

Attachment to the FRC Resolution No. 62, dated 2008,

**REGULATION ON CONDUCTING OFF-SITE MONITORING AND
EVALUATION ON INSURER**

ONE. General Provision

- 1.1 This regulation shall be followed when conducting off-site monitoring and evaluation on activities of insurers and insurance intermediaries (hereinafter referred to “insurer”) by the Financial Regulatory Commission (hereinafter referred to “Commission”) in compliance with the Provision 6.1.4 of the Law on Legal Status of Financial Regulatory Commission.
- 1.2 Purpose of the off-site monitoring (hereinafter referred to as “monitoring”) is to assess financial operations and solvency of insurer, to determine level of potential financial risks, to identify defaults and to undertake phased measures to prevent from financial difficulties and present to the management of the Commission for immediate resolution based on financial statements, data, financial statements audited by independent inspection agencies and other applicable data.
- 1.3 Off-site monitoring on the financial operation of insurer shall include following:
 - 1.3.1. To determine financial risks that exists or might incur in the operation of insurer in the future based upon the financial statements, other reports and data;
 - 1.3.2 To evaluate and assess indicators for financial operation and solvency of insurer upon determining the rate of financial risks;
 - 1.3.3 To provide with guidance and recommendations to sustain normal operation of insurer; to assign tasks and ensure implementation to remedy the identified violations and defaults.

TWO. Monitoring

Principles of inspection

- 2.1 A state inspector/officer of the Commission (hereinafter referred to as “officer”) shall perform off-site inspection of insurer’s operation as per approved schedule by the Director of the Insurance Department in compliance with legislations issued with respect to legal regulation of insurance market, regulations and guidelines approved by the Commission as well as international standards.
- 2.2 Officer shall strictly abide principles of independence and fairness as well as code of conduct of Commission during inspection over the operations of insurer.

- 2.3 Officer shall be free of any conflict of interest with the insurer that is being inspected from off-site.
- 2.4 Officer shall strictly abide the internal policy of the Commission, terms of reference and job description when doing inspection on insurer.

Report and data to be used for inspection

- 2.5 Officer shall use the following financial statements, data, clarification and comments provided by the insurer and data (hereinafter referred to as “report and data”) submitted by respective entities when conducting off-site monitoring:
 - 2.5.1 Applicable financial statements, data, comments and clarification of insurer;
 - 2.5.2 reports of routine, complex and partial, thematic site visits, write-off report, introduction on given tasks and performance and other applicable materials of insurer;
 - 2.5.3 Audit report, opinion and their comments issued by independent audit agencies upon audit of financial statements and data of given insurer;
 - 2.5.4 Report and data elaborated by the internal audit department or unit;
 - 2.5.5 An application and respective materials submitted by the insurer to the Commission requesting for a license after its founding; and data, submitted in due courses, on amendments and changes made to them;
 - 2.5.6 Other data (complaints from insured, any news and articles disclosed through mass media regarding the operation of the insurer, resolutions and decree issued by courts and competent authorities regarding the insurer and other data).

Review of report and data

- 2.6 Officer shall sign and accept the data and materials regarding insurer and that have been registered with the secretary of the Commission.
- 2.7 Officer shall monitor the received report and data in the following manner:
 - 2.7.1 Whether reports, data and other applicable information are submitted in due time stipulated in the laws and legislations;
 - 2.7.2 Whether reports, data and other applicable information are complete;
 - 2.7.3 Whether the Chairman of Board of directors, executive director, chief accountant and other high level officials have signed and sealed the financial statements verifying its correctness and accuracy;
 - 2.7.4 Whether indicators of reports and data comply with “Insurance accounting bookkeeping guideline” and other regulations and guidelines approved by the Commission;
 - 2.7.5 Whether estimation of report and data indicators is accurate; whether they have consistencies;

- 2.7.6 Whether performance of the reports and data been declined or grown, compared to previous reporting period, whether comments have been made;
 - 2.7.7 Whether financial indicators of the reporting period are matching with the on site inspection report of the insurer (remedy of defaults and violations, assessment of records of revenues from insurance premium by each insurance form, if the reserve fund for potential risks of insurance is established).
- 2.8 Officer shall refuse to accept statements and reports which do not meet the requirements specified in the Provisions 2.7.2-2.7.7 of this Regulation, he/she shall send a binding notice to the insurer to ensure timely submittals of reports and data.
- 2.9 An insurer that has failed to completely submit report and data shall be subjected to liabilities set forth in the legislations of insurance to its degree of violations.
- 2.10 Based on the reports, data and survey, a monitoring on insurer, where working group in charge of liquidation is assigned or whose license is invalidated, shall be done in the following manner:
- 2.10.1 check the resolution of insurance policies, executed or non-expired during reporting period of report and data, against each policy;
 - 2.10.2 if it is deemed to be necessary, the related survey data shall be obtained from the court and court execution office, compared and draw a conclusion.

