

## **REPORT ON ACTIVITIES IMPLEMENTED IN 2010 BY FINANCIAL REGULATORY COMMISSION OF MONGOLIA**

### **ONE. GENERAL PROVISION**

The Financial Regulatory Commission of Mongolia carried out its activities with objectives set out in 2010 for advancing the legal framework of securities, insurance, and micro-finance markets, introducing the principles of corporate governance through enhancement of information transparency, and bringing at a new stage the Financial Regulatory Commission's information technology development.

During its regular 14<sup>th</sup> Meeting of Board of Financial Commissioners, the Financial Regulatory Commission has discussed and issued its decision for 470 issues, has issued 434 resolutions and 10 notifications that has increased by two times compared to previous year. The Financial Regulatory Commission, by its one time meeting has discussed in average 33 issues.

The Financial Regulatory Commission, in its fiscal year, had in total a turnover of 10,083 documents, out of which 6,292 were incoming and 3,401 were outgoing documents, and 391 applications and complains related to regulatory sectors' activities, which were registered and solved.

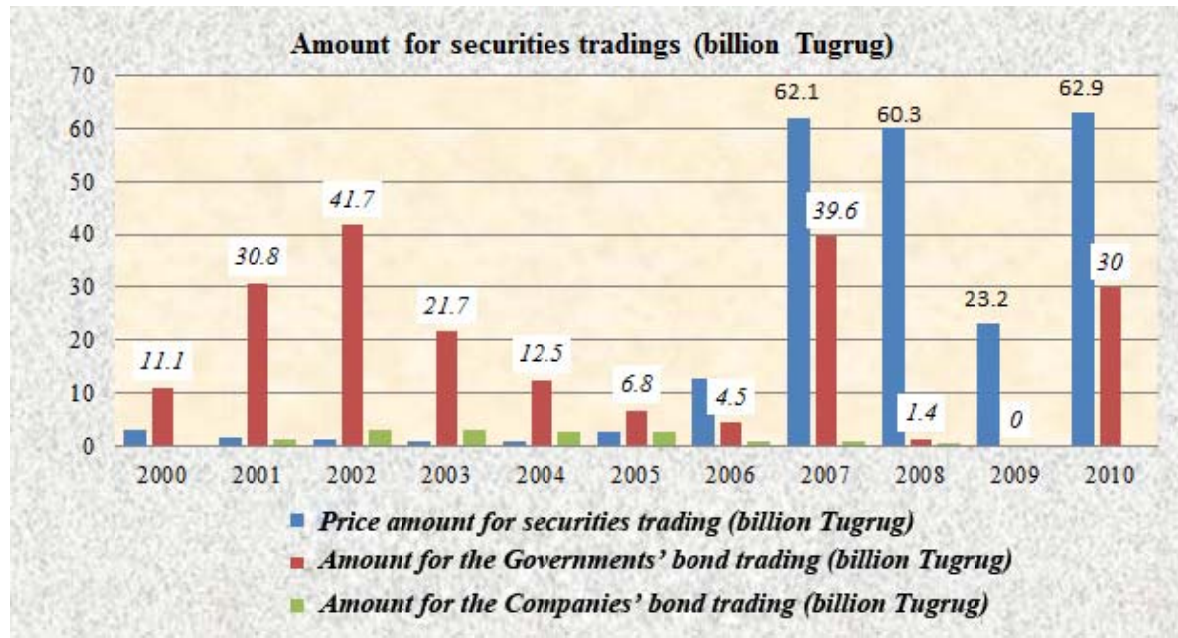
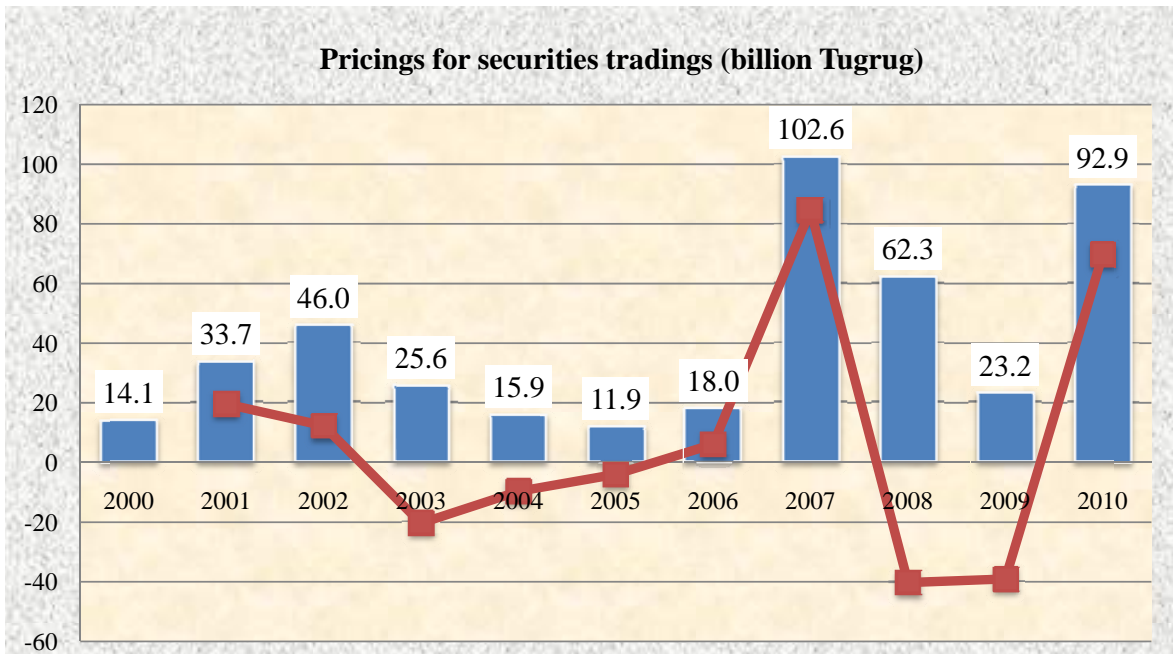
The Financial Regulatory Commission's Office of Executives has executed its activities with support of the following structure such as Department for Securities Market, Department for Insurance, Department for Micro-finance, Department for Financial Reporting, Auditing and Valuation, Quality Control Assessment, Department for Administration, Division for Legal Issue, Division for International Cooperation, Division for Information Technology, and Unit for Internal Control.

### **TWO. SITUATION OF THE SECURITIES MARKET**

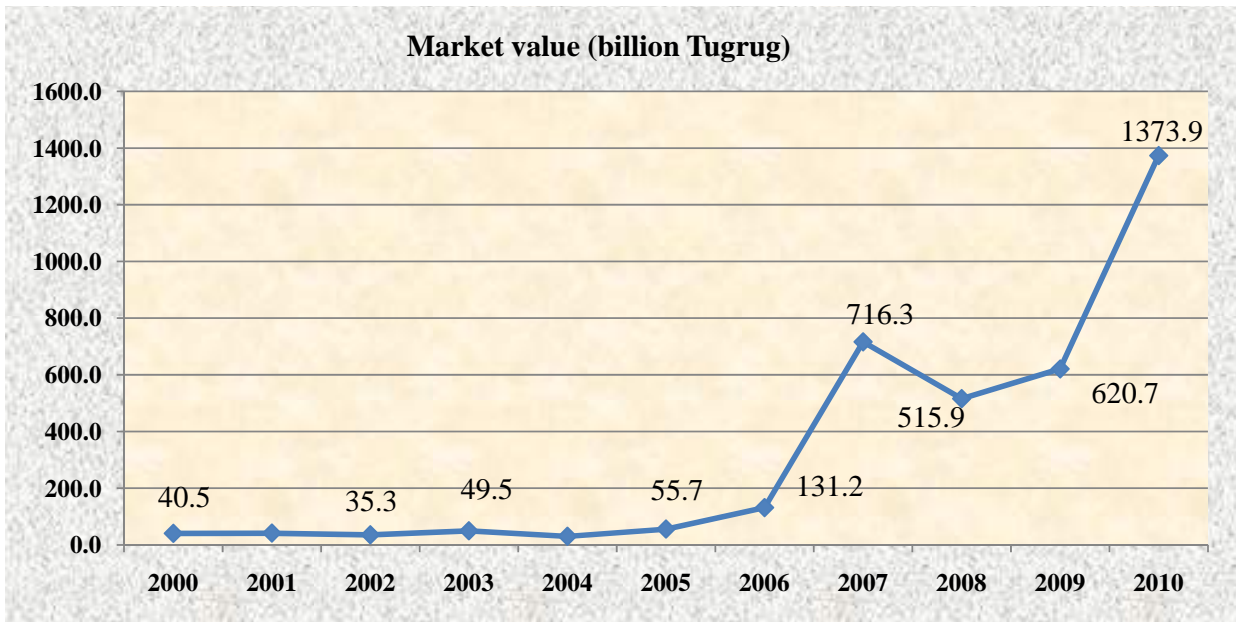
#### **2.1. Current situation of the securities market**

As of 31<sup>st</sup> December 2010, at the Mongolian Stock Exchange, there were handled in total 253 trading operations, where 64,500,000 shares of 136 companies were sold at 62.9 billion Tugrug and 3,000 Government ordinary bonds were sold at 30.0 billion Tugrug, respectively with total transaction worth of 92.9 billion Tugrug that has increased by four times compared to previous year.

The share rates for 101 companies, out of total shares of the JSCs traded their shares at Mongolian Stock Exchange in 2010, were increased, for 22 companies were decreased, and for 13 companies were relatively stable.



If a market value at the end of previous year was 620.7 billion Tugrug, it has reached to 1 trillion 373.9 million Tugrug at the end of 2010, which has increased almost by two times compared to previous year. It happened due to a sharp increase of the share rates of mining companies.



If to show by graphic, the joint stock companies with highest market values in the end of 2010, it shows the following:



TOP-20 Index, defining a general tendency of 20 listed companies in the capital market with highest market values and liquidity, has reached to 14,759.81 points by the end of 2010, which has increased by 8,569.9 points or 2.4 times compared to same period of previous year.



### 2.1.1 Professional participating institutions of the market

As of 2010, in the capital market, there was 1 institution engaged in trading operation, 1 institution engaged in securities clearing and depository operation, 50 companies engaged in brokerage and dealer operations, and 336 companies engaged in IPO issuance operations.

The Financial Regulatory Commission, in its reporting period, has granted the new licenses for 3 companies to engage in brokerage and dealer, underwriting, and investment consultancy operations; extended the licenses for 5 companies with additional operations in investment consultancy, revoked the licenses for 2 companies to engage in underwriting operations, suspended the licenses for 3 companies, extended the licenses for 24 companies, and revoked the license for 1 company.



The Financial Regulatory Commission has reviewed and made its decision on requests for 10 limited liabilities companies that were applying for amendments of their size in paid-in-capital, structure, and shareholders' composition.

The Financial Regulatory Commission, based on financial statements, has made an analysis on main indicators of the market participants' operations. This analysis has unified in total the financial statements of 143 joint stock companies and 50 professional institutions for which it has sent the responses on their reporting to 50 professional institutions.

In the reporting period, the professional institutions operating in the capital market were earning in total an income of 7.4 billion Tugrug and were spending 6.3 billion Tugrug with total lump sum of a net profit performance of 1.1 billion Tugrug.

In 2010, through Securities Clearing and Central Depository Center, it has handled an income transaction into the customers' accounts in the amount of 391.1 billion Tugrug by 3,886 times and an expense transaction from the customers' accounts in the amount of 385.1 billion Tugrug by 12,865 times, which has increased by 1,539 percent compared to 2009.

Also, from mid of 2010, the securities trading operations was intensified and the share rate across the entire market was gradually increasing. Particularly, the performance efficiency rate for total regulating institutions has increased due to a sharp increase of the share rate of mining companies.

84.2 percent of total income of the professional institutions has been formed by Mongolian Stock Exchange, Securities Clearing House and Central Depository Center, "MICC" LLC, "Global Asset" LLC, "Euro Asia" LLC, "BDSec" LLC, "Frontier" LLC, and "Asia Pacific Securities" LLC.

In the reporting period, a total capital of the professional institutions of the capital market was 34.1 billion Tugrug that has increased by 12.8 billion Tugrug compared to same period of previous year.

