicated in the current regulation.

3.1. The Commission shall review application documents for a licensing to engage in non-banking financial activities submitted from founders of NBFIs in accordance with this regulation and relevant legislations in following ways. Includes:

3.1.1. It shall review whether documents indicated in this regulation fully and completely submitted in accordance with this regulation.

3.1.2. It shall review that whether there is a payment slip or other equivalent evidence, which confirms that shareholders have met their obligation to invest their contribution to paid-in capital and purchased shares, as well as whether funding source of the founder (s) contribution is a profit from their operation.

3.1.3. The business plan of the NBFIs shall be reviewed against the fact that whether it is developed taking into account a density of local population, direction and scale of local production and services, actual requirements of deposit loan and fund placement and other external and internal factors. It shall also review and summarize whether study of impact on stabilization and acceleration of national economy.

3.1.4. It shall review that whether charter and, regulations and guidelines on business are in compliance with the legislation.

3.1.5. It shall review that founder (s), the chairman of the board of director, executive management, and staff of the NBFIs complies with legal and ethical requirements as well as criteria's of professional knowledge and work skills to undertake NBFIs business.

3.1.6. It shall conduct on-site inspection whether preparation of hardware, software and work place meet minimum requirements of reliable and secure non-banking financial activities and ready for appropriate operation and whether guards will be able to provide with responsible and reliable security.

3.1.7. It shall review whether internal audit system of the NBFIs and its principle of operation are systemized to meet minimum internal audit requirements and it

is capable of to identify and assess both loss and risk of loss, whether it has established dual audit system that will apply and audit to all levels of the management and reflect in detail its rights and responsibilities as they are indicated in the law, and whether internal audit management and staff have such knowledge and experience.

3.2. The Commission has the right to approach legal and tax authorities, audit, bank and other organizations to have reference and information on the required issues.

3.3. The Commission officially informs the founder (s) and requires additional documents, if documents submitted for NBFI foundation license are considered to be incomplete.

3.4. The Commission shall officially inform the founder (s) in written notice, in the case submitted documents incomplete, not satisfying the requirements, necessary to analysis it, and further verification required, reviewing process shall be counted from the date when founder (s) submitted complete and accurate information.

3.5. The Commission shall give written notice to the founder (s) prior to the Commission meeting, to place paid in capital monetary assets in the Commission relevant account. The Commission shall not pay interest for this fund.

3.6. A term of reviewing application of NBFI license shall not be longer than 3 months period of time, reviewing process shall be counted from the date when founder (s) submitted their documents to the Commission.

3.7. Application documents for license to engage NBFI did not submitted above mentioned time period the request shall be rejected.

FOUR. GRANTING AND REFUSING LICENSE TO ENGAGE IN NON-BANKING FINANCIAL ACTIVITIES

4.1. The FRC shall review documentations of application for a licensing to in engage in non-bank financial activities submitted from founder (s) in accordance with respective legislations and this regulation as well as to grant a license by the Commission meeting resolution.

4.2 Based Commission's policy, reflection of economic condition of the country, change of the exchange rate and solvency, the Commission may refuse to grant a license in certain activities to engage in non-banking financial activities under Law on Non-bank financial activities.

4.3. Particular field of non-banking financial activities shall be stated in the resolution to grant a license to engage in non-banking financial activities. If a license to engage in non-banking financial activities is granted for a certain period of time, the term shall also be stated.

4.4. Based on the decision to grant a license to engage non-banking financial activities and it shall open and maintain a file in accordance with appropriate guidelines.

4.5. Paid in capital monetary fund shall be transferred back to the NBFİ correspondent account after the NBFİ have requested in written form and non-banking financial activities license have finalized.

4.6. After the founder (s) granted a license to engage in non-bank financial activities from the Commission, NBFİ shall start its activities upon registering its license to State Registration office of the General Department of National Taxation and NBFİ(s) shall submit copy of notarized State Registration license, charter, original copy of the relevant procedures, or notarized copy, and contact made with the Credit Information Bureau of Bank of Mongolia.

4.7. The Commission shall refuse to issue license to engage in non-banking financial activities if founder(s) documents not satisfying Article 2.3 and 2.4 of this regulation and based on following:

4.7.1. It has been conformed that paid-up capital has been set up by loans.

4.7.2. It has been conformed that evidence for forgery of documents submitted.

4.7.3. The founder (s), chairman of the board of the director, members, and executive management shall not have overdue obligations under a loan or guarantee.

4.7.4. The founder (s), executive management shall not be under criminal investigation or not being sentenced by the court.