Process of inspection

- 2.11 Data regarding the revenue from insurance premium and insurance compensation shall be reviewed as per each insurance form; and conclusion shall be done by comparing the report of on- site inspection over the insurer's operation; and check whether the revenue of insurance premium is matching with the sum of balance sheet and statement of insurer.
- 2.12 Any and all indicators that might expose financial risk to the insurer shall be reviewed and issued conclusion shall be introduced to the management in advance with purpose to issue corrections to the financial statement.
- 2.13 The statement of the insurer on requirements of solvency, report on build up of reserve fund for potential insurance risks, sufficiency of existing reserve fund or report on quick solvency for major insurance compensation, report on survey of insurance risk, report on insurance premium, statement of placement of deposits of insurer and other required reports shall be prepared and produced.

- 2.14 If there is any discrepancy in indicators between the estimations done by the Officer and report and data submitted by the insurer, the Officer shall make detailed comment on each of those discrepancy identified in the report and data; where it is a default of an insurer it shall be reflected in the reply to the report and conclusion shall be issued and signed.
- 2.15 When conducting monitoring on operations of insurer, the Officer shall not only consider indicators of insurer but also compare with average indicators of other insurance agencies involved in similar insurance forms and scope.

Assessment of solvency of insurer and risks

- 2.16 Officer shall perform off-site monitoring of operation of insurer through identifying any risks that might adversely impact on financial capacity of an insurer and taking preventive measures; he/she shall assess performance of tasks assigned by the Commission through rating of financial status and solvency of insurer based on statements, reports, data and other applicable materials submitted by the insurer.
- 2.17 Financial statements and balance sheets, other reports and data shall be filed into computer; dynamic survey on financial indicators and database shall be done in accordance with consolidated files and hardcopy of a survey shall be recorded and kept in the file of an insurer.
- 2.18 Any modification to financial statements and balance sheets, placement of available cash (funds) and financial indicators of insurer than prior reporting period, comparison of financial status, solvency and other indicators shall be estimated in accordance with the Attachments 1, 2, 3 and 4 of this regulation and applicable assessment shall be done as follows:
- 2.18.1 ***Paid-in-capital:*** The paid-in-capital of the insurer is a principal warranty of risk taking by an insurer, therefore the compliance of build-up and location of paid-in-capital with the requirements set forth by the Commission shall be assessed and evaluated in accordance with “Requirements for investment to be made from the paid-in-capital and reserve fund of insurer”, which was approved by Resolution No 66 of Commission in 2006, and Attachment and Attachment 1 of this Regulation;
- 2.18.2 ***Placement of available cash:*** Officer shall register and monitor, as per Attachment 2, the placement of available cash of paid-in-capital and reserve fund for contingent risks, which was built up with purposes to meet the financial obligations by the Insurer under the policy issued; and draw conclusion on a quarterly basis;