If 58.1 percent of total capital has been allotted to the brokerage and dealer companies, the rest of 41.9 percent or 14.3 billion Tugrug of the capital has been allotted and owned by two state-owned companies such as Mongolian Stock Exchange and Securities Clearing House and Central Depository Center.

In the reporting period, there were about more than 230 complains in regard to disposal of citizens' capital without the customers' permission. In regard to those complains, the Commission has conducted the relevant inspection and relocated 2,716 shares amounted to 432,000 Tugrug to 20 customers' accounts, in compliance with administrative procedure.

As 31<sup>st</sup> December of 2010, there were registered 45,077 main accounts and 105,826 linkage accounts with Securities Clearing and Central Depository Center LLC.

However, 86.97 percent or 109,848 customers out of total registered 843,192 customers were not opening their accounts with Investment Vouchers' Fund.

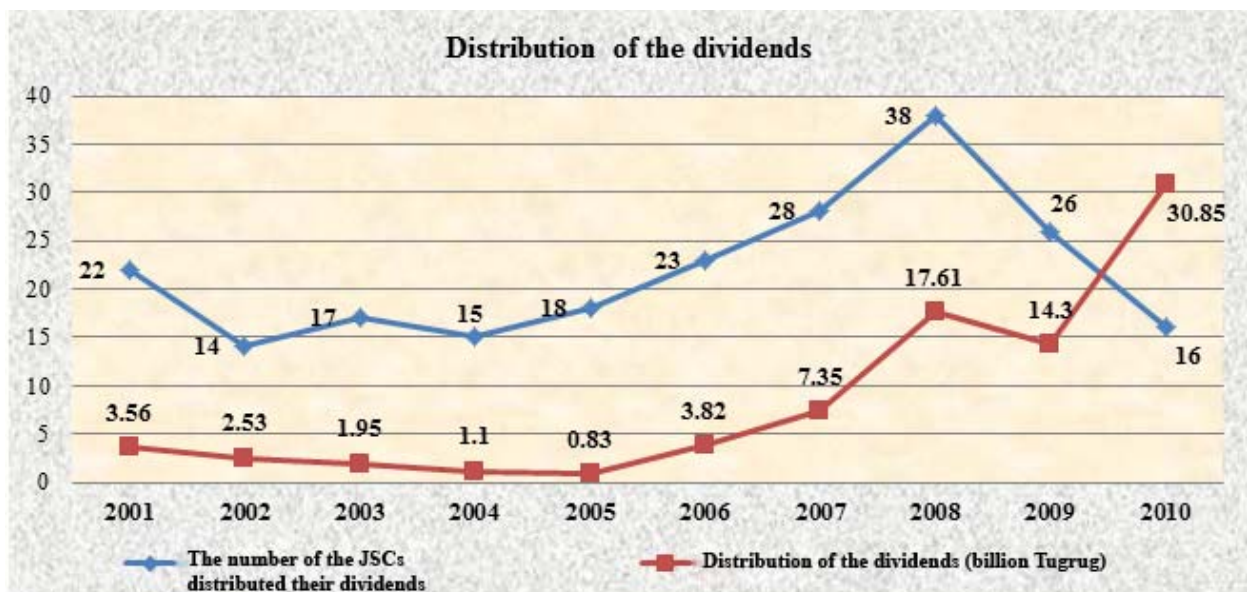
In 2010, there were 1,085 domestic citizens and legal entities and 225 foreign citizens and legal entities opened the new accounts with Investment Vouchers' Fund.

If to compare the current situation on opening the accounts with previous year, it has increased by 1.9 times for Mongolian citizens and by 2.7 times for foreign citizens, meanwhile it has increased by 184 percent for domestic legal entities and by 255.5 percent for foreign legal entities that shows an increase of interest of foreign citizens and legal entities to invest into the capital market of Mongolia.

	Type of accounts			Type of customers				Total	Linkage
	New	Investment Vouchers' Fund	Request	Citizens		Entities			
				Mongolian	Foreigner	Mongolian	Foreigner		
2006	2304	9693	4215	16158	32	18	4	16212	2020
2007	50221	6372	14207	70434	324	25	17	70800	4449
2008	2654	2907	16170	21538	121	50	22	21731	3512
2009	671	491	7749	8803	74	25	9	8911	1086
2010	1310	1185	3661	5885	202	46	23	6156	3528

### 2.1.2. Joint stock companies

In the reporting period, 16 companies, out of 366 joint stock companies listed in the capital market, have distributed their dividends in the amount of 30.85 billion Tugrug that a total amount of distributed dividends has increased by 2 times compared to previous year.



In the past, the amount of dividends were distributed by joint stock companies listed in the capital market was growing each year. Although, the number of listed companies distributing the dividends in the capital market was relatively different from each other, the amount of distributed dividends and the size of dividends allocated per securities' unit was still keeping its increase.

As end of 2010, there were registered 2,734,535,613 shares of 336 joint stock companies, out of which 1,854,363,339 shares were registered with state-owned joint stock companies, and 616,567 company bonds in 13 types and 333,000 government bonds in 4 types were registered, respectively.

If to compare the number of listed companies in the capital market with previous year, it has decreased by 22 companies, and in herewith, the majority of those companies have changed their status into the status of limited liability company.



In 2010, the Board of Commissioners' Meeting of the Financial Regulatory Commission has delisted the securities issued by 9 joint stock companies such as Auto Transport 28, Ugooj Sumber, Khailaast, Tsatsral Mon, Ilch Arkhangai, NIC, SBB, Khash Ord, and Ardin Erkh and has reviewed and issued a decision on proposal of shareholders regarding their request to purchase the other shareholders' securities of "Sharin Gol" JSCs' controlling share package, in compliance with relevant laws and regulations.

Also, the Financial Regulatory Commission has delisted a certain number of ordinary shares issued by joint stock companies such as Mongol Bazalit, Tuul songino usni nuuts, Monad, NIC, Anod, and Monfresh shuus as well as the debentures issued by Ih Barilga 360, Anod Bond, Buteen Baiguulalt, and Niislel Urguu from securities' comprehensive lists.

The dividends of private cash capital of 13 joint stock companies, in total amount of 5,528,023,627.07 Tugrug, which were delisted from registration of 2010, has been transferred to central settlements centers.

The Financial Regulatory Commission has reviewed and issued a decision on requests for issuing additional securities by joint stock companies such as Mongolia Development Resources, Hay Bi Oil, Nacho Tulsa, and Sharing Gold, in compliance with relevant laws and regulations, and by Board of Commissioners' Meeting has granted the licenses for issuing additional securities to joint stock companies such as Hay Bi Oil and Nacho Tulsa.

## 2.2. Activities for elaborating the legal regulatory framework of the securities market

The Financial Regulatory Commission took the following measures to elaborate the legal regulatory framework of the securities market:

It has developed a revised draft of the Law on Securities Market along with amendments of other relevant laws, in relation to this law. For instance, it has developed amendments for the draft Laws such as Law on Criminal Code, Law on Public Supervision, Law on Insurance, Law on Special Licensing to Engage in Legal Entities' Activities, and others.

The Financial Regulatory Commission has submitted to the respective bodies the following proposals on making amendments into the following laws:

1. In the Law on Criminal Code: thorough identification of criminal groups that might have issuing the securities for public offer on the grounds of providing a false information, i.e. the securities' fraudulent, deceptive use of the market, and participation in trading operations by using illegally its internal information;
2. In the Law on Civil Code: distinguish the full authority between the Financial Regulatory Commission and the Court (Arbitrary) on restoring the rights certified by securities and ensuring the investors' rights to obtain the securities on fair manner;
3. In the Law on Social Insurance and the Law on Insurance: formation of certain parts for social and insurance pensions' fund, creation of legal framework for insurance companies to participate in the capital market, and creation of professional investors.

Also, the approval of revised draft Law on Securities Market by Parliament shall impact on upgrade of the capital markets' infrastructure of Mongolia into the general international standards, formation of environment for risk prevention and sustainable development, and increase of the capital markets' position in economic development of Mongolia with expansion of functions and roles of the capital market in financial market.

As result of above-mentioned activities, it has considered that it will develop a non-banking financial sector of the financial market of Mongolia, release of bank-dominated credit financing that is very much dependent for nowadays, increase of new approaches for attracting an investment, and provide with more possibilities for foreign and domestic investors to gain a profit from this market.

Also, it has developed amendments for revised draft Law on Company, by reflecting some changes in regard to regular activities of the Board of Directors, the structure of their committee's interactions, open reporting, independent management, and protection of minority shareholders' interests that applies to main principles of international corporate governance.

Also, it has drafted the Law on Investment Fund.

The Financial Regulatory Commission has indicated that due to a non-formation of the legal environment for joint investment, it limits the citizens' participation in the capital market operations and discourages and shrinks the foreign investors' investment that were having an interest to invest into Mongolian economy.

In Mongolia, we had a such experience in the beginning of privatization processes that the citizens, who were purchasing the shares by their investment vouchers were combining their vouchers of the shares after the purchase in order to set up the mutual fund at



brokerage dealer firms, which was operating for that time as a branch office of the Stock Exchange; and when the brokerage dealer firms were restructured into the limited liability companies, there were more than 10 mutual funds, who restructured as to limited liability companies to engage in investment fund operations and the rest of them have distributed their formed capital fund to their members and liquidated their mutual funds.

Some parts of the capital were not distributed to their members due to inability of selling its capital deposited in the form of securities, which are still kept with Mongolian Securities Clearing House and Central Depository Center.

The parts that has restructured as to limited liability companies to engage in investment funds' operations were liquidated due to lack of environment for legal operations, shortage of qualified professional management, and recession of securities trading demand and supply in the capital market for that time.

Therefore, it require urgently to form the legal framework for mutual investment fund operations in relation to reach of a new development stage in the capital market, to grow the foreign investors' interest to invest into Mongolian economy, and to open the mutual and beneficial opportunities for foreign investors and Mongolian economy to invest into implementation of the large mining projects.

This will also help for the increase of demand in securities market and the development of market infrastructure by expanding the investors' scale in way of attracting foreign and domestic investors.

The mutual investment institution will play a significant role for the market development in way of unifying many large and small investors' capital, activating an initial market by managing its operation at professional level in the capital market, enhancing the secondary markets' liquidity, and improving the governance of securities issuing companies.

As result of privatization process, every citizen of Mongolia became the shareholders, but they were unable to make a professional market analysis and decision on rational investment that the mutual investment institution had a significant role to play in it.

Despite above-mentioned draft laws, it has proposed and cooperated on amendments of the Law on Central Bank, the revised draft Law on Banking, the draft Law on Capital Valuation, and the draft Law on Credit Information Bureau.

The Financial Regulatory Commission has submitted its Plan for measures to develop the capital market for 2010-2012, which has been approved by the Government Resolution No.115 of 2010 that could fully cover the sphere of governmental and non-governmental organizations and lay the foundation for core objective to implement a complex and mutually interrelated measures.

The Financial Regulatory Commission has developed a draft of the relevant amendments and issued its decision in regard to regulating a relation on proposal of purchasing the ordinary shares on voluntary bases from any legal bodies based on the following regulations such as "Operations on proposal for purchasing the shareholding companies' shares on compulsory and voluntary bases", "Registration of IPOs", "Fees collected by regulatory institutions", "Protection of customers' cash capital", "Dissemination of price sensitivity information from securities issuers for public and securities market", and "Consolidated registration of licenses and rights granted by the Financial Regulatory Commission".

The Financial Regulatory Commission has developed a draft on “Regulation on inspection procedures of the Financial Consortium”, in order to form an efficient performance of consolidated financial regulatory and inspectorial processes and to improve the regulatory institutions’ work interactions, which has to be approved in joint cooperation with the Bank of Mongolia.

### **2.3. Inspection activities for enforcing the legislations of the securities market**

During the reporting period, the Financial Regulatory Commission has developed a consolidated plan on conducting on-site inspection at professional participants’ and joint stock companies’ operations of the capital market, and has performed its activities in compliance with Terms of Reference approved by Financial Regulatory Commission’s Chief of Executive Office.

During the reporting period, the Financial Regulatory Commission has conducted inspection at 57 joint stock companies in Dornod, Khuvsgul, Orkhon, Uvurkhangai, Umnugobi, Bayan-Ulgii, Central provinces, and Ulaanbaatar city, at 14 joint stock companies in regard to their dividends’ distribution, and at 49 limited liability companies of the market professional participants.