4.7.5. The founder (s), chairman of the board of the director, executive management shall not contradict with ethical and business reputation of the NBFİ.

4.7.6. Submitted applicant document for license to engage non-banking financial activities not complete, not satisfying the requirement of this regulation and since the requested date six months have been past.

4.7.7. Other requirements, which are indicated in this regulation has not been met.

4.7.8. In case the Commission refuses to issue a license to engage in non-banking financial activities shall inform the founder in written notice.

4.7.9. In case the Commission refused to grant a license on grounds of forgery of documents, a new application shall not be accepted from NBFI founder (s) and executive management within 1 year since the date of refusal.

FIVE. GRANTING ADDITIONAL LICENSE TO ENGAGE IN NON-BANKING FINANCIAL ACTIVITIES

5.1. NBFI fulfilling the following criteria can be granted additional license to engage non-banking financial activities.

5.1.1. All conditions and criteria stated in laws and regulations on non-banking financial activities fulfilled.

5.1.2. The NBFI had “good or satisfactory marks after the Commission on-site inspection and it has fulfilled the assignment given by the Commission.

5.1.3 Prudential ratio standards set by the Commission met and operation have stabilized consecutively over six months period.

5.1.4. Shall not conflict in carrying out the particular activity in terms of NBFI financing performance, solvency, business prestige, ethical behavior and reputation of founding members.

5.2. Additional non-bank particular activity shall be reflected in the application and additional licensing of NBFI and the following documents shall be submitted to the Commission.

5.2.1. Accordance with this regulation Appendix 1, application for the license to engage in non-bank financial activities.

5.2.2. Additional required amount of fund for the paid in capital and stakeholders meeting protocol on requesting additional license to engage in non-bank financial activities.

5.2.3. Original copy of charter with amendments;

5.2.4. Business plan with amendments and calculation of financial return.

5.2.5. Legal and policy papers to be pursued in carrying out this new particular activity non-bank financial activity.

5.3. The Commission shall review documents stated article 5.2 of this regulation and if decides that additional activities in particular activity mentioned in the relevant legislation, do not adversely affect financial performance of an NBFI, do not harm clients and customers, and hardware, software and staff are adequate for the intended activities, then it might be discussed at the Commission's meeting.

5.4. NBFI granted for additional license to engage in non-banking financial activities from the Commission shall make notation on the appendix of the certificate, after the NBFI authorized by the National Registration office of the General Department of National Taxation, shall submit the notarized copy of NBFI certificate registered at the State Registration, renewed and amended charter and notarized copy or original copy of legal and policy paper.

5.5. In case the Commission refuses to grant an additional license to engage in non-banking financial activities shall inform the founder by in written notice.

5.6. Based on the Commission's decision to refusal to grant particular and additional license to engage in non-bank financial activities after the violations have cleared another application for particular and additional license from NBFI can be submitted again.

SIX. GIVING PERMISSION TO RESTRUCTURE SHAREHOLDER AND CHANGES TO BE MADE IN SIZE AND STRUCTURE OF THE PAID-IN CAPITAL

6.1. Size of the NBFI paid-in capital, structure, composition of shareholder shall be changed as follows.

6.1.1. Shareholder(s) additional investment to the paid-in capital shall be comprised from the cumulative profit which resulted from the conducting non-banking financial activities.

6.1.2. Shareholder(s) cash assets invested to the paid-in capital shall not be comprised from the cumulative profit which resulted from the conducting non-banking financial activities.

6.1.3. By issuing new shares and enrolling new members

6.1.4. By inhering the shareholders (s) assets to other, give as a gift and to make contract change the paid-in capital and composition of shareholders.

6.1.5. The Commission shall permit to decrease the size of the paid-in capital, if it is not contradict with the relevant legislation, and shall not adversely impact on financial performance and solvency of NBFI, no damages will occur for shareholders and customers, no indication showing evasion from liabilities and responsibilities in accordance with the relevant legislations.

6.2. NBFI shall inform the Commission every time changes made in the paid-in capital and composition of the shareholder(s), in order to get permission from the Commission in accordance

with the above changes, prior to making any transactions and payments shall submit above mentioned documents to the Commission.

6.2.1. Official letter for request

6.2.2. Evidence that confirms compliance with Law to make changes or decision of shareholders meeting that has authorized an issuance of new or additional shares, report from the NBFIs or stock exchange related agreement or evidence that confirms ownership right was inherited gifted and bequeath in accordance with the Civil Law of Mongolia.