- 2.18.3 **Indicators of solvency:** Officer shall perform monitoring on a regular basis in accordance with “Regulation on solvency requirement for insurers and oversight” approved by Resolution No.66 (2007) issued by the Commission with purpose to assess the financial capacity of insurer realistically. A dynamic survey on solvency requirements for months and quarters shall be done in accordance with Attachment 3;
- 2.18.4 **Management of insurer:** Assessment shall be done based upon resolutions issued by management, who manages daily operations of insurer in the scope of their full power, outcomes of implementation, experience, level of education and other applicable data, as solvency of insurer depends from decisions made by the executive management of the company.
- 2.18.5 **Profitability of insurer:** Estimation of revenues and expenditure of primary and non-primary activities, amount of reserve fund for potential insurance risks and profit (loss) of insurer shall be done and assessed in accordance with Attachment 4 of this Regulation, as sufficiency of the available cash of an insurer is subject to its profitability of the company.
- 2.19 Officer shall assess the estimated solvency requirements and other indicators based on financial statement of the insurer. Various methods of analysis (Stress test, Z-score, Gap analysis) shall be used for evaluation and assessment with purpose to assess operational risks of insurer and determine sensitivity of changes to insurance market.
- 2.20 Market and loan risk assessment shall be done if insurer has placed paid-in-capital and reserve fund with investment and holds various securities and bonds.
- 2.21 Officer shall draw a conclusion (hereinafter referred to as “conclusion”) of off-site monitoring of operations on a quarterly basis, based upon solvency requirements, adjusted assets and other reports and data; and applicable measures shall be taken immediately within the full power provided in the legislation. A thematic inspection shall be done when violations and defaults became obvious; a report on off-site monitoring conducted shall be written regardless of timeline and upon completion of each inspection, in cases like request to make urgent inspection is lodged with the Commission.
- 2.22 Besides conclusion of off-site monitoring, Officer shall produce the data, on a semi-annual basis in accordance with “regulation on maintaining files of insurer” approved by Resolution No, 2008 of the Commission and keep the copy in the file.
- 2.23 Officer shall write a presentation on measures taken on liquidation procedure in accordance with applicable legislations and present it to the management in case the license of insurer and insurance intermediary is revoked.

- 2.24 Officer shall draft resolution and present it to the management of the Commission if it requires to suspend or revoke the operational license of insurers and insurance intermediaries; a draft shall be discussed at the Commission meeting and deliver the resolution issued, upon revoking the license obtain the action plan from the insurer, and monitor the implementation of actions, confiscate the original copy of the certificate along with attachment and imprint the sign “revoked by Resolution No ...,(date) issued by Commission” on the bottom right corner placing it towards 45⁰ and keep it in the file of an insurer.

THREE. Maintenance of insurers’ record

- 3.1 A record (hereinafter referred to “record”) of an insurer covering the period of its inception, granted a license to be engaged in insurer and insurance intermediary activities involvement through liquidation shall be recorded and maintained in chronological orders.
- 3.2 Records of an insurer shall be maintained on a quarterly basis. The record shall have the following 4 components:
- 3.2.1 Basic data of an insurer including date of establishment (liquidation) of an insurer, management and structure (It includes the name, address, data regarding the operational license, amount and percentage of paid-in-capital, structure, subsidiary and representative offices, changes made);
- 3.2.2 Dynamic indicators include indicators of primary activities of an insurer (it includes i.e insurance premium, compensation, reserve fund of potential losses, cost of core activities, revenues and expenditures);
- 3.2.3 List of measures undertaken by the Commission and other respective agencies (Ministry of Finance, Customs authority, General department of National Taxation) for an insurer. The measures taken by the Commission shall be subdivided into: coercive measures and other measures:
- Coercive measures taken by the Commission include write-off (?) reports, issued by the state inspectors, binding notices, penalties, resolution issued by the Commission, time bound assignments and resolutions;
 - Other measures include official letters and resolutions issued by the Commission;
 - Measures taken by other respective authorities include measures proposed in the letter to the Commission by other authorities with regard to operations of an insurer.
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- 3.2.4 Particular events regarding the operation of insurer include specific data with respect to history of the company (it includes i.e changes to management and Board of an insurer)

- 3.3 Officer shall introduce the records (history) of an insurer to the Director of Department once a year within 25th of February and when required he/she shall present it for guidance in due courses.
- 3.4 Officer in charge of consolidation of records of insurance agencies shall archive files containing history of an insurer once in a year. History of an insurer is classified as confidential data and the respective relations shall be regulated by the applicable regulation.

FOUR. Conclusion and presentation with respect to inspection carried out

Drafting conclusion on off-site monitoring

- 4.1 Officer shall follow the following principles when providing off-site monitoring of financial operation and solvency of an insurer:
- 4.1.1 Conclusion on financial operation and solvency of an insurer shall be brief and clear.
- 4.1.2 A conclusion shall fully meet the following requirements:
- Written in accordance with the structures stipulated in this regulation;
 - Conclusion is accurate and complete;
 - Potential financial challenges are identified;
 - Performance of tasks assigned by the Commission are included (if it is impossible to assess the fulfillment of tasks and assignments, recommendation to be undertaken in the future shall be included).
- 4.2 A conclusion shall reflect the changes to indicators presenting financial operation and solvency of an insurer.