If to mention specifically in regard to inspection activities, the Financial Regulatory Commission has conducted inspection at Erdenet Invest LLC engaged in investment fund operation, whose license was terminated and has submitted its relevant conclusions and evidences on inspection activities to the Criminal Police Department of the General Police Authority for initiation of the criminal proceedings.

The Financial Regulatory Commission has also conducted on-site inspection at MICC LLC, Nortensek LLC, and Monet LLC who deals with mediation service operations in purchase and sell of securities from foreign securities markets through the foreign institutions engaged in securities trading operations, and has made its conclusion for detected misconducts and provided with their professional instructions and recommendations.

The Financial Regulatory Commission in joint cooperation with Securities Central Depository Institutions has conducted inspection in Dundgobi, Uvurkhangai, Dornod, and Bayan-Ulgii provinces and has conducted trainings and discussions, in order to provide the local citizens with knowledge on securities market.

Within the scope of these activities, the Financial Regulatory Commission has also conducted activities in the field of checking and certifying the outstanding capital in securities central depository center, opening of an account, and allocating to the owners their dividends and cash capital generated from the dividends’ share and shares’ sale.

Within the scope of joint stock companies, the Financial Regulatory Commission has studied its decision on suspension of trading operations of joint stock companies and has issued its relevant decision on this issue. In regard to protection of the shareholders’ interest, the Financial Regulatory Commission has paid a specific attention on issues of 55 joint stock companies considered as to possible waste of properties, due to inaccurate operations of the current companies’ executives and larger shareholders and of which 20 joint stock companies’ issues were submitted to the relevant Police departments for its further investigations.

By decision of the Financial Regulatory Commission, it has provided the required instructions in accordance with relevant laws and regulations to 116 joint stock companies whose trading operations were suspended in 2008. It has also reviewed and issued the

decisions, based on their adequate requests, in regard to holding the shareholders' meeting of joint stock companies and to restoring their trading operations or liquidating the joint stock companies. The status of a decision issued for joint stock companies, whose trading operations were suspended, is given in the below table:

As of December 2010

No	Number of joint stock companies with suspension of trading operations	Number of joint stock companies hold their companies' shareholders meeting	Number of companies with changes in their organizational type	Number of joint stock companies applied for restoration of their trading operations	Liquidated
1	166	53	22	9	3

Also, it has inspected whether the decisions issued by authorized body were valid and legal in compliance with the legislations on 27 occasions, in regard to amendment of registration for ownerships rights to own the joint stock companies' property and capital, selling to others, pledging, and obtaining a loan.

#### **2.4. Off-site inspection for ensuring enforcement of the legal obligations by joint stock companies**

The Financial Regulatory Commission has announced through a daily newspaper of Udriin Sonin dated on 12 August 2010, the names and termination of full authority of 212 joint stock companies' executives out of 376 joint stock companies that were registered in the beginning of reporting period and have not delivered their regular meetings' minutes and materials to the Financial Regulatory Commission.

It has also compiled the reports of off-site inspection activities at professional participating institutions of the securities market, 2009 annual reports of joint stock companies, 2010 semi-annual financial reports, 2009 annual reports of professional participating institutions, and 2010 all quarterly financial reports.

The activity of consolidating a daily, monthly, and quarterly indicators for TOP-20 joint stock companies' indexes registered with database system of the Mongolian Stock Exchange and all other indicators such as the list of all daily trading operations, the sum of monthly securities trading operations, smonthly 30 active traded securities, trading information on 30 securities with high market-values, monthly information on 20 securities with high fluctuation rates, and trading results of each brokerage and dealers companies were a very significant measure for the Commission's study.

In accordance with regulation on consolidated securities markets' database system, it has conducted an activity for establishing a database system at FinA software program and at the moment, it has inserted into the database system an information on detailed registration of the securities and its changes, the sum of consolidated indicators of financial reports of the professional participating institutions and their statistics and analysis, the sum of consolidated indicators of financial reports of the securities issuers and their statistics and analysis, and the performance of general obligations of the joint stock companies, stated in the Article 10 of the Law on Securities Market.

## **2.5. Activities for protecting the the shareholders' and investors' legal interest**

Since 1997, it has been conducting the number of activities for abolishing the consequences of illegal operations handled by the company's executives, authorized bodies, large shareholders, brokers, and dealers in regard to breach of ownerships' rights of shareholders and investors by causing a damage to them, who were certified by their securities, to restriction of their rights in receiving the dividends, to sell and transfer of the shareholders shares without their permissions, and to devaluation of joint stock companies' capital and sell and transfer of this capital to others against the applicable laws.

The majority of registered joint stock companies does not hold their regular shareholders' meetings, provide the shareholders with necessary information, fulfill the legal obligations for their controlling package-holders, and act with authority in disbursement of the companies' capital and accuse interest of minority shareholders when distributing the dividends.

In the fiscal year, the Financial Regulatory Commission has delivered in total 82 inspectors' official requirements to the relevant legal bodies and authorized officers in regard to application and complaints issued by investors, individuals, and legal entities addressed to the Financial Regulatory Commission as well as to the result on inspection activities, and has imposed a fine in total of 710,000 thousand Tugrug by its 7 times state inspectors' administrative reports.

In the reporting period, it has received in total of 322 complaints and applications in regard to trading of shareholders' shares at Stock Exchange without their permissions and embezzling money, which has been solved by preliminary non-court regulation within a given authority by the Law on Civil Code and the Law on Legal Status of Financial Regulatory Committee.

The cases related to executives of Erdenet Invest Investment Fund and Erdenest Brokerage and Dealer Company, in regard to breach of rights certified by other peoples' securities and cause of a large amount of damages, were preliminary investigated and has established the cases with evidential materials, which was transferred to related Police Departments of subordinated territories. Also, it has issued an official expertise conclusion on criminal case of Munkhud LLC that was previously transferred to the Police Department and has taken all necessary measures for it.

Also, in order to create for individuals with possibilities to participate in market operations, it has selected the servicing company to serve the shareholders of Khuvsgul, Arkhangai, and Zavkhan provinces, in accordance with regulations on transferring of the customers to brokerage and dealers companies whose licenses were terminated, and Goodsec LLC became the servicing company to engage in this securities operation for the customers of Arkhangai and Zavkhan provinces and BDBSec joint stock company for the customers of Khuvsgul and Orkhon-Uul provinces.

In regard to protection of investors' rights, the resolution issued by the Financial Regulatory Commission and the administrative acts on restoring the ownerships' rights certified by securities and amending the securities' registrations, the Commission has settled 6 cases related to above-mentioned issues by Administrative Affairs Court and 3 cases by Civil Case Court in 2010, respectively, and in total 21 trials were held in 2010, which were attended by the Financial Regulatory Commission.

## **2.5. Activities for raising public awareness on securities market and enhancing financial education of the shareholders and investors**

In the reporting period, the Financial Regulatory Commission, within its objective of enhancing a public knowledge and education, has developed a proposal on including the subject of securities market in curriculum of the secondary education to follow in nationwide scale and has submitted it to the Ministry of Education, Culture and Science.

Besides, it has also developed, in joint cooperation with the Ministry of Justice and Internal Affairs and the National Center for Justice, a detailed curriculum on financial market operations to include it in law training courses conducted for lawyers for advancing their bachelors, masters, and professional degrees.

The Financial Regulatory Commission, in joint cooperation with the Ministry of Justice and Internal Affairs, has organized among the legislators a seminar on topic of “Burning issues for solving the cases and disputes in the capital market’s operations” that was financed by the Asian Development Bank.

The Financial Regulatory Commission, in joint cooperation with the Prime Info Center, has successfully organized, for the first time in Ulaanbaatar, the Financial Forum on: “Mongolia: Money and Market” in October 2010. The Forum has been participated by over 450 representatives and delegation from the Bank of Mongolia, the Ministry of Finance, and the National Development and Innovation Committee, which were official supporting government institutions.

Within the scope of current Forum, there were hold several presentations and discussions on the topics of: “The state regulation and legal environment of the securities market”, “Burning issues faced by professional participants in the securities market”, “Burning issues of Mongolia’s mortgage market and its development opportunities”, “Impacting issues and factors on development of Mongolia’s securities market certified by immovable properties”, “Example for bond financing of real estate project: Advantages and Disadvantages”, “The quality of securities in Mongolia and development of capacity in securities’ researches and analyses”, “The development for creation of institutional investors in Mongolia”, “The development and opportunities of the government and local bond markets”, “Privatization and development of Mongolian Stock Exchange”, “Formation of a good corporate governance in Mongolia”, “Can we value the business?”, “The requirements and demand for developing a Rating System in Mongolia”, and “Burning issues in financial registration, reporting, and auditing”, which considered as a successful event by attracting an interest of financial sectors’ delegation.

The Financial Regulatory Commission has organized a contest for selection of the best scientific and research work on “Developing the capital market in Mongolia” among the professional organizations, the legal and financial and economic faculties of academic institutions, the professors’ team, the scientists and experts, the students and amateurs.

The Financial Regulatory Commission, in joint cooperation with the Asian Development Bank, has published a compilation on securities markets’ laws and regulations, a manual on capital market, and the posters and has distributed them for official use.

In 2010, the Financial Regulatory Commission, in joint cooperation with the Asian Development Bank, has organized a public open dialogue day on topic: “For the citizens’ financial education” in the centers of Bayan-Ulgii, Dornod, Uvurkhangai, Zavkhan, and Khuvsgul provinces and in Bayangol and Sukhbaatar districts of Ulaanbaatar city, with a special program. In total 956 citizens have received information on securities market,

conducted the short-term training sessions, provided the consultancy services for interested questions from the citizens, and distributed introductory materials, instructions, and recommendations. These events were developed and broadcasted through local televisions and radios.

The executives of the Financial Regulatory Commission's Departments were participating in the programs broadcasted through BTV, UBS, Mongol Television, and C1 television channels to provide information on activities carried out by Financial Regulatory Commission and the market conditions and in a direct program broadcasted through TB 25 television channel to provide information on burning issues of securities market for certain times and answer to the questions of the viewers. Also, they have given 5 interviews in daily newspapers such as Zuunii Medee and journal of Securities Market.

The Financial Regulatory Commission has also conducted the seminars and meeting-interviews for participants in the securities market on issues related to professional participants' ethics, the requirements set out for IPO securities' issuers, the principles of corporate governance, and a discussion on draft Law on Investment Fund.

In the contest on topic: "The securities market" had conducted among the senior students of the School of Computer and Technical Management in November 2010, the Financial Regulatory Commission has cooperated with them in providing theoretical and methodological training materials, reference books, and materials.

The Financial Regulatory Commission, in joint cooperation with School of Finance and Economy and with Shikhikhutag Institute has conducted the lectures among the master degree's students on corporate governance issues and among the final year's students on legal regulation of the securities market, respectively.

Also, it has conducted the lectures at the State Consultative Meeting among the control inspectors of the State Registry Authority on state inspectors' legal bodies and among the inspectors of the Anti Corruption Agency on securities market relations, respectively.

In November 2010, the Financial Regulatory Commission in joint cooperation with State Property Committee and Corporate Governance Development Center has successfully conducted a training session on good corporate governance issues among the directors and executive directors of Board of Directors of the state-owned joint stock companies.

At the International Conference organized by Mongolian University of Sciences and Technology, the representative from the Financial Regulatory Commission has hold a presentation and discussion on topic: "Introduction of knowledge-based economy trends in the financial market".

Also, the Financial Regulatory Commission has conducted the International seminar on topic: "Assessment of the financial sector and reformation of the capital market in Mongolia" on 6 May, 2010 in the Meeting Hall of Ulaanbaatar Hotel.

In the reporting period, the Financial Regulatory Commission has conducted a training session that grants the rights to engage in securities market operations and handed out to 46 people these certificates.