6.2.3. Certificates for new shareholders of NBFIs from the relevant bodies as stated in Article 2.3.11a, 2.3.11b of this regulation also in accordance with this regulations second appendix, shall submit the evidence conforming proof of legitimacy of founding source to be used for investment into paid-in capital, origin of the cash in the paid-in capital, as stated in the Article 2.3.11b, 2.4.3 of this regulation.

6.2.4. In relation to additional amendments to be made into charter of NBFIs as result of changes in size, structure of paid-in capital and composition of shareholder(s) and founders contract for cooperation.

6.2.5. For the NBFIs established in the form of Joint Stock Company, certification from the Clearing, Settlement Center and Depository House, and a coupon showing balance of shareholders account.

6.2.6. In case the Commission considered it is necessary, information and certificates as provided in the legal provision on Anti-Money Laundering and Terrorism Financing.

6.3. The Commission's authorized department prepare proposal and conclusion and shall review the application for changes to be made in the size and structure of paid-in capital, if it considered that documents mentioned in Article 6.2 of this regulation fulfill the requirements prior to submitting to the Chairman shall give written notice to NBFIs shareholders to secure increased share capital in account under FRC control. The Commission shall not pay interest for this fund.

6.4. Shall review the application from NBFIs for changes to be made in the size and structure of paid-in capital, inspect necessary matters on-site and then shall prepare proposal and conclusion for the Chairman of the FRC. The FRC Chairman shall make the final decision on whether changes to the size and structure of NBFIs can be made.

6.5. After NBFIs permitted to increase the size of the paid-in capital and structure from the Commission shall request it in written form to transfer the cash for increasing the paid-in capital to NBFIs correspondent account.

6.6. Changes made in the composition shareholders and size of the paid-in capital occurred shall make notation on the appendix of the certificate, after the NBFIs authorized by the National Registration office of the General Department of National Taxation, shall submit the notarized

copy of NBF certificate registered at the State Registration, if the Commission considered it is necessary then shall request renewed and amended charter and notarized copy or original copy of legal and policy paper.

6.7. In case the size of the paid-in capital increased during the operation from the shareholders non-banking financial activities this regulation Article 6.3, 6.5 irrespective, after the NBF granted to increase the paid-in capital shall submit following relevant documents to the Commission it includes; copy of accounting transaction documents to increase the paid-in capital of the NBF.

6.8 The Commission shall make the decision in 30 calendar days whether to changes to the size, structure of NBF can be made.

SEVEN. GRANTING AND REFUSING TO ENGAGE IN SUBORDINATED DEBT

7.1. “NBF subordinated debt” shall mean a convertible bond which is generated asset of the investors as a financial source of more than 5 years duration; the Commission gives the permission based on the shareholders meeting resolution.

7.2. Based on the shareholders meeting’s resolution the Commission shall give the permission for convertible bond and subordinated debt of NBF liquidated in accordance with the Non-banking financial activities law, license has suspended to engage in non-banking financial activities, bankrupted, become insolvent, shall be prohibited to liquidated prior to time unless its restructured.

7.3. Shall inform the Commission every time NBF generates asset from the subordinated debt and prior to making any payment shall submit following document to the Commission.

7.3.1. Official letter for request

7.3.2. Shareholders meeting protocol and resolution or verifying document stating it is legitimate to generate asset from the subordinated debt as well as contract for the subordinated debt.

7.3.3. A citizen investing through contract of subordinated shall obtain reference from a legal person in accordance with this regulation second appendix and shall submit following documents and references.

a/ Management signed statement from the respective taxation authority indicating free of debt.

b/ Criminal record from the respective department of the General Police Authority.

c/ Notarized copy national identification card

7.3.4. Origin of the cash capital and documents proofing net profit generated from the legal operation.

7.4. Shall review the application for subordinated debt and supporting documents submitted from NBFi, inspect necessary matters on-site and then shall prepare proposal and conclusion for the Chairman of the FRC. The FRC Chairman shall make the final decision on whether changes to the size and structure of NBFi can be made

7.5. The Commission shall refuse to grant license if the NBFi not fulfilled the requirements in accordance with Article 7.2 of this regulation.

**EIGHT. GIVING AND TERMINATING PERMIT
FOR NON-BANKING FINANCIAL INSTITUTIONS
TO OPEN A BRANCH UNIT**

8.1. NBFi may have a branch office and these branches may not have the legal authority, basis of the operation shall be based on the trust and NBFi unit shall only use the name of the NBFi itself.

8.2 “NBFi branch” mean a unit located in a place other than the principal place of business of the NBFi that may perform the principal functions of the non-banking financial activities.

