Unofficial Translation

Resolution No.85, dated 2008, issued by the Financial Regulatory Commission

AMOUNT TO BE INVESTED FROM THE PAID –IN-CAPITAL AND RESERVE FUND OF LONG-TERM INSURER AND ITS REQUIREMENTS

One. General provision

1.1 The purpose of this regulation is to place the paid-in-capital and reserve fund of the legal entity to be engaged in long term insurance activities into the investment, on a prudential basis, according to prudential ratio set by the Financial Regulatory Commission (hereinafter referred to as "Commission") under the provision 6.1.2 of the Law on legal status of the Commission and the provisions 14.2.4; 25.2; and 25.3 of the Law on Insurance.

1.2 The objective of the placement of the paid-in-capital and reserve fund into the investment is to ensure the sustainable development of the insurance market, protect the interests of the insured and to ensure reliable and sufficient guarantee to meet the obligations of compensation to be disbursed from the reserve fund to the insured under the insurance policy.

1.3 The long-term fund regulation as specified in Article 80 of the Law on Insurance shall not be applicable to this regulation.

Two. Requirements for investment

2.1 The following requirements are set for making investment from the paid-in-capital and reserve fund of the insurer:

2.1.1 The insurer shall have investment plan, which has been endorsed by the Board of Directors (hereinafter referred to "BoD") and this plan shall reflect the items provided in provision 3.1 of this regulation;

2.1.2 The insurer shall submit its investment plan and its performance to the Commission on an annual basis;

2.1.3 The investment plan shall be formulated within the limitations stipulated in provisions 4.1, 4.3, 5.1 and 5.4 of this regulation;

2.1.4 The investment may be done from the outstanding loss reserve under the provision 2.1.3 of the Regulation on Establishment of a long-term insurance reserve, its Expenditure and Control, which was approved by Commission's Resolution No.81 issued in 2008;

2.1.5 In case the Insurer has to engage in investment activities beyond the Mongolian border, then the operation should be run upon the license obtained from the Commission;

2.2 In case the Insurer wishes to make investment beyond the Mongolian border, then it shall seek approval by submitting a request to the Commission in writing;

Three. Investment plan

3.1 The investment plan shall reflect the followings:

- 3.1.1 A Company's investment allocation based on the limitations set forth in provision 4.1 and 5.1 of this regulation;
- 3.1.2 Investment rate as specified in provisions 4.3 and 5.4 of this regulation;
- 3.1.3 Prudential ratio for solvency requirement;
- 3.1.4 Management of risks that might incur in connection with activities of the insurer;
- 3.1.5 Immediate mobilization of funds placed with investment by the Insurer for the purposes of meeting the compensatory obligation for losses incurred in an insurance occurrence or under the agreement and indemnification;
- 3.1.6 Accurate evaluation of assets and period of return on investment shall be reflected;
- 3.1.7 The investment plan reflecting an estimation done by actuary of a company on any changes made to the obligations of the insured in association with insurance funds and relevant indicators for the financial year;
- 3.1.8 Return on investment;

3.2 The executive management of the insurance company shall make investment in accordance with investment plan endorsed by the BoD.

3.3 BoD shall ensure regular oversight over the implementation of applicable legislation, charter, regulation and performance of investment plan, risk management, information, internal audit, accounting and independent audit activities;

Four. Investment of Reserve fund

4.1 The Insurer shall place 40 percent of the outstanding loss reserve established for the reporting year into a special account of the company. The remaining 60 percent of the outstanding loss reserve and 100 percent of the accumulated reserve may be placed into the investment in accordance with provision 4.3 of this regulation.

4.2 Long-term and short-term investment can be made from the reserve fund.

4.3 The investment can be made in the following proportions from the 60 percent of the outstanding loss reserve and 100 percent of the accumulated reserve as specified in provision 4.1 of this regulation:

4.3.1 Government debt instrument: up to 100 percent;
4.3.2 Central bank bills: up to 100 percent;
4.3.3 Bank's deposit: up to 80 percent;
4.3.4 Local government bond: up to 80 percent;
4.3.5 Bank's deposit certificate: up to 70 percent;
4.3.6 Company's bonds: up to 60 percent;
4.3.7 Asset backed securities or collaterized immovable property: up to 60 percent;
4.3.8 Other financial instruments: up to 10 percent;

Five. Investment of paid-up capital

5.1 The 20 percent of the minimum of paid-up capital of insurer, as specified in article 22.1 of the Law on insurance shall be placed, as mandatory reserve, with the bank (can be one or a few banks) that has met the following requirements. The remaining 80 percent of the paid-up capital may be placed into the investment.

5.1.1 The insurance company does hold equity or is not a shareholder of the bank;
5.1.2 The bank where the deposit account is opened is not incorporated into the insurance company;
5.1.3 Twenty percent of the paid-up capital, as set forth by the Commission, placed with the special account shall be used for the purposes of meeting the obligation under the insurance policy in case the insurance company became insolvent.

5.2 Long-term and short-term investment can be made from the paid- up capital.

5.3 The investment can be made in the following proportions from the 80 percent of the paid-in-capital as specified in provision 5.1 of this regulation.

5.3.1 Government debt instrument: up to 100 percent;
5.3.2 Central bank bills: up to 100 percent;
5.3.3 Bank's deposit: up to 80 percent;
5.3.4 Local government bond: up to 80 percent;
5.3.5 Bank's deposit certificate: up to 70 percent;
5.3.6 Company's bonds: up to 60 percent;
5.3.7 Collateral or securities, collateralized by immovable property: up to 60 percent;
5.3.8 Immovable property: up to 30 percent;
5.3.9 Other financial instruments: up to 10 percent.

Six. Requirement for investment and mandatory reserve to be placed with

6.1 The Commission shall ensure oversight over the investment and mandatory reserve to be placed with by the Insurer.

6.2 The Insurer shall submit the reports on investment and mandatory reserve as per the format approved by the Commission and submit them to the Commission on a quarterly basis.

Seven. Liability

7.1 In case of failure to meet the investment requirement and requirements for reserve to be placed with, then an officer of the insurance company shall be subject to a fine equals to MNT 50,000-100,000 and the insurer shall be imposed a fine equals to MNT500,000-1,000,000 in accordance with Provision 83.1.32 of the law on insurance.

7.2 A proposal to take coercive measures on insurer who failed to meet the requirements for reserve to be placed with for over 3 months or investment requirements in number of times shall be drafted and presented at the Commission’s meeting for resolution.