Within the scope of conducting a campaign on principles of the corporate governance and supporting a good corporate governance, the Financial Regulatory Commission, in the reporting period, within the scope of improving the governance for responsible sectors, has set out its goals to create a favorable legal environment, to protect the customers interest,

and to advance and renew the corporate governance codex for each sectors and carried out the following activities in 2010:

1. Has published the brochure on “Corporate Governance” and conducted the Forum on “Corporate Governance”.
2. Has developed a manual for members and directors of Board of the Directors and started in joint cooperation with Corporate Governance Development Center a training program, in consists of 15 modules, to train the instructors and teachers for enhancing their knowledge on principles of corporate governance and international best practices.
3. Has developed a portal site on corporate governance and all sectors’ related issues to place at Commission’s website.
4. In regard to forming the legal environment for investment fund, it has initiated and conducted a discussion among the executives of government and private sectors’ institutions, securities issuers, and the executives of limited liability companies and other organizations, developed a program on “National Program on Corporate Governance” with joint participation of Members of the Parliament that was approved by the Government of Mongolia.

### **THREE. MICRO-FINANCE SECTOR**

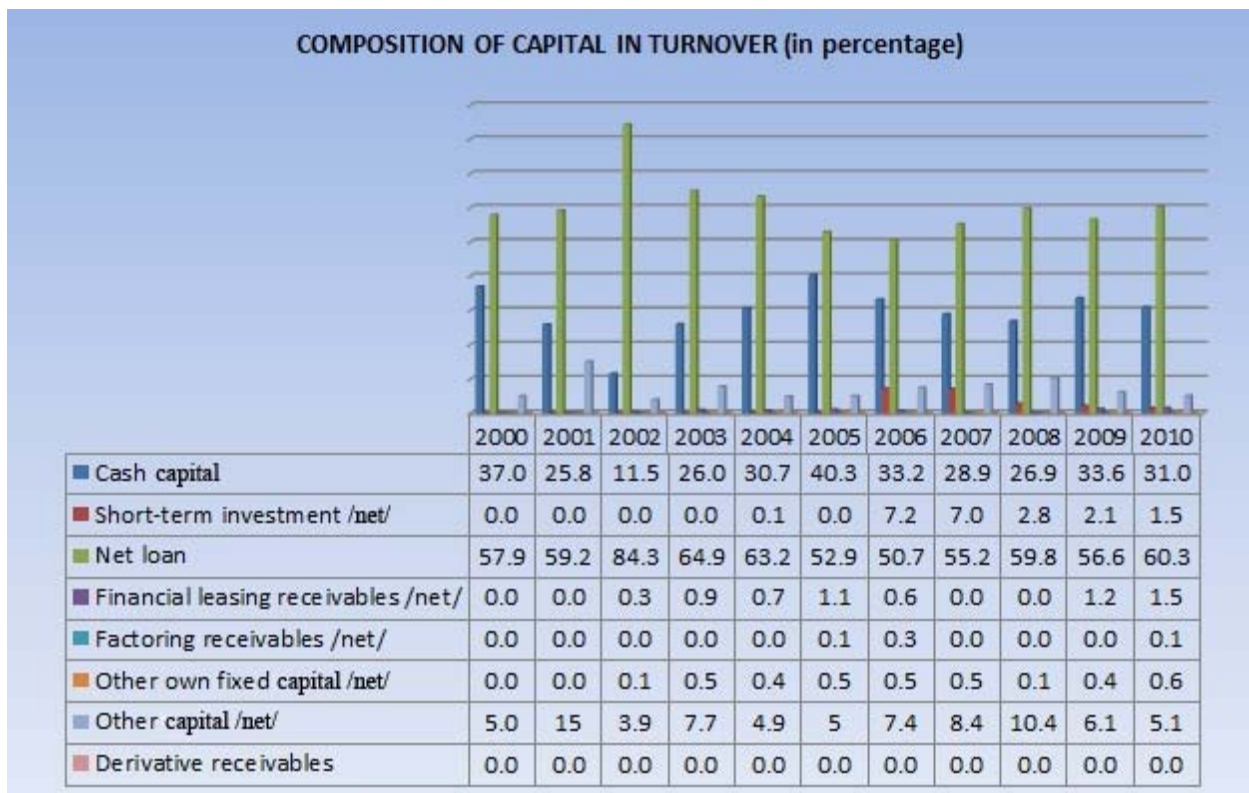
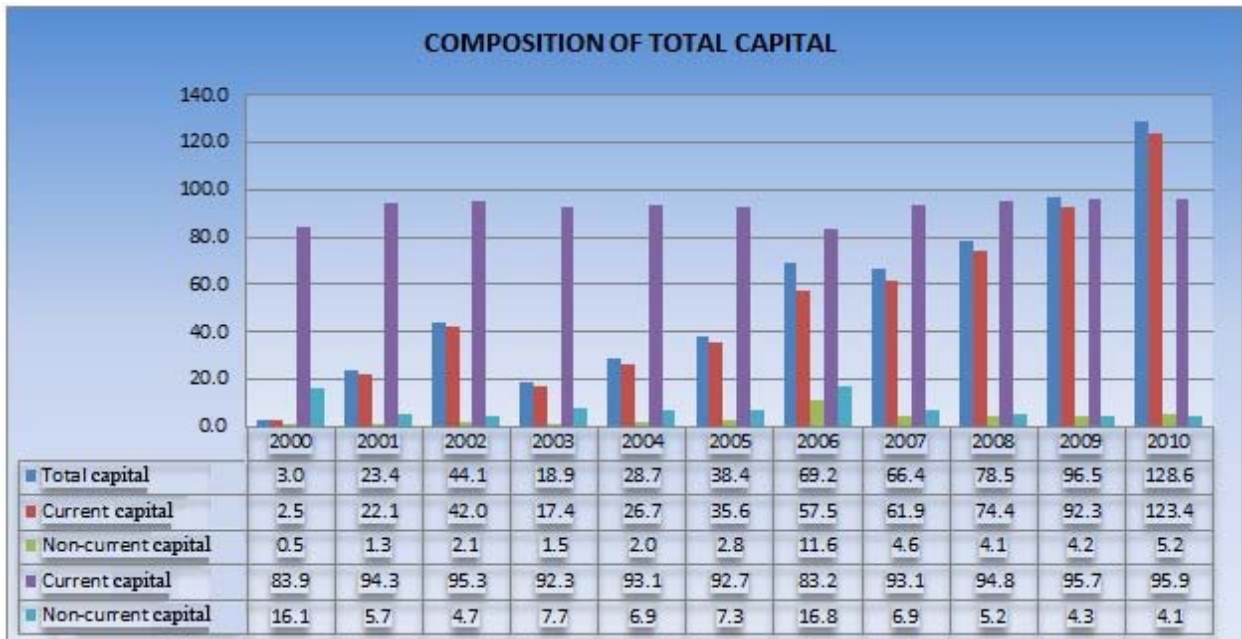
#### **3.1. Current situation of the non-bank financial institutions**

In regard to strengthening the basis for sustainable operation of non-bank financial institutions (furthermore, refer to as NBFIs), the Financial Regulatory Commission, with the purpose to advance the regulatory legal environment and to sophisticate with international general standards, has made the several steps in advancing the infrastructure- and risk-based regulations and inspections by developing the new and renewed legal documents sophisticates to international standards and in strengthening current sectors’ development and its further sustainable basis.

There are 182 licensed NBFIs engaged in non-bank financial operations and out of it 156 NBFIs operates in Ulaanbaatar and 26 NBFIs in rural areas, by end of the 2010. Moreover, 15 NBFIs are 100 percent private and joint invested presenting the countries such as Japan, Republic of Korea, Italy, and others.

In the reporting period, the number of branches and units of the NBFIs has reached to 63, shareholders to 582, and employees over 880, respectively and those NBFIs have provided the financial services to over 158.5 thousand customers, in duplicated figures.

## 1. Total capital



In 2010, total capital of the NBFIs has reached to 128.6 billion Tugrug equaling to 2.1% of total capital of the banking sector.

In the reporting period, total capital of the NBFIs has increased by 33.3 % compared to same period of previous year that a major impact on it was an increase in accumulated profit



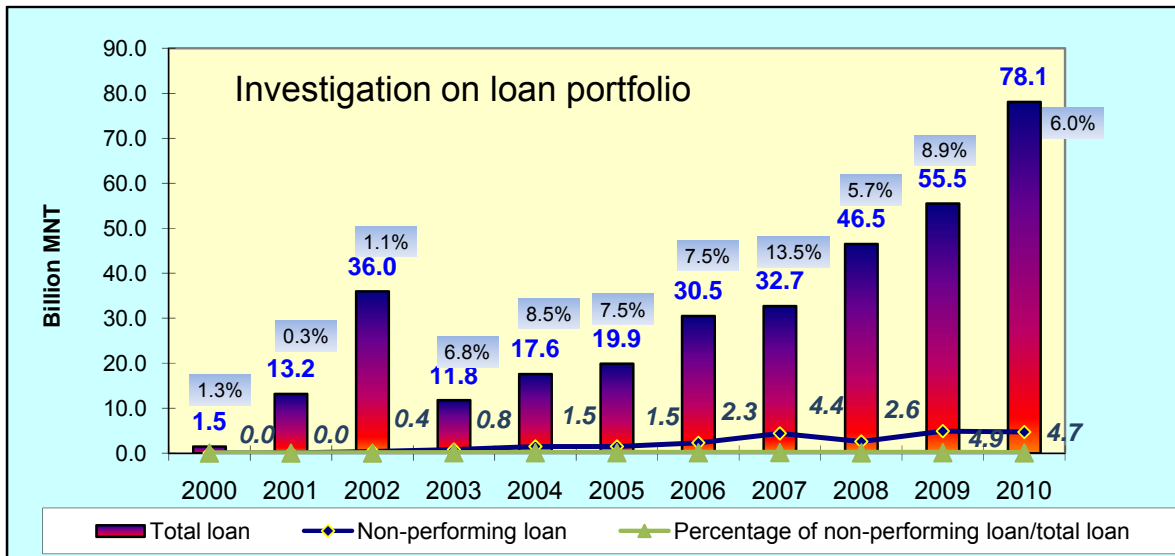
as outcome of the NBFIs operations by 54.1%, total liability by 69.3%, and share capital (paid-in capital) by 20.6%.

Outstanding for loan balance equaled to 60.7% and for cash capital to 29.7% or in aggregate 90.4% of total capital of the NBFIs that defining the main operations of the NBFIs were based on their lending activities.

## 2. Quality of the loan portfolio

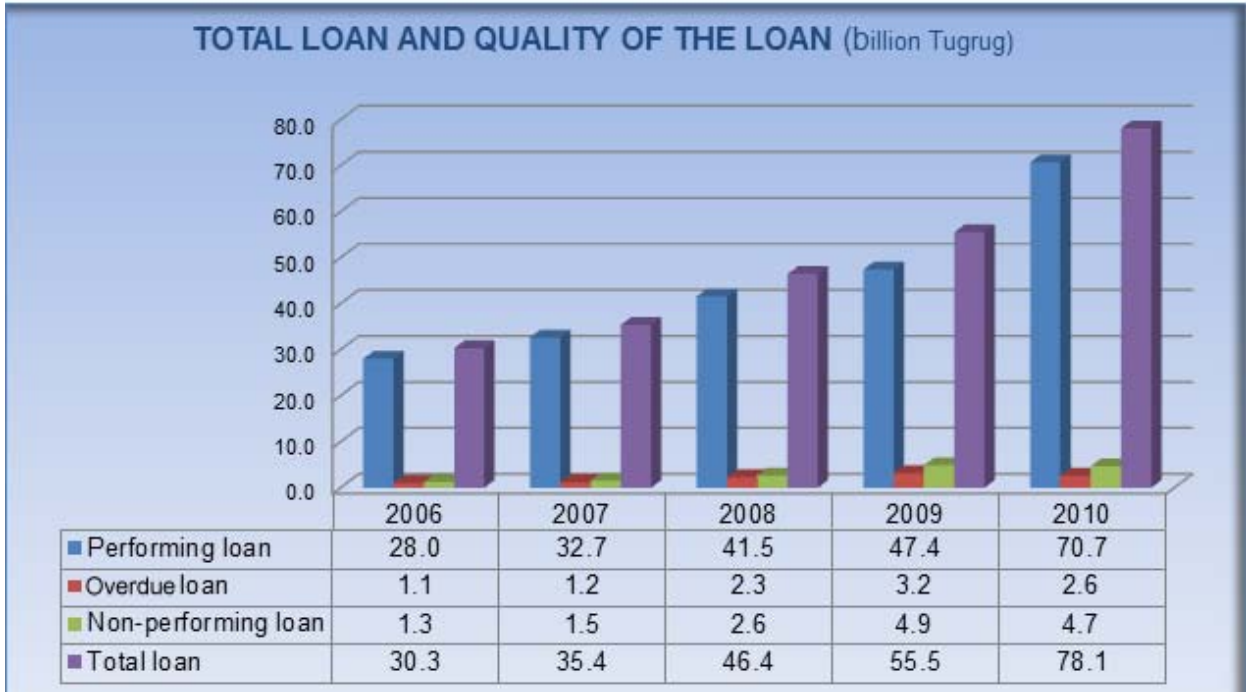
If to compare the NBFIs' total loan portfolio structure in the system with previous years it shows the following. During the period of last decade, the share of non-performing loan for loan portfolio in 2007 was the highest indicator showing an increase in 3.2 % for 2009 due to a decrease of operational income of the lenders in relation with financial and economic crisis, the relatively unfavorable legal environment for repaying the loans by way of selling the pledged capital, and unsatisfactory performance of proper management of some NBFIs' executives.