8.3 “NBFi a representative” mean a unit located in a place other than the principal place of business of the NBFi that may undertake to protect the legal interests of the NBFi and conclude transactions on behalf of the company as its legal representative.

8.4. Non-banking financial activities shall get permission from the Commission and every unit shall have license.

8.5. The following documents shall be submitted to the FRC with the application for setting up a new branch:

8.5.1. Official letter for request

8.5.2. Shareholders meeting resolution describing scope of the activities for a branch and commitment to bear all the risk associated with the branch.

8.5.3. Legal and policy papers to be pursued in carrying out this particular activity in relation to establishing of unit, its power, duty, restructure, liquidate, and amendments to be made to the charter of the NBFi.

8.5.4. In case the internal control unit's powers and responsibilities are regulated by the charter of the NBFIs shall submit the amendments, internal control unit's regulation on supervision of the unit

8.5.5. In accordance with this regulation's third appendix shall provide human resource reference as well as to provide following references and documents.

a/ Management signed statement from the respective taxation authority indicating free of debt.

b/ Criminal record from the respective department of the General Police Authority.

c/ Notarized copy of diploma and national identification card

8.5.6. A description shall be made in accordance with Appendix 4 of this regulation and it should include in details how safety of hardware and software, working condition confidentiality, guard and security issues shall be solved and notarized copy of contract or original contract which has been made with other party in accordance with above mentioned requirements.

8.6. The FRC shall review the documents stated in Article 8.5 of this regulation and if decided that establishment of branch does not adversely affect financial performance of an NBFIs and that hardware, software and human resource are adequate for the intended unit activity, then inspect necessary matters on-site, and then shall prepare proposal and conclusion for the Chairman of the Commission. The Chairman shall make final decision.

8.7. Based on the FRC Chairman resolution with regard to open a branch and proof of payment of the service fee shall be placed into the FRC account in accordance with the relevant regulation.

8.8. The Commission shall make notation on the appendix of the license, after the NBFIs authorized by the National Registration office of the General Department of National Taxation, shall submit the notarized copy of NBFIs certificate registered at the State Registration, if the Commission considered it is necessary then shall request renewed and amended charter and notarized copy or original copy of legal and policy paper.

8.9. In each instance of establishment, liquidation, limitation, reorganization (consolidation, merger, division, separation, restructuring) of a branch, foreign currency unit, change of location (moving the location of one branch to another, transfer, swap in between branches), and the information shall be submitted to the FRC within 3 working days since the resolution date.

8.10. The Commission shall refuse to give permission to open a brunch office in case not fulfilled following duties.

8.10.1. Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments not fulfilled.

8.10.2. Failure to meet the prudential ratio standards set up by the Commission for 3 consecutive months.

8.10.3. It has been confirmed that evidence for forgery of documents submitted.

8.10.4. The branch management is not contradicting with the ethical behavior and business reputation.

8.10.5. Submitted applicant document permission to open a branch office not complete, not satisfying the requirement of this regulation and since the requested date 3 months have been past.

8.10.6. Not fulfilled this regulation condition and requirements.

8.11. In case refuse to give permission to open a brunch, the Commission shall inform the NBFi it in official letter.

8.12. A new application for setting up a branch shall be accepted by the Commission from NBFi, in case the later has fixed the refusal of justification.

8.13. The Commission shall not accept a new application for setting up a new branch from the NBFi within 6 months period since the day it has been confirmed that forgery documents submitted.

8.14. NBFi branch license shall be limited or suspended up to 3 months based on following:

8.14.1. Branch activity adversely affecting financial stability of the NBFi

8.14.2. Failure to meet the prudential ratio standards set up by the Commission for 6 consecutive months.

8.14.3. Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments are not fulfilled.

8.14.4. Not fulfilled this regulation condition and requirements.

8.14.5. Other instances provided in the legal norms and regulations.

8.15. In case branch license has been suspended, the NBFi has fixed basis of the suspension and it indicates that NBFi conducting normal operation then shall submit application for renewal for the license.

8.16. In following condition the Commission shall suspend license and confiscate the license.

8.16.1. NBFi management decision to liquidate branch

8.16.2. In case NBFi branch carries out activities clashing with the relevant legislation, failed to accomplish written requirements put forward from FRC and, and if it is considered that branch operations may have adverse impact on performance of NBFi, operations of the branch can be suspended based on the Commission chairman decision.