Scope of conclusion

- 4.3 A conclusion shall cover the quarterly and yearly activities. In connection with the on-site inspection to be conducted, conclusions shall be drawn on operation, financial status and solvency of insurer, respectively.
- 4.4 A conclusion on monitoring undertaken and on-site inspection to be conducted on the operations of an insurer shall be drawn as same as conclusion of off-site monitoring and additional comments may be attached if required.
- 4.5 An off-site monitoring conclusion of an insurer shall cover the activities of particular year and quarters and estimation of related indicators, any changes have occurred compared to previous quarter, the beginning of reporting year and corresponding period of previous year and the causes of changes. Dynamic survey of financial status, solvency of insurer and other applicable indicators shall be illustrated in graphs and attached.

- 4.5 A conclusion on operation, financial status and solvency of an insurer can be drawn and benchmarked with other insurance agencies.
- 4.6 If there were not any abrupt changes to operational indicators of an insurer for the reporting period, it can be not mentioned in the conclusion.

Structure of a conclusion

- 4.7 A conclusion on financial operation and solvency of an insurer shall be elaborated in the following structure and presented to the management:

- One. Summary of main indicators of an insurer;
- Two. Conclusion on performance of indicators for financial operation and solvency of an insurer;
- Three. Recommendations to impose liability to insurer in compliance with the applicable laws and legislations and measures to be taken;
- Four. Profitability of an insurer (revenue, expenditure, profit, losses);
- Five. Equity of an insurer;
- Six. Status of establishment of insurance reserve fund;
- Seven. Changes occurred in management, structure and operation of insurer;
- Eight. Brief summary of actions undertaken by the insurer;
- Nine. Attachments.

- 4.8 Officer in charge of consolidation of financial indicators of the insurance sector shall receive and consolidate reports and data via its intranet within the 20th day of the month following the reporting period.

- 4.8.1 The financial indicators classified by sectors, insurance classification, type and main insurance forms shall be illustrated in the summary of main indicators of insurance sector; and respective comments and conclusions shall be drawn. Clarifications and comments made to the financial statements of an insurer shall be obtained from the officer, who has undertaken the off-site monitoring, followed by comments on each of the case and the dynamic survey on the following indicators shall be completed and attach illustration in graph.

- Generic indicators of insurance sector;

- Share of insurance agencies in the insurance market;
- Revenue of insurance premium;
- Build up of insurance reserve fund;
- Other indicators representing financial status of insurance sector.

4.8.2 Officer in charge of consolidation of data of insurance sector shall review conclusion issued by Officer who performed off-site monitoring and shall write conclusions on insurer who has declining solvency, increasing financial risks and brought into attention with respect to other indicators upon taking the opinions from the Director of Insurance Department:

- Major changes have occurred at the insurer for the reporting period (structure, management restructuring, resolution issued by the management of company with regard to financial risks of activities, changes solvency requirement);
- Violations and deficiencies occurred in the financial operation of an insurer and potential adverse impact of management failure on the financial sustainability of insurance.

4.8.3 Based upon aforementioned conclusion, Director of Insurance Department shall present to the management of Commission a recommendation on outcome of financial operations, solvency requirement, proposed measures to be taken, restrictions to operations of an insurer, which was brought into attention and about an insurer, whose license is required to be suspended.

4.9 A conclusion on an insurer, where working group is assigned to revoke the license and liquidate the company shall be written in the following structures:

4.9.1 Residual of insurance policies concluded with insured, and outstanding receivables and payables;

4.9.2 Fulfillment of measures taken by the Commission in accordance with requests, claims and complaints submitted by insured citizens and organizations;

4.9.3 Recommendations on measures to be taken if required.

4.10 A monitoring on insurer, whose operational license is terminated and the working group is assigned to liquidate the company, shall be terminated in the following cases:

4.10.1 process of liquidation is complete for an insurer whose license is terminated;

4.10.2 a resolution to exclude financial indicators of an insurer from the consolidated indicator of insurance sector and termination of monitoring and inspection of operations.

- 4.11 Officer in charge of consolidation of insurance sector data shall transfer the file of the company to the archive if inspection and monitoring operation of an insurer, whose license is revoked, is suspended.