In 2010, the share of non-performing loan, compared to previous year, has shown a decrease in 2.9%.

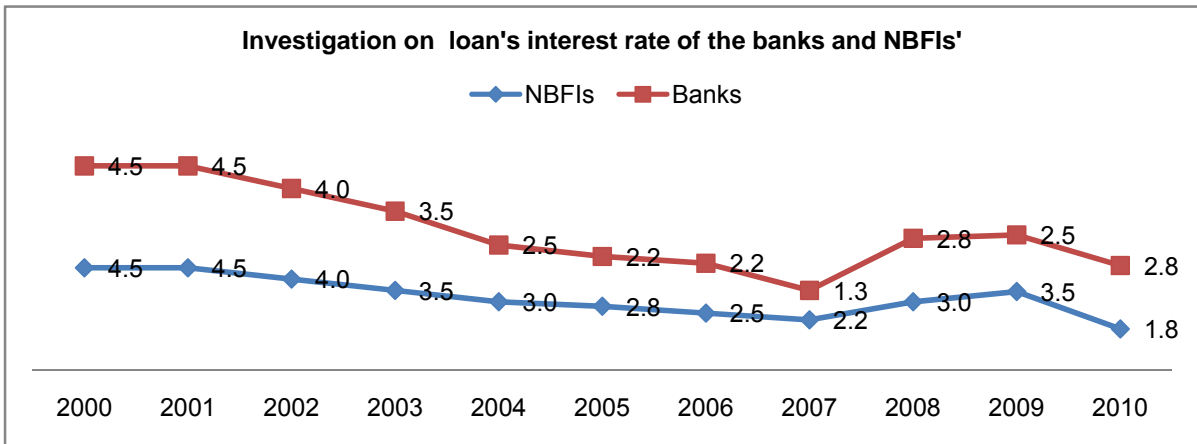


However, if to compare the loan share, for the reporting period in 2010, with previous year, total loan portfolio has increased by 40.7 % that the share of performing loan in loan portfolio has increased by 5.1%, whereas a non-performing loan declined by 2.8%.

The share of non-performing loan in total loan portfolio occupies 6.1% showing the quality of the NBFIs' loan portfolio in the system has good indicator, however the establishment of credit risk fund in the amount of 3.7 billion Tugrug is equivalent to approximately 78.7 % of non-performing loans.



### 3. Interest rates of the loan

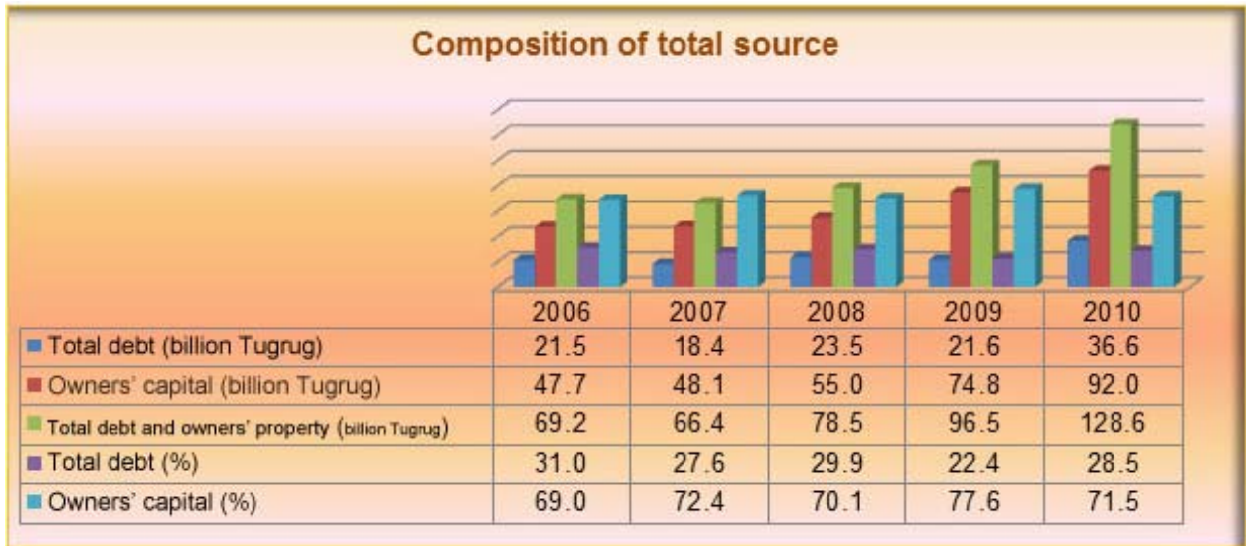


Although the loan's interest rates were decreasing constantly from 2006 due to intensified competitions between the banks and NBFIs, the loan's interest rates were increasing in 2008-2009, in relation with domestic inflation rate driven by financial and economic crisis. However, since 2010, in relation with appearance of positive tendency in financial and economic stabilization, the loan's interest rate had a tendency for a decrease.

### 4. Total source

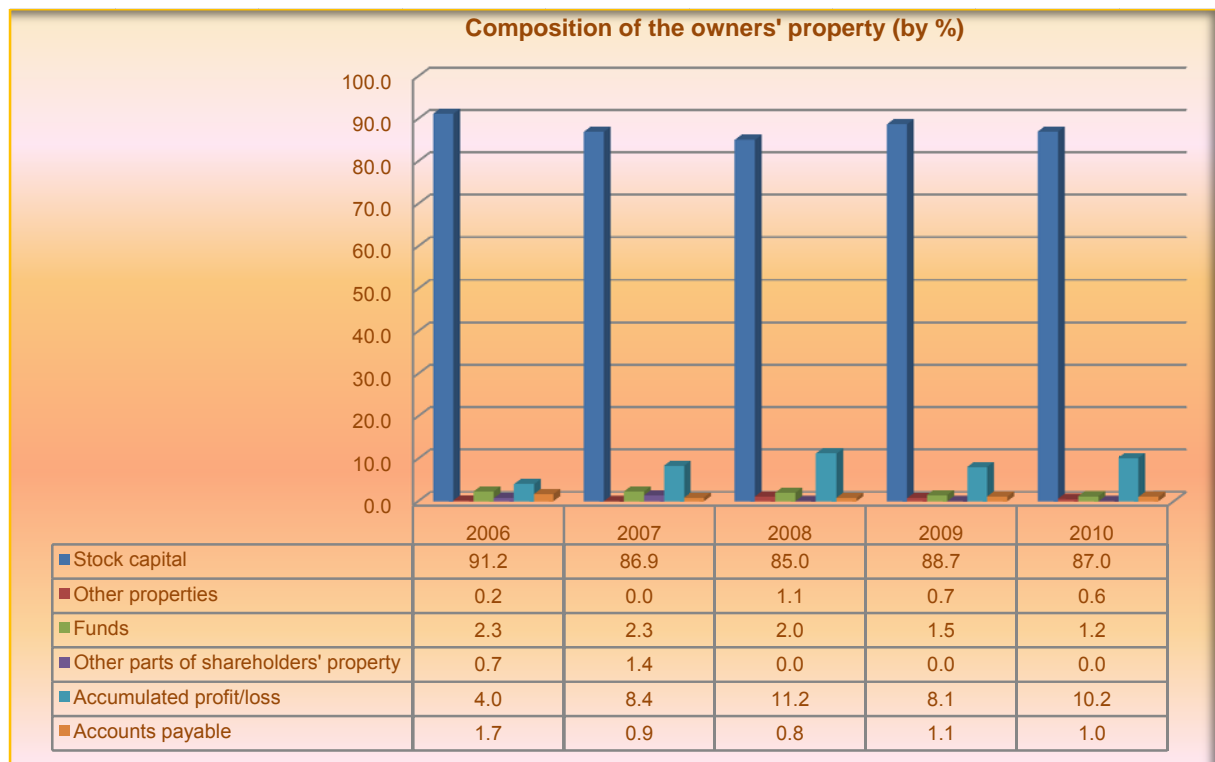
If to show by graphic a comparison of some indicators of the NBFIs' main total source with previous years, it shows the following.

In the reporting period, total debt compared to the same period of previous year has increased by 69.3 % and the owners' property by 22.9 %, respectively that if total debt was occupying 24.4 % and the owners' property 77.6 % of total liability in the reporting period of 2009, it has changed to 28.5 % for total debt and to 71.5 % for the owners' property in the reporting period of 2010.



Indeed, for the growth of own capital and owners' property, the Resolution No.169 of "Renewal on setting out the minimum paid-in-capital amount for the NBFIs", issued in 2008 by the Financial Regulatory Commission, has played an important role for increase of the NBFIs' paid-in-capital size.

Increase in capital source that attracted from other sources and in own capital compared to previous year has boosted the capability of the NBFIs to incur the risks by their own capital impacting to positive changes in a stable financial operation.



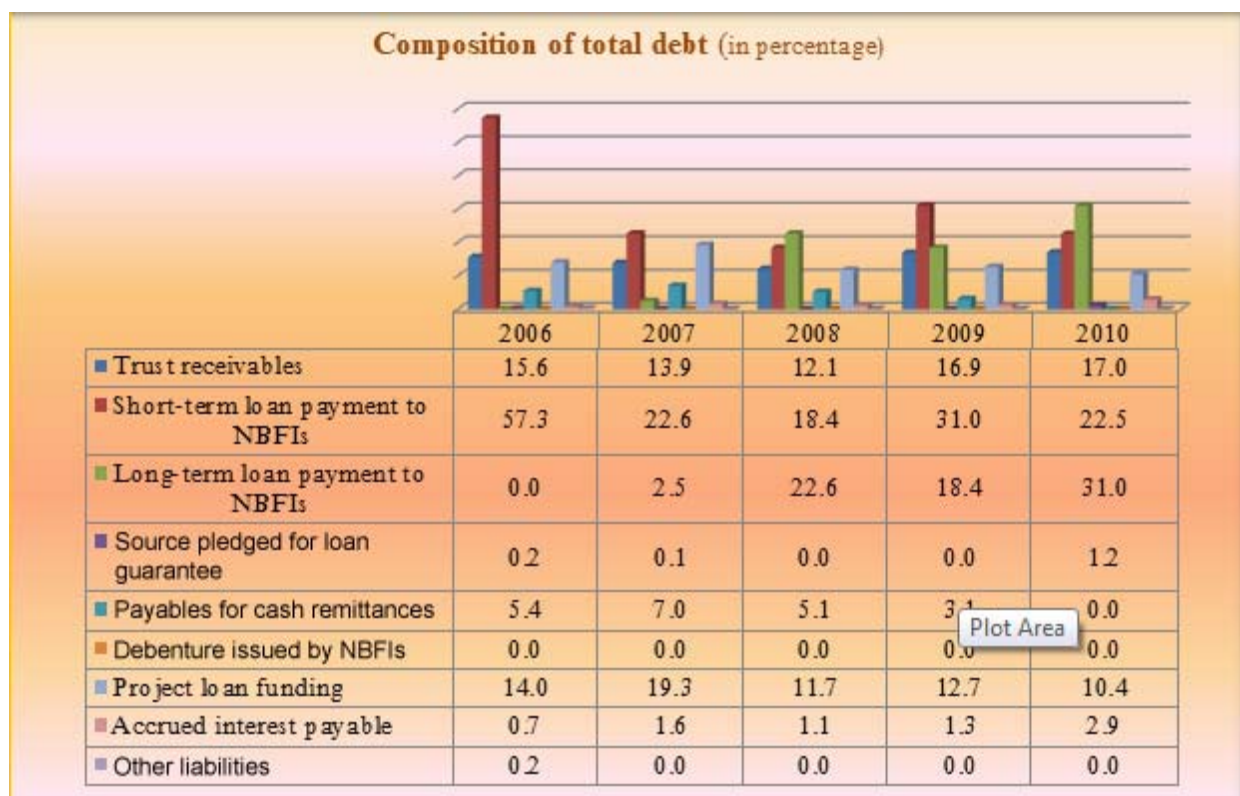
Reach of NBFIs' total own capital to 92.0 billion Tugrug has equaled to 24% of the owners' property in the whole banking sector.