8.16.3. Renewal request for the branch license haven't been submitted to the Commission during the suspension period.

8.16.4. Other instances provided in the legal norms and regulations

8.17. A new application for setting up a branch shall be accepted by Commission from NBFi, in case the later has fixed the refusal justifications.

NINE. CHANGING THE NAME OF THE NON-BANKING FINANCIAL INSTITUTION

9.1 NBFi wishes to change the name; application shall be made to FRC and following supporting documents submitted:

9.1.1. Official letter for request

9.1.2. Resolution from the General Meeting to change the name of NBFi

9.1.3. A new name certificate obtained from the National Registration Office

9.1.4 Changes made into the by-law/charter of NBFi

9.1.5 Other necessary documents

9.2 The Commission Chairman shall make the final decision to allow change in name of NBFi based upon reviewing the application to change the name and consideration that the change of name will not have adverse impact on and confuse NBFi customers.

9.3 Based on the FRC Chairman's resolution with regard to change of name, and proof of payment of the service fee into the Commission account as stipulated in the Regulation on License Regulation Service Fee, the Commission shall make notation on the appendix of the certificate, after the NBFi authorized by the National Registration office of the General Department of National Taxation, shall submit the notarized copy of NBFi certificate registered at the State Registration, renewed and amended charter and notarized copy or original copy of legal and policy paper and the Commission shall take back NBFi license and issue a new one.

**TEN. SUSPENDING, RENEWING AND TERMINATING
LICENSE TO ENGAGE IN NON-BANKING
FINANCIAL ACTIVITIES**

10.1 The Commission shall suspend license to engage in non-banking financial activities up to 3 months in following instances:

10.1.1 It is considered that particular activity has a negative influence on financial stability of NBFIs;

10.1.2. Failure to meet the prudential ratio set up by the Commission and particular activity adversely affected 6 consecutive months, the particular activity shall be suspended.

10.1.3. Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments are not fulfilled.

10.1.4 Other provisions stated in legal norms and regulations

10.2. The Commission shall terminate license to engage in non-banking financial activities up to 3 months in following instances

10.2.1 Failure to meet prudential ratio standards set by FRC for 9 consecutive months;

10.2.2 Failure to submit financial statements to the Commission for 6 consecutive months;

10.2.3 Failure to meet minimum capital requirement for the paid-in capital by the Commission

10.2.4 Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments are not fulfilled.

10.2.5. Failure to pay the regulatory service fee which was set up the Commission without any respective reason.

10.2.6. Other grounds provided in legal norms and regulations.

10.3. In case branch license has been suspended to engage in non-banking financial activities and NBFIs has fixed violation that was the basis of the suspension and the NBFIs maintained normal operation then NBFIs shall submit application for renewing the license.

10.4 The Commission shall terminate a license to engage in non-banking financial activities in the following instances:

10.4.1. NBFİ requested.

10.4.2 Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments are not fulfilled.

10.4.3. During the suspension period failure to request renewal for engaging in particular activity of the non-banking financial activities.

10.4.4. Other grounds provided in legal norms and regulations

10.5. The Commission shall terminate a license to engage in non-banking financial activities for the NBFİ in the following instances:

10.5.1. NBFİ requested.

10.5.2. NBFİ bankrupted became insolvent, and liquidated, authorized bodies announced that NBFİ terminated and it announced by the general meeting;

10.5.3. It has been confirmed that forgery of documents has been submitted to get a license.

10.5.4. Have severely violated the condition and requirements of the license.

10.5.5. Failure to launch operations within 1 year since registration with the National Registration.

10.5.6. Had received not satisfactory or bad marks after the Commission's on-site inspection and given assignments are not fulfilled.

10.5.7. Failure to meet prudential ratio standards set by FRC for 12 consecutive months

10.5.8. Failure to submit financial statements to Commission for 9 consecutive months.

10.5.9. During the suspension period failure to request renewal for engaging in particular activity of the non-banking financial activities.

10.5.10. Other grounds provided in legal norms and regulations

10.6. In case the license is terminated, the license shall be called off, invalidated and included into NBFİ files and transferred for archiving in accordance with relevant procedures.

10.7. In case license of NBFIs has been terminated, the application for a new license shall not be accepted within 1 year from NBFIs founding members, and upon completion of this period the application shall be submitted anew with all supporting documents as provided in this regulation.

10.8. The Commission is not liable for any loss resulted from suspending and terminating to engage in non-banking financial activities.