Requirements for conclusion and presentation of off-site monitoring

- 4.12 Officer who performed off-site monitoring on operations of insurer shall sign the conclusion, if he/she is a state inspector shall seal a stamp with his/her identification number and adjusted balance sheet, income and expenditure statements along with other attachments shall be presented to the Director of Insurance Department within 25th of the month following each quarter.
- 4.13 A director of Insurance Department shall oversee if the conclusion is written in compliance with this regulation and assign a task to Officer to add or complete the missing data and clarify the conclusion. Officer shall complete the conclusion and recommendations within 3 business days.
- 4.14 The Director of Insurance Department shall sign the conclusion if he/she considers that a conclusion is elaborated in accordance with applicable requirements and oversee if the indicators submitted by the insurer were consolidated into the consolidation of insurance sector.
- 4.15 Officer shall keep a copy of conclusion presented to the Director of Insurance Department in the file of the company.
- 4.16 Officer shall accept requests, claims and complaints submitted by insured citizens and organizations during off-site monitoring on operations of the insurer. He/she shall propose recommendations to resolve claims and complaints in compliance with the applicable laws, legislations, guidelines and regulation to the Director of Insurance Department accordingly.
- 4.17 Officer shall oversee data submitted by the insurer by last day of each month and financial statements submitted quarterly. He/she shall send official letter to the insurer presenting defaults and breaches in detail within 20th of the month following the reporting period.
- 4.18 Officer in charge of consolidation of insurance sector indicators shall develop general summary of insurance sector within 25th of the month following each quarter and present to the Director of Insurance Department.
- 4.19 The Director of Insurance Department shall sign the financial performance indicators upon reviewing the consolidated indicators of insurance sector developed by Officer in charge of consolidation of insurance sector indicators.
- 4.20 Quarterly financial statements and consolidated indicators with introduction of insurance sector shall be submitted to the management of the Commission within the month following each quarter.
- 4.21 Other data regarding the operation of insurer shall be presented to the management of the Commission during inspection and off-site monitoring on operations of insurer.
- 4.22 Consolidated summary of insurance sector indicators shall be forwarded to the Parliament, Ministry of Finance, Bank of Mongolia and other respective

organizations along with report issued by the Commission by the last day of the first quarter of subsequent year.

FIVE. Follow-up measures upon undertaking inspections

Follow-up measures upon completion of inspection on reports and data

- 5.1 Officer in charge of monitoring and inspection of activities conducted by the insurer shall undertake the following measures in a consecutive manner if reports and data submitted by an insurer do not conform with the requirements stipulated in the laws and legislations or an insurer failed to submit reports and data within due time as follows:
 - 5.1.1 It shall be verified with the secretary of the Commission if report and data is past due by one day from the set forth timeline;
 - 5.1.2 A notice demanding immediate submission of reports and data shall be sent to the management of the insurer if it is determined that the report or data is not submitted within due date;
 - 5.1.3 Liabilities stipulated in the Provision 83.1.32 of Law on Insurance and Provision 45.1.14 of Law on Insurance intermediaries shall be imposed if it is failed to submit reports and data within due date in repetitive times or within the timeline set forth in the notice;
 - 5.1.4 A state inspector's report shall be issued to undertake the further measure and presented to the management of the Commission if the insurer has violated repeatedly and failed to submit reports and data upon demand;
 - 5.1.5 If an insurer submits reports and data that do not conform to the requirements stipulated in the laws and legislations, a notice shall be sent to the management of the insurer demanding for submission of reports and data, that was prepared in compliance with applicable standards;
 - 5.1.6 Liabilities stipulated in the Provision 83.1.10 of the Law on Insurance and Provision 45.1.4 of Law on Insurance intermediaries shall be imposed if violations, i.e financial statements and other reports, data are not accurate and do not comply with applicable legislation, insurance regulation and procedures.

Take coercive measures

- 5.2 Coercive measures and administrative liabilities shall be taken in compliance with the procedure to be followed for imposition of administrative liabilities by Commission's state inspector due to nature of violation in case applicable insurance laws and legislations and resolutions issued by the Commission within its competence are violated. Besides taking coercive measures and imposing

administrative liabilities to an insurer, any of the following actions can be taken subject to scope and outcome of the violation:

- 5.2.1 meet and warn management of the insurer;
 - 5.2.2 conduct thematic inspection on-site;
 - 5.2.3 assign tasks with timelines;
 - 5.2.4 impose liabilities stipulated in the Provision 83.1 of the Law on Insurance and Provision 45.1 of the Law on insurance intermediaries.
- 5.3 The Commission shall send a notice to take applicable measures if an insurer failed to comply with insurance regulations and minor violation is occurred first time.
- 5.4 Officer shall develop introduction and conclusion of preliminary inspection and present it to the Commission management through the Director of Insurance Department if an insurer caused the breach number of times or breach is deemed to be serious or considers that the breach might have adverse impact on the operations of an insurer. The introduction shall clearly state about the following matters:
- 5.4.1 Period and number of occurrence of violations of legislations caused by the insurer;
 - 5.4.2 Detailed list of measures taken by Officer who performed inspection of operations with respect to given breach;
 - 5.4.3 Existing and future impact of breach on operation, finance and solvency of an insurer;
 - 5.4.4 Recommendation developed by Officer who monitored or inspected an insurer from off-site with purpose to remedy indicated breach.
- 5.5 Recommendation to remedy breaches shall include proposal to suspend, limit, and revoke the license of an insurer or impose liabilities stipulated in the Provision 83.1 of the Law on Insurance and Provision 45.1 of the Law on insurance intermediaries.
- 5.6 Officer shall present applicable report, official notice, draft orders and conclusion to the Director of Insurance Department, if he/she considers that coercive measures should be taken for the insurer, which is having financial difficulties and solvency problem.
- 5.7 The Director of Insurance Department shall review the introduction and take applicable measures if he/she considers that an issue can be resolved within

his/her full power. If the issue can not be resolved within the given authority or is deemed to be serious, he/she shall present it to the management of the Commission upon clarification of respective issues.

- 5.8 Violations and defaults observed in the operation of an insurer shall be discussed and resolved at the Commission meeting upon introduction to the management of the Commission, if breach is deemed to be serious.

SIX. Liabilities

- 6.1 Officer shall be liable for conclusion of inspection carried out on operations of insurer, accuracy and timely performance; Officer in charge of consolidation of insurance sector indicators shall be liable for accuracy, correctness and 83.1 of the Law on Insurance and Provision 45.1 of the Law on insurance intermediaries of consolidated financial indicators and the Director of Insurance Department shall be liable for final conclusion respectively.
- 6.2 Officer in charge of consolidation of insurance sector indicators shall not be liable for default consolidated indicators of social insurance and its conclusion caused by default conclusion on inspection conducted by an officer from off-site.
- 6.3 Officer in charge of off-site monitoring or inspection of operations of an insurer shall be liable for intended or omitted defaults in compliance with the Code of Commission’s State Inspector and other applicable laws and legislations. Officer shall not be liable for any default actions caused by an insurer and respective persons, its authorized agents who failed to submit applicable reports, data and survey in a timely manner.

Attachment 1 to the Regulation on conducting off-site monitoring and
Evaluation on Insurance agencies

PAID-IN-CAPITAL

Mobilization and placement of paid-in-capital of an insurer shall be monitored and evaluated in compliance with the “Requirements for insurer’s paid-in-capital and investment to be made from reserve fund” approved by the Resolution No 66 issued by the Commission in 2006.

Mobilization and placement of paid-in-capital of an insurer

(in thousand MNT)

| No | Name of citizen or entity who invested | Amount of investment by the end of (year) | | Placement with ... (name of bank and account No) |
|----|--|---|-------|--|
| | | Amount | Share | |
| 1 | | | | |
| 2 | | | | |

| | | | |
|--|-------|--|--|
| | Total | | |
|--|-------|--|--|

Attachment 2 to the Regulation on conducting off-site monitoring and
Evaluation on Insurance agencies

PLACEMENT OF DEPOSIT

Placement of deposit of an insurer shall be classified and presented as follows:

1. Current account;
2. cash-in-vault;
3. Savings account;
4. other

Placement of paid-in-capital and reserve fund (provision) for potential losses of insurance

(in thousand MNT)

| Indicators | As at 31 March 20... | As at 30 June 20... | As at 30 September 20... | As at 31 December 20... |
|--|-------------------------|------------------------|-----------------------------|----------------------------|
| Current account | | | | |
| Cash in vault | | | | |
| Savings account | | | | |
| Other | | | | |
| Total amount of available cash | | | | |
| Required assets | | | | |
| Ratio of cash available and asset (in percentage) | | | | |

Attachment 3 to the Regulation on conducting off-site monitoring and
Evaluation on Insurance agencies

SOLVENCY INDICATOR

Solvency indicators of an insurer shall be determined by minimum and assessed in compliance with the “Regulation on solvency requirement of Insurer and oversight” approved by the Resolution No 66 issued by the Commission in 2006.