Due to an increase of the NBFIs' paid-in-capital size, 87% of own capital has comprised of the NBFIs' paid-in capital.

## 5. Total debts

If to show by graphic a comparison of the NBFIs total debt with previous years, during the reporting period it has increased by 69.3 % compared to the same period of previous year amounting to 28.5% of total source. The main reasons for increase of total debt in total source were on one hand, an increase in NBFIs' stock capital and accumulated profits, while on other hand, an increase in NBFIs' trust service payables and the size of the loan extended by local and foreign banks and financial institutions.

The NBFIs' income, expenditure and profitability figures in comparison to previous year are as follows.



## 6. Profits

Total income during the reporting period has increased by 12.8% compared to previous year that has a direct relation with increase in NBFIs owners' property and the growth of attracted sources from others; and the growth of interest and non-interest income - one of the source from main operations - has impacted on the growth of total income. However, non-interest income has decreased to 24.4% compared to the same period of previous year occupying 68.7% of interest income and 28% of non-interest income in total income of the reporting period.

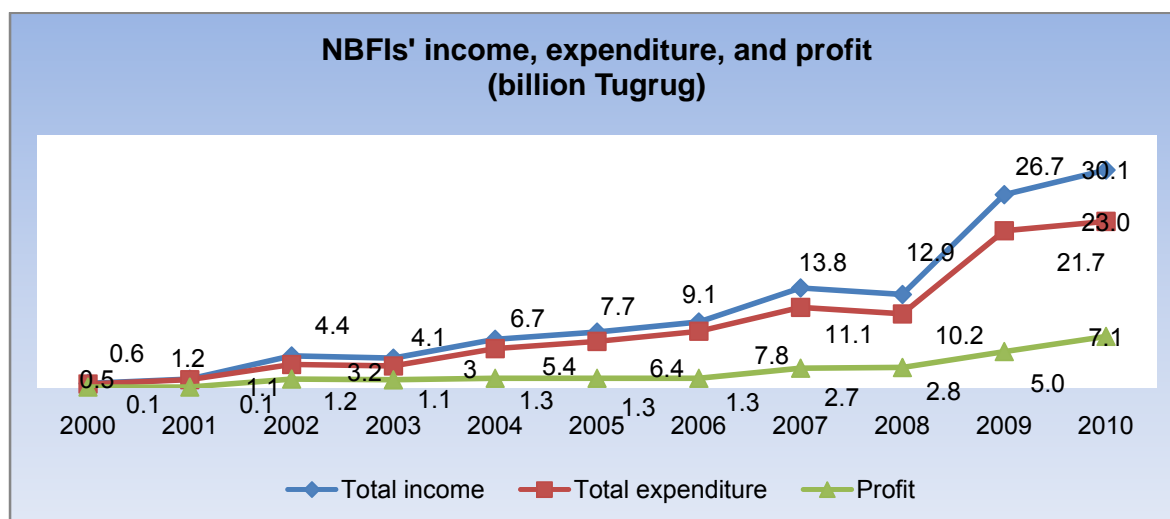
Total expenditure of the reporting period compared to the same period of the previous year has increased by 5.9%. However, there were some changes in the composition of total expenditure. For example, interest expenditure has decreased by 2.6%, non-interest

expenditure by 2.9%, possible risks expenditure by 24.9%, non-main operation expenditure by 34.4%, and income tax expenditure by 50.9%.

In other words, during the reporting period of 2010, if total income has increased by 12.8% total expenditure has increased by 5.9%. Due to intensification of the NBFIs operations and expansion of scope of activities, the growth for expenditure rate is relatively high although a steady increase of interest income.

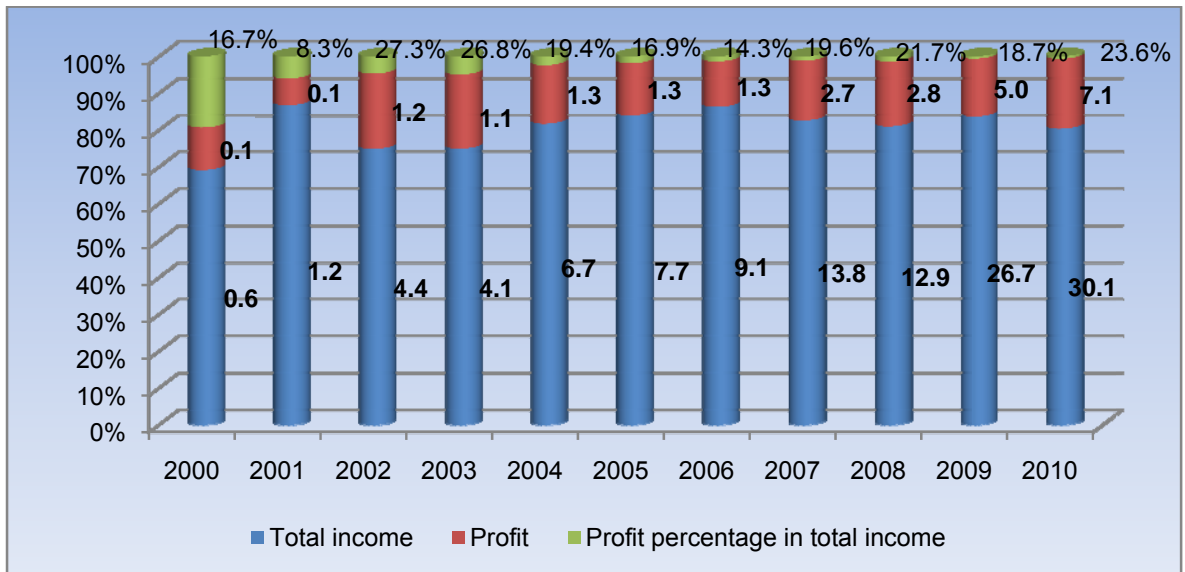
An increase of possible risks expenditure in capital indicates the weakness of quality of the NBFIs' loan portfolio and constant increase of the size in non-performing loans.

If to compare the NBFIs' income, expenditure, and profit indicators with previous years, it shows the following results.



However, during last 11 years, the ratio for NBFIs' net profit after taxes in total income had the following results.

During the reporting period, the NBFIs has gained net profit of 7.1 billion Tugrug after tax indicating an increase of 43% compared to the same period of previous year and of 5%, if to estimate the ratio for current indicator in total income for each given periods. In another word, an increase in total profits compared to previous year was not only an impact of growth of the NBFIs' capital and quantity of the NBFIs, but also was a direct impact of their efficient operation of activities.



The ROA that expresses the NBFIs' efficient operational level has reached to 7.2%, the ROE 8.8%, and profit after tax to 7.1 billion Tugrug.

### 3.2. Activities for advancing the legal regulation of the non-bank financial institutions

The Financial Regulatory Commission has developed and submitted a revised draft of the Law on Non-bank financial activities to the Members of the Parliament, with the purpose to create a favorable environment for the non-bank financial sector's activities, to form the legal opportunities and possibilities for developing in deeper sense the financial intermediary services in way of introducing the new products and services in financial market, to sophisticate the financial sector's development trends in line with international standards and practices, and to pursue the regulatory flexible policy. With approval of the draft law, the legal environment for regulating the non-bank financial sector to be more transparent and the scope of their activities to expand; and the Financial Regulatory Commission by its regulatory policy to be able to support an introduction of new financial intermediary products, services, and activities in the capital market, to form a rational supervision system for their requirements and sanctions, for law breaches to define the concrete compulsory punishment measures and imposition of the administrative fines to reduce the possible risks may occur in current sector, which to play a significant role for the future stable development.

As result of these measures, the legal environment for developing a non-bank financial sector of the financial market to be improved, an investment to be increased due to creation of a favorable operational environment, the sectors development intensification to be strengthened, and a role of the banks and non-bank financial institutions to be increased in socio-economic indicators of the country by impacting at certain stage on implementation of correct and efficient monetary policy processes pursued by the government.

With the purpose to support the loan guarantee fund services with policy support and to ensure with state regulation for certain period, the Financial Regulatory Commission has approved a temporary regulation on "Regulating the loan guarantee fund services" and the regulation on "Issuance of closed debenture from non-bank financial institutions".

Also, the Financial Regulatory Commission has prepared the related amendments to the revised draft Law on Foreign Currency in regard to legal regulation of the currency exchange for discussions of the Financial Stability Council's Meeting.

Within the scope of reducing the loan risks of the financial sector and supporting small and medium-sized enterprises by government, the Financial Regulatory Commission has joined a working group on developing a draft proposal for the Law on Loan Guarantee Fund and has reflected its view, in terms of the legal framework, to consider an operation of the loan guarantee fund as a non-bank financial institution.

### **3.3. Activities for supervising and examining enforcement of the legislations in non-bank financial operations.**

Within the main framework of ensuring the financial sector's stability, it has supported activities for financial stability, micro-finance intermediary, scopes, accessibility, and competition, conducted a supervision to enforce the legislations, and paid a specific attention for maintaining already existing stability and positive tendency in the financial sector and for strengthening its further development.

Within the scope of this policy, the Financial Regulatory Commission, besides solving the issues in regard to a transparent legal environment and government coordination and introduction of new products and services in the financial market, it has granted, during the reporting period, the licenses for 20 legal entities to engage in non-bank financial activities, the licenses for 7 NBFIs with additional activities to engage in non-bank financial activities, and revoked the licenses for 17 NBFIs to engage in some of non-bank financial activities.

With the purpose to enforce implementation of the Law on Auditing and the Law on Non-bank Financial Activities, the Financial Regulatory Commission has published the NBFIs and SCCs' financial reporting and audit assessment of end of the years of 2009 in new spares and has supervised its reach out to public.

In the reporting period, it has made an assessment and analysis on requirements of prudential ratios for received the NBFIs' quarterly financial statements and balances and gave, in total 285 response reports in duplicated number, the relevant responsibilities and recommendations for taking the necessary proper measures and abolishing their misconducts.

With the purpose to ensure the NBFIs' and SCCs' finance and solvency capacity, estimate and prevent from the possible risks may occur in operations, and abolish the detected misconducts, the Financial Regulatory Commission has conducted on-site supervision and took the relevant measures, based on consolidated summary examination, in total for 41 NBFIs and 63 SCCs, in accordance with guidelines issued by the Chairman of the Financial Regulatory Commission.

Also, it has conducted on-site supervision for 9 licensed NBFIs engaged in foreign currency trading operations.

The Financial Regulatory Commission has imposed an administrative fine of 4,910.0 million Tugrug for 4 NBFIs, whose misconducts were detected by on-site inspection and gave the responsibilities for 17 NBFIs with fixed period of time for abolishing their misconducts in accordance with state inspectors' corrective requirements.

While on-site and off-site inspections were conducted, the Financial Regulatory Commission has suspended the licenses for 20 NBFIs for the period of 3 months due to a breach of the Law on Non-bank financial activities and a failure to meet the other rules and

regulations approved by authorized institutions and has granted the licenses for 5 NBFIs requested to renew their licenses to engage in their current activities.

Also, the Financial Regulatory Commission has terminated the licenses for 15 NBFIs based on their own request for liquidation and for 17 NBFIs based on a failure to meet the licensing conditions and requirements, to re-apply duly with the Financial Regulatory Commission, and to submit their requests on not conducting some types of the non-bank activities.

During the reporting period, the Financial Regulatory Commission in joint cooperation with Bank of Mongolia has conducted an inspection on 2 NBFIs' financial activities.