10.9. NBFIs shall be prohibited from doing the following upon receiving a notice for suspension of a license.

10.9.1. To conclude new contracts

10.9.2. To make amendments to contracts concluded before that date

10.10. NBFIs shall be prohibited from doing activities mentioned in Article 10.9 of this Regulation upon receiving a notice for termination of a license, and NBFIs shall be liquidated and operations terminated in accordance with provisions of the Law on Non-banking financial activities and Company Law.

10.11. If NBFIs continues to run activities during the period of suspension and after termination of a license, it will be considered that non-banking financial activities are operating without a license.

ELEVEN. RESPONSIBILITY AND SUPERVISION

11.1. The Commission shall supervise, enforce relevant regulations, procedures guidelines and conduct inspection on the financial activities.

11.2. A person who has violated the relevant legislation shall be imposed sanction.

FINANCIAL REGULATORY COMMISSION

**APPLICATION FOR THE LICENSE TO ENGAGE
IN NON-BANKING FINANCIAL ACTIVITIES**

Date:.....

TO: The Financial Regulatory Commission of Mongolia
Government Building IV
Baga Toiruu -6
Ulaanbaatar -46
Mongolia

FROM:
.....
.....

(applicants' surname, name, address, telephone, fax, email)

.....
/name of the legal person/

.....
/LLC, JSHC/

The founder (s) of the NBFi confirms the resolution to carry out non-banking financial activities mentioned below by the general meeting.

- 1/.....
- 2/.....
- 3/.....
- 4/.....
/type of non-banking financial activity/

For the engagement in non-banking financial activities, the following legal persons and citizens establishing a legal person decided to invest into this NBFi.

№	Surname and given name (name of the legal entity)	Register number	Citizen Identification Card number/the registration certificate for legal entities)	Address	Amount of share capital /in thousand of MNT/

The founder (founders) of the NBFIs invested as a shareholder the property legally pertaining to his/her ownership.

The following persons satisfying the requirements stated in Article 13.6 of the Law on non-banking financial activities shall work in the executive management /executive director, unit management, chief accounting officer, internal audit officers/.

No	Surname and given name	Current employment	Registration number	ID card number	Position to be held at the NBFIs

The documentation and materials submitted in order to obtain the license of engagement in activities have been properly assembled and delivered in accordance with Law on Company, Law on Operational License for Business Operation, Law on Non-Banking Financial Activities and Regulation on Licensing of Non-banking financial activities approved by the Financial Regulatory Commission resolution 186 dated July 7, 2008. We shall be liable for any false and inaccurate data included in the assembled documents.

Please review our application and documents and provide us with the license for engagement in non-banking financial activities.

We guarantee the implementation and compliance with the Law on Company, Law on Operational License for Business Operation, Law on Non-Banking Financial Activities, other relevant legislation and obligations and tasks assigned by the Financial Regulatory Commission of Mongolia.

APPLICANT

/seal/

/...../
/name of the legal entity/

/...../
/position/

/...../
/signature/

/...../
/surname and given name/

**DESCRIPTION OF THE FOUNDERS, MEMBERS
CHAIRMAN OF THE BOARD OF DIRECTORS
AND MEMBERS OF THE NBFİ**

A. Relationship to the NBFİ

1. Founder
2. Shareholder of 10 or more percent of the total shares
3. Board of the Director
 - a. Chairman
 - b. Member
4. Investor

B. With regard to founder (s) and investor (s)

1. Founder and investor is
Legal person Citizen
2. Amount of share capital invested into NBFİ
Common shares
Preferred shares

...../...../.....MNT/tugrug/

3. If the founder is a legal person, then the following information shall be complied correctly:

- Assigned name
- Establishment date
- Duration of operation
- Location and address
- National registration number
- Registration number
- Surname and given name of the Chairman of the BOD

- Registration number
- Surname and given name of the investors
- Registration number
- Type of activity

.....

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.....

- Description of the activities of the legal person:

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/description of the activities of the legal person (activities and operations by duration, whether there are subsidiaries or branches, their operations, financial performance, ownership status, share capital in other institutions/

- Description of the paid in capital

4. If the founder is a citizen then the following information shall be complied correctly.

- Surname and given name
- Date of birth
- Citizenship
- Home address
- Citizen ID card number
- Register number
- Employment
 - Duration:
 - Address:
- Education /including the secondary education/

N ^o	Graduated school	Obtained major	Enrollment year	Graduation year	Registration number for the diploma

- Work experience

N ^o	Employment	Position	Commencement	Date of departure	Reason

5. Information on related parties to shareholders.

N ^o	Relationship to you	Surname and given name	Register number	Citizen ID card number	Current position

I, (*surname and name*), confirm that I become a member of the NBFi and verify that the monetary sum of (*In letters*) MNT invested in paid in capital of NBFi derives from my net worth income obtained from legally permitted activities. I confirm the delivery of the relevant and properly processed documents in accordance with legislation to your office and express my complete liability in conformity with the legislation regarding any risks occurring from them.