Minimum requirement of assets of the insurer shall be not less than 150 percent of premium estimated as income and shall be estimated as follows:

$$A=B-C-D$$

Where: A - minimum requirement of assets for an insurer;
 B – total assets;
 C – unacceptable assets;
 D – adjusted asset

Unacceptable assets shall include intangible assets, goods and materials, prepaid expenses (estimation) and account receivables that have not been paid for period of more than 180 days.

Adjusted assets shall include assets discounted at the following percentage:

1. Available cash, deposit in the current account of a bank, Government debt instrument, Central bank bills- 0%;
2. Bank deposit, savings certificate -2%;
3. Financial and operational leasing 5%;
4. Immovable property- 5%
5. Securities collateralized by real estate-8%;
6. Bonds issued by local government -10%;
7. Company bonds- 10%;
8. Account receivables not settled for period more than 180 days -20%;
9. Inventory and equipment -20%;
10. Loan- 20%

Attachment 4 to the Regulation on conducting off-site monitoring and
Evaluation on Insurance agencies

Financial statements of an insurer, income, expenditure and profit (loss) of core activities of insurance, income, expenditure and profit (loss) of non-core activities, factors, data of upturn and recession compared to previous year have been reviewed and assessments were made in accordance with data and evidences as follows:

1. total income of insurance premium;
2. provision of insurance compensation;
3. reserve fund of potential insurance loss (provision);
4. total cost;
5. profit (loss);
6. other financial data.

Indicators of income and output statement

(in thousand MNT)

| No | Indicators | As at dd,mm, yy |
|----|------------------------------------|---------------------------|
| 1 | Total income of premium | |
| 2 | Re-insurance premium | |
| 3 | Net insurance premium | |
| 4 | Non taxable reserve of premium | |
| 5 | Taxable premium | |
| 6 | Compensation provided for losses | |
| 7 | Established reserve fund | |
| 8 | Expenditure of main activities | |
| 9 | Profit (loss) of main activities | |
| 10 | Income of non-core activities | |
| 11 | Expenditure of non-core activities | |
| 12 | Profit (loss) before tax | |
| 13 | Income tax | |
| 14 | Net profit (loss) | |

An assessment shall be done on account payables and receivables, status of fixed assets, their upturn and recession caused by financial operation of an insurer for the period the inspection covered:

1. total liabilities, short term and long term liabilities;
2. account receivables;
3. fixed asset, total inventory;
4. data regarding changes to account payables and receivables (its factors);
5. financial risks and other consequence that might be caused due to liabilities.

Indicators of financial statement

| | | (in thousand MNT) |
|-----------|---|-----------------------------|
| No | Indicators | As atdd mm.. yy |
| 1 | Cash | |
| 2 | Receivables | |
| 3 | Inventory | |
| 4 | Fixed asset | |
| 5 | Total asset | |
| 6 | Reserve fund of potential losses (provision) | |
| 7 | Non-taxable premium | |
| 8 | Short term payable | |
| 9 | Owner's equity | |
| 10 | Profit (loss) | |
| 11 | Total of liabilities and owner's equity | |

An data with respect to compliance with “Mobilization, allocation and monitoring of insurance reserve fund” approved by the Resolution No 23, 2006 of the Commission and expenditure of insurance reserve fund shall be reviewed and assessed upon mobilization of reserve fund of potential loss by the insurer as follows:

1. correctness of build up of insurance reserve fund;
2. if reserve fund for potential loss is established as per each insurance type in compliance with the approved regulation;
3. if the balance of reserve fund in the account meets the estimated required amount of reserve fund (if there is a discrepancy, comments shall be given to explain why it was differed, up to what extent and what caused);
4. ratio of taxable premium and insurance compensation.

Mobilization and expenditure of reserve fund of an insurer

| | | (in thousand MNT) |
|----|--|-------------------|
| No | Indicators | 20.. |
| 1 | Beginning balance of reserve fund for potential loss | |
| 2 | Compensation paid from reserve fund for potential loss | |
| 3 | Taxable Premium | |
| 4 | Compensation for loss paid from taxable premium | |
| 5 | Established (increased) reserve fund | |
| 6 | Ending balance of reserve fund for potential loss | |
| 7 | Ratio of taxable premium and compensation for losses | |