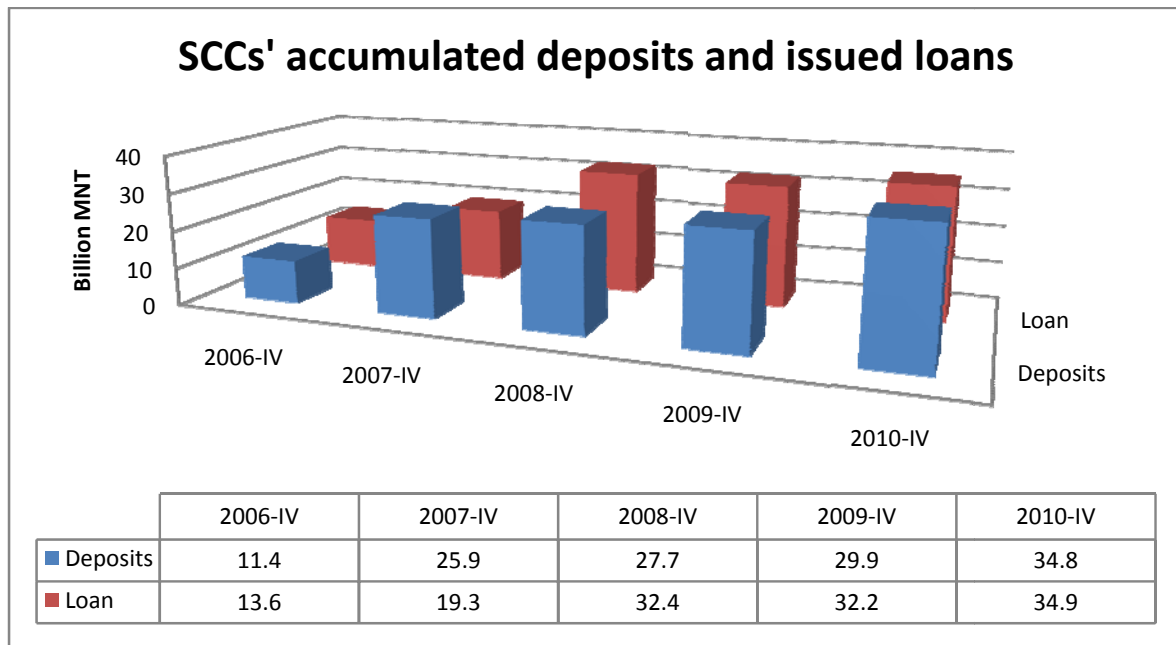
Moreover, inspectors of the Financial Regulatory Commission in joint collaboration with state inspectors and the representatives from Microfinance Development Fund has conducted an inspection on finance and solvency capacity for 2 NBFIs who have received the loans from a large loan program conducted by Sustainable Livelihood Project-II of the Microfinance Development Fund.

### 3.4. The current situation of savings and credit cooperatives

The Financial Regulatory Commission has granted the licenses for 179 SCCs to engage in savings and loan activities, out of which 74 SCCs operates in Ulaanbaatar city and 105 SCCs operates in the provinces. Out of those operating in the provinces, 65 SCCs have concluded the contract with Xacbank on franchising services. In the reporting period, total number of the SCCs' members has reached to 26.0 thousand.

#### 1. Accumulated deposits and issued loans

The following graph shows the SCCs indicators for accumulated deposits from their members and issued loans in last 5 years.

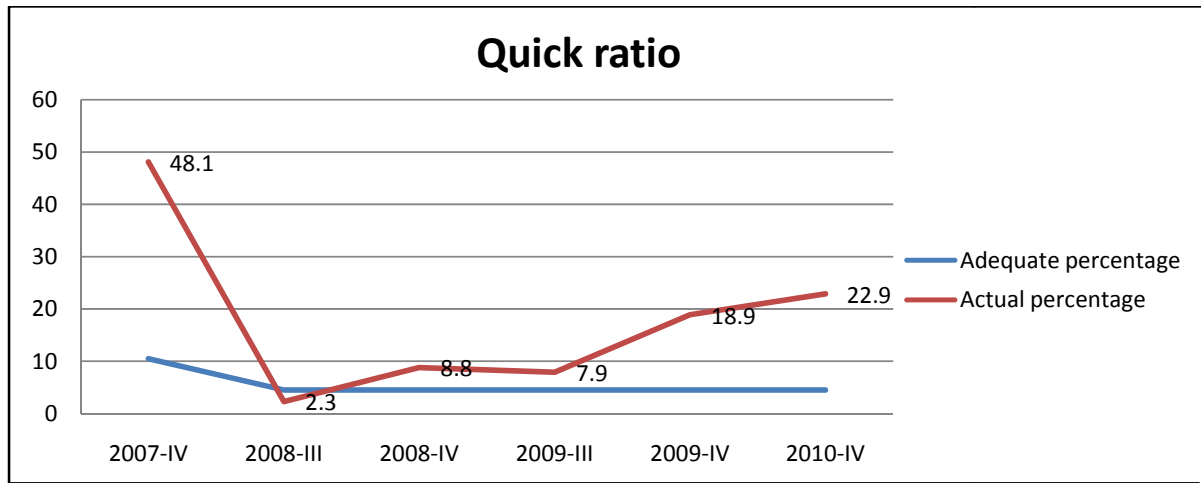


The amount of SCCs' accumulated deposits from their members, in the reporting period, has amounted to 34.8 billion Tuarua increasing by 16.3% compared to the same



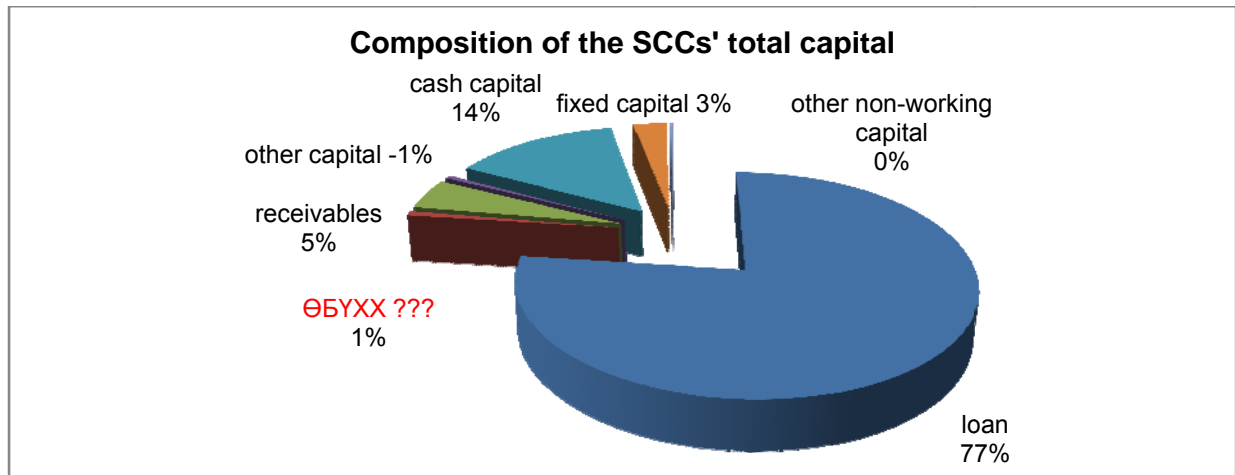
period of previous year, and the outstanding debts from issued loan has amounted to 34.9 billion Tugrug increasing by 2.3% compared to the same period of previous year.

## 2. Quick ratio



In accordance with Resolution No.180 of 2008 approved by the Financial Regulatory Commission on “Estimation of the prudential ratio for SCCs’ activities and its monitoring”, the quick ratio (it calculates as deducting of short-term debts from quick selling capital and comparison of it with accumulated deposits from the members) has been regulated as to be more than 5% and the current prudential ratio for quick ratio stays at 22.9% showing an improvement in performance capacity for paying others on their first demand.

## 3. Composition of the SCCs’ capital



In the reporting period, due to increase of total source by 10.1%, its total capital has reached to 48.8 billion Tugrug compared to the same period of previous year occupying 0.8% of total capital of the banking sector.

If to compare the composition of capital with the same period of previous year it had the following changes. Though the weight of proportion in total capital for outstanding debts of non-performing loans has increased by 4.8%-7.2%, the volume for total loan has increased

by 2,645,740.4 Tugrug compared to the same period of previous year showing a tendency in improvement of the loan quality. However, the receivables for accumulated interests have increased to 4.7%-5.3 %.

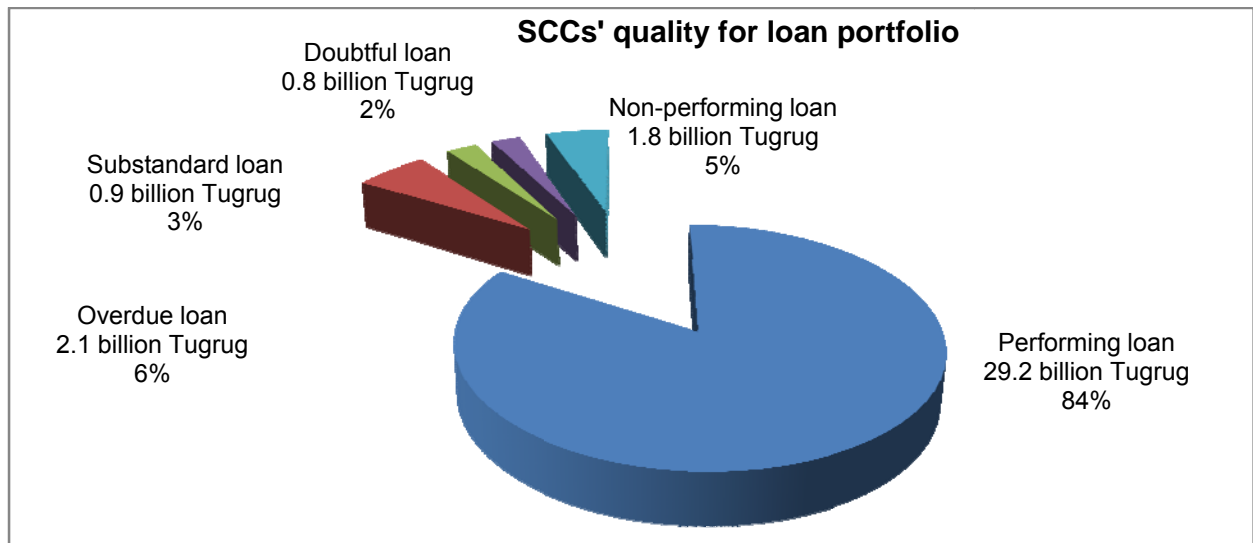
The volume of total income now is 12.5 billion Tugrug that has decreased by 13.9% compared to the same period of previous year and the volume of total expenditure is 11.0 billion Tugrug that has decreased by 37.3% compared to the same period of previous year that has impacted on decrease for net profit by 23.9% or by 1.5 billion Tugrug.

The SCCs' profitability of the capital, which expresses the ROA, has amounted to 5.3% and for ROE to 19.0%.

#### 4. SCCs' quality for loan portfolio

Total loan for outstanding debt has increased by 8.2% compared to the same period of previous year or it has reached to 34.9 billion Tugrug.

The outstanding debt for overdue loan has decreased by 7.8% compared to the same period of previous year occupying 6.0% of total loan's portfolio and the outstanding debt for non-performing loan has decreased by 4.6% compared to the same period of previous year occupying 10.1% of total loan's portfolio, respectively.

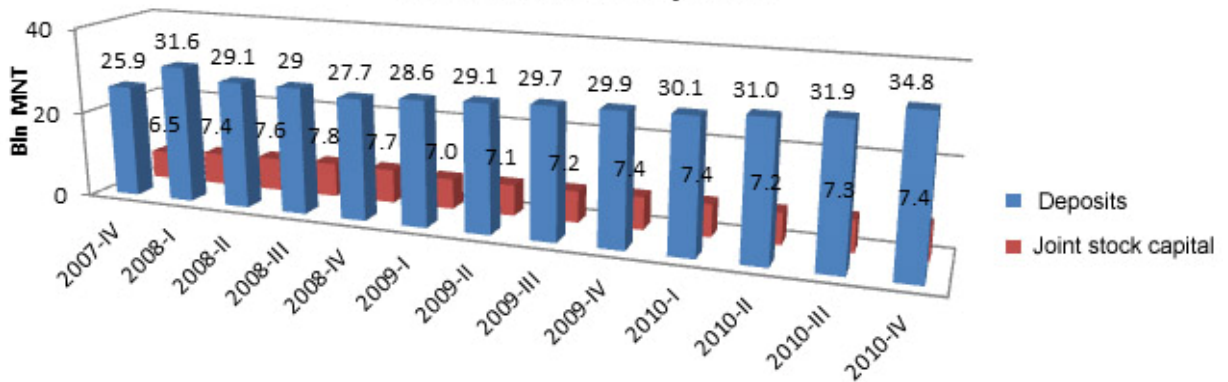


Due to weakening of borrower's solvency and delaying of loan payback, the outstanding debt for non-performing loan has increased by 66.0% occupying 10.1% of total loan portfolio.