The brief characteristics of the relevant person shall include the previous employment, representation of any legal entity, its activities, location and record of employment in a financial institution (employment in a bank or a non-banking financial organization, shareholder in any other legal entity or a financial organization, outstanding credit and debt to others, investigation of a case in law enforcing institutions).

“.....” Representing the NBFi

.....
/position/

/...../
(signature)

/...../
(Surname and given name)

1. Executive Director, branch management and other staff of the NBFİ shall enter the following information correctly.

- Surname and name
- Position
- Date of birth
- Citizenship
- Home address
- Telephone number
- Citizen ID card number
- Register number
- Current employment
 - Period
 - Address
- Education (*including the secondary education*)

№	Graduated school	Obtained major	Enrollment year	Graduation year	Registration number for the diploma

- Work experience

№	Employment	Position	Commencement	Date of departure	Reason

- Brief description of the executive management, and employees (whether he/she represents any kind of legal persons, its operations, location, files on interaction with banks, NBFİs, correspondent banks, whether he/she is a shareholder of another legal person, existence of outstanding debts and liabilities, whether under investigation by law enforcement agencies).

2. The characteristics of related parties of executive management and employees.

“Affiliated person” shall mean in accordance with Article 3 of Law on Banking.

№	Relationship to you	Surname and given name	Register number	Citizen ID card number	Current position

The brief characteristics of the related parties shall include the previous employment, representation of any legal entity, its activities and location, any outstanding credits and debts and investigation of a case by a law enforcing organization.

The enclosed material includes executive managements, staff description and verification submitted from the law enforcing organization, tax, bank, audit, other related legal person, organization and public.

“.....” Representing the NBF I

/...../
/signature/

.....
/position/
/...../
/surname and given name/

DESCRIPTION OF SOFTWARE, TECHNICAL ITEMS, EQUIPMENT AND THE OFFICE

The technical items and equipment to be used in the activities of the cooperative shall be described the following way:

№	Type of the technical item and equipment	Technical indicators	Purchase, rent or investment from a member	Quantity

Besides the equipment, technical items and computers, the NBFİ shall use the bookkeeping software. (program, name of the author organization) (for the purposes of providing or retrieving information to the credit information database) and.. . . . (write whether purchased, to be purchased, or obtained by a contract) and use the computer applications . . . (program, name of the author organization) for daily information and data processing.

The NBFİ has

- purchased _
- rented _

Office premise for engaging in the activities.

The office is suitable for rendering services of the NBFİ engaging in activities and is completely protected in terms of security.

- Real estate registration certificate of the purchased office _
- Rent contract of the rented office _
- Description and solution of security and protection _

Representing the NBFİ (position)

.....
(signature)

.....
(surname and name)

**RECOMMENDATION ON PRODUCING
A BUSINESS PLAN FOR NBFIs**

1. A business plan means the document determining the strategy and objectives of the NBFi and planning for a certain period of time to implement measures to improve on an annual basis the structure and organization, efficient and reliable services, expertise of the management, finance and solvency indicators and efficiency during the engagement in activities.
2. The cooperative shall produce a business plan considering the specifics of its activities and shall include the following matters on a mandatory basis:
 - 2.1. Purpose, policy and prospective situation of engaging in NBFi activities;
 - 2.2. Positive conditions on macro and micro levels to make the engagement in non-banking financial activities profitable;
 - 2.3. 3-5 year estimation of NBFi balance sheet, cash flow, and income and expenditures statement;
 - 2.4. Composition and amount of assets and liabilities, plan of its management improvement, general conditions of interest and commissions, and corresponding policy;
 - 2.5. Determination of risks related to the activities, measures to manage them.
3. The business plan shall be produced to be implemented for the period of 3-5 years since the commencement of NBFi activities.
3. A business plan shall consist of the following:

1/.FRONT PAGE:

The front page of a business plan shall include the following:

- Name and address of the NBFi
- Name of the business plan
- Version number
- Date of issue
- Name and address of the author
- Author's copyright
- Name and address of the NBFi management.

2/. PERFORMANCE SUMMARY

This chapter shall have the brief information on the mission statement of the business plan to be implemented by the implementing entities of the business plan, objectives, and grounds for success, possible risks and other financial indicators.

The mission statement shall define whose and what kind of needs shall be satisfied and how.

Objectives shall be actual measurable results with due time to be implemented step by step for the purposes of achieving the mission statement.

3/. INTRODUCTION OF BUSINESS

The introduction of business shall be a concise description of the name and address of the NBF, history of its development, accountability mechanisms, market conditions, engaged activities, rendered services, including the provision of management and human resources, financial capacity, reasons for issuing the business plan, objectives and goals, asset resources necessary for their achievement, period of loan repayment, profits and sales income.

The introduction of business shall consist of the following parts:

- Business and its history;
- Conditions and future of market;
- Currently rendered activities;
- Management and human resources;
- Financial situation and prospective;
- Reasons and purpose of issuing the business plan.

4/. MARKETING PLAN

The marketing plan shall compose of following three parts:

4.1 Market research:

In order to prepare marketing plan, research of the market, customers, competitors, suppliers and intermediaries should be done.

4.2 Marketing strategy

Marketing strategy is a plan targeted for the market, it is a tool used by your organization to reach success.

4.3 Marketing toolkit

Once your organization has defined its strategy and ways to approach a market, then you need to decide how to create a favorable situation on the market with the use of organizational resources or marketing toolkit, which includes services, pricing, intensification, and distribution.

5/. MANAGEMENT PLAN

This chapter of the business plan shall deliberate on matters of management, organization and human resources necessities.

5.1. Management team:

This part of the business plan shall include the legal, banking, financial and management specializations of the governing persons, the scope of their ability to substitute each other, level of satisfaction of professionalism, expertise and experience requirements, level of allocation of powers and obligations. The business plan shall have, as appendixes, the dossier with information that is required to perform the job such as expertise and experience of management team members and experts (legal consultants and etc.) and management employees (branch managers and etc.), period of former employment in the sector, obligations and liabilities. Furthermore, the organization's charter shall prescribe and include in the appendixes of the business plan the exact definition of powers and responsibilities of each member of the management team, the subordination rules and the final instance of decision making.

5.2. Organizational structure:

It is imperative to establish a structure under the management with little hierarchy and maximum efficiency. The principles of efficient structure of organization with few staff shall be the single management, proper distribution of tasks and obligations, superior provision of information to the management, interest in work results of employees and transparency of supervision. The structure of organization shall be produced by abiding to these principles and included in the business plan.

Human resources:

This part shall plan the matters of required professional human resources, their quantity, and provision of professional training or professional improvement training.

This part shall plan on the total employees and necessities of required professional human resources, number of employees needed to perform the job, including the amount of annual and monthly salaries of employees and salary commission charges. It is recommended to draw attention to the training expenditures bring appropriate return although they look inefficient on the surface.

6/. FINANCIAL PLANNING

The financial planning shall have the following parts:

- Estimation of total income;
- Estimation of current expenditures;
- Estimation of profit and loss
- Estimation of profitability of activities;
- Estimation of cash flow and etc.

7/. ANALYSIS OF RISKS

6.1. Types of risks:

The engagement in NBFi activities shall have to consider at least four types of basic risks.

1. Technical items, equipment, hardware;
2. Financial and credit risks;
3. Human factor risks;
4. Legal risks.

6.2. Possibilities of risk reduction:

What risk from the aforementioned ones has the highest possibility to occur to your business? In order to minimize it, you are required to provide the measures to confront the risk. Then it is necessary to classify the risks eligible for insurance and describe with which insurance companies you should make a contract and under which conditions. Moreover, it is necessary to provide the actions on confronting risks ineligible for insurance.

Compare the activities of the NBFi as they are kept after undertaking the risk prevention actions with the planned results.

Unofficial translation

Appendix of the resolution 186 of the Financial Regulatory Commission of Mongolia July 7, 2008.

MONGOLIA



FINANCIAL REGULATORY COMMISSION OF MONGOLIA

**CERTIFICATE OF THE LICENSE OF CONDUCTING
NON-BANKING FINANCIAL ACTIVITIES**

Number ...

Year....month....day

This certificate is granted to permit to conductnon-banking financial activities by the resolutionof the Financial Regulatory Commission, dated, considering that requirements, of the Law on Legal Status of the Financial Regulatory Commission, Law on Licensing of entity.

CHAIRMAN

(SEAL)

This certificate is valid with its appendix.



MONGOLIA

FINANCIAL REGULATORY COMMISSION

_____ **NUMBER**

APPENDIX OF THE CERTIFICATE FOR THE LICENSE

"Seal"

Notation for the non-banking financial activities

(This appendix valid with its appendix)