In relation to this situation, the loan risk reserve has raised by 38.0% compared to the same period of previous year forming 2.5 billion Tugrug of loan risk reserve in total loan portfolio.

## 5. The ratio for SCC's accumulated deposits and joint stock capital

### The ratio for members' joint stock capital and accumulated deposits



Due to a domination of the SCC's interest in forming and increasing its financial sources from the members' accumulated deposits, its ratio for accumulated deposits and joint stock capital, in the reporting period, was 21.3%. It is considered as adequate, if total volume of cash deposits deposited by the members to the cooperative comprises up to 80.0% of total capital and this indicator was 71.3%.

### 3.5. Activities for advancing the legal regulatory framework of the savings and credit cooperatives

The Financial Regulatory Commission has developed and submitted to the Economic Standing Committee of the Parliament a draft proposal and concept of the Law on Savings and Credit Cooperatives for their review.

With approval of the Law on Savings and Credit Cooperatives and pursuing a policy on supporting the savings and credit cooperatives' activities, the Financial Regulatory Commission has determined its further development trends as to achieving the social orientation, democratic management, joint supervision, independent stable operation, strengthened human resource capacity and skills, and being the potential financial sector for satisfying the minimum financial needs of vulnerable and middle class citizens.

Moreover, with approval of the law, it will create in the future the stable legal development environment for the savings and credit cooperatives' operations sophisticates to the international common principles and ensure the socio-economic and cultural common needs in way of forming their financial needs by mobilization and accumulation of joint stock capitals within and from their members or from the legal entities and certain group of people on voluntary basis, which will achieve the objective of this law by creating a positive image among the public on savings and credit cooperatives and favorable outcome for financial market development.

Thanks to the policy implementation pursued by the Financial Regulatory Commission, it will provide the possibility for ensuring a stable operation of the savings and credit cooperatives, expanding the sub-infrastructure for micro-finance sector's intermediation, forming the situation for avoiding the risks in the financial market in the future, increasing the

public trusts in savings and credit cooperatives, advancing the methods for protecting their interests, and halting the illegal actions through the savings and credit cooperatives.

### **3.6. Activities for enforcing the legislations on supervision and inspection of the savings and credit cooperatives' operations**

The Financial Regulatory Commission has pursued the policy for creating a concrete regulatory legal environment for savings and credit cooperatives' (furthermore refer to as SCCs) activities, ensuring the SCCs' stable financial solvency, protecting the members' interests, improving their financial knowledge, and providing with information.

In regard to regularizing off-site and on-site supervision and control operation on SCCs' financial solvency and ensuring the licensing conditions and requirements, it has took the following measures.

With the purpose to ensure the SCCs' stable financial solvency, protect and estimate the possible risks may occur in their operations, abolish the detected misconducts, the Financial Regulatory Commission has conducted on-site supervision at 63 SCCs' operations, made a conclusion on general detected misconducts, and its consolidated introduction has been presented to the Commission for which it has issued an appropriate decisions for its necessary issues.

For misconduct of operations detected during on-site inspection processes, the Financial Regulatory Commission has imposed a fine of 550.0 thousand Tugrug on 7 SCCs breached the rules and regulations approved by relevant authorized government legislator organizations, assigned the duties and responsibilities to 35 SCCs for abolishing their misconducts in accordance with state inspector's corrective measures, and monitored its performance on constant bases.

In the reporting period, the Financial Regulatory Commission has regularized off-site supervision operation at the SCCs, reviewed their submitted financial reports, assigned the duties and responsibilities for certain period of time to 35 SCCs to take the further measures in regard to abolishing their misconducts by total of 505 reporting responses in duplicated number, and supervised its performance.

The Financial Regulatory Commission by consolidating submitted each quarterly financial reports of the SCCs has issued the summaries of financial reports for 4<sup>th</sup> quarter of 2009 and for 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> quarter of 2010, presented its statistical analysis, assessment, and evaluation to Executive of the Commission, and places the relevant information at Commission's web site.

The Financial Regulatory Commission has granted the licenses for 2 SCCs to engage in savings and credit cooperative operations, terminated the licenses for 35 SCCs unfilled the cooperatives' resolutions and other related legislations and conditions and requirements of the licensing that in total 179 cooperatives are engaged now in savings and credit cooperative's operations.

The licenses for 15 SCCs were suspended for the period of 3 months due to a frequent non-fulfillment of the cooperatives' resolutions and other related legislations and conditions and requirements of the licensing and renewed the licensing for 4 SCCs who have submitted their requests for its renewal by abolishing their misconducts during a suspended period. Also, in the reporting period, the Financial Regulatory Commission has extended the licenses on engaging in savings and credits operations for 80 SCCs, who have submitted

their requests for extending the licenses to engage in savings and credit cooperative's operations.

The Financial Regulatory Commission has assigned the duties and responsibilities to executives of Mongol Gazar Gold and Zindaa Invest cooperatives, whose licensing was not granted by the Commission to engage in savings and credit cooperatives' operations although they were registered with state registration and who had incapability in financial solvency and operations. The case for Zindaa Invest cooperatives has been forwarded for investigation to the State Criminal Inspection Department.

### **3.7. Activities for promoting a micro-finance sector and enhancing the public financial education**

The Financial Regulatory Commission, with the purpose to enhance the public financial education to ensure the financial market development and its further stability and provide with transparent and efficient information related to operations of the NBFIs and SCCs, has delivered its conducted policy measures to public through the Commission's web site and mass media in regard to implementation of market regulations and providence of information on effective rules, regulations, and information on legal entities' license suspension, renewal, and termination and has delivered its official letters to relevant state organizations.

Within the scope of transparent and swift delivery of news and information on micro-finance sector's activities to public, the Financial Regulatory Commission has placed related information on consolidated quarterly financial reports of the NBFIs and SCCs at Commission's web site and regularly delivering it to the Mongolian Non-bank Financial Institutions' Association and Mongolian Savings and Credit Cooperatives Union.

Last year, the Financial Regulatory Commission has paid a high attention to involve in a wider range the professional institutions' personnel in trainings, seminars, and conferences conducted in foreign countries and in country, in order to enhance the skills and capacity of micro-finance institutions' executives and managers, which becomes a main factor for sector's development and current institution's normal operation and risks decrease and has conducted the following activities.

With initiation of the Financial Regulatory Commission, it has conducted, by invited teachers, two days of advanced training course for managers and some inspectors on topic of risks management, with financial support of Microfinance Development Fund of the Sustainable Livelihood Project-II

Also, the Commission has involved 126 NBFIs' representatives in training course organized by the Bank of Mongolia on topic of "The bank's legal body responsible for providing information to non-bank financial entities" in order to ensure the law enforcement of Combating against money laundering and terrorism.

The Financial Regulatory Commission has signed a Memorandum of Understandings in 2010 with Mongolian Non-bank Financial Institutions' Association and Mongolian Savings and Credit Cooperatives Union with the scope of improving the micro-finance sector's regulation.

In one day training conducted by joint cooperation of the Canadian Cooperatives Association, Mongolian Credit Cooperatives Union, and Mongolian Cooperatives Training and Information Center in Orkhon province on topic of "SCCs' training and knowledge sharing" in total 53 executives of the SCCs have attended, where it has provided an information on SCCs current situation and lecture on topic of "Criteria for prudential ratio".

Nine representatives of the Canadian Cooperatives Association have visited Mongolia and been introduced to seven SCCs' operations and provided their recommendations as well as meeting with executives of the Financial Regulatory Commission and providing their recommendations on the draft Law on Savings and Credit Cooperatives.

The Mongolian Credit Cooperatives Union has conducted 15 serial training courses in according to their scheduled plan for 200 officers and executives from 65 SCCs, where the representative from the Financial Regulatory Commission had a regular participation in these training courses and provided with information on SCCs' operations and measures taken by the Commission.

On 13 December 2010, the Financial Regulatory Commission has conducted a training and seminar for executives of the NBFIs hold at Conference Hall of the Mongolian National Chamber of Commerce and Industry, where in total 86 NBFIs' executives have participated to exchange and share their views and knowledge.

The annual conference on topic of "Post crisis of the micro-finance sector and what is the next step?" have been conducted by Micro-finance Centers of Kazakhstan and Poland were participated by 9 representatives of the NBFIs.

The writing contest for study on topic of "Micro-finance-Sustainable Livelihood support" has been announced with 2 phases in joint cooperation with the NBFIs and its related information is placed at the Commission's web site with its assessment and selection process.

In regard to non-registration of the micro-finance sector's borrowers' information into the Loan database system of the Bank of Mongolia and the requirements for decreasing the negative impacts related to micro-finance institution's loan risks, the Financial Regulatory Commission in joint cooperation with the Bank of Mongolia has conducted a seminar, for 115 participants from 88 NBFIs, on topic of "The way of submitting an information to loan database system of the Bank of Mongolia" within the scope of joint decision-making activities to regulate the issues on involving the NBFIs in the process of submitting their information into the loan database system of the Bank of Mongolia.

With the purpose to submit the borrowers' information into the Loan database system of the Bank of Mongolia by financial institutions carrying out their activities in Mongolia, to arrange the financial software program to be used for receiving the related information, to maintain them by consolidated program, and to have the Loan database system it has been agreed and signed the Memorandum of Understanding for joint cooperation of the Micro-finance Development Fund, the Financial Regulatory Commission, and U.S.I. LLC.

Within the scope of protecting the customer' capital from risks, the Financial Regulatory Commission has cooperated with the Bank of Mongolia in regard to gathering information on NBFIs and SCCs for submission into the Loan database system of the current bank.

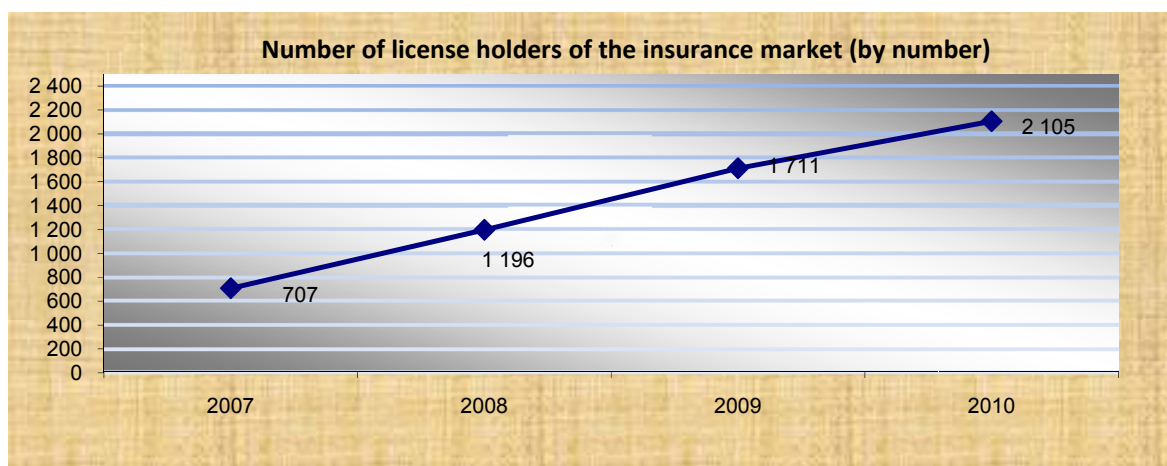
## **FOUR. INSURANCE MARKET**

### **4.1. The current situation of the insurance market**

In the reporting period, in total 2105 insurance license holders and owners were carrying out their activities in insurance sector such as 17 insurance companies, 2061 insurance representatives, 9 insurance intermediaries, 6 insurance loss assessors, and 12 actuaries.

**The number of license holders of the insurance market (by number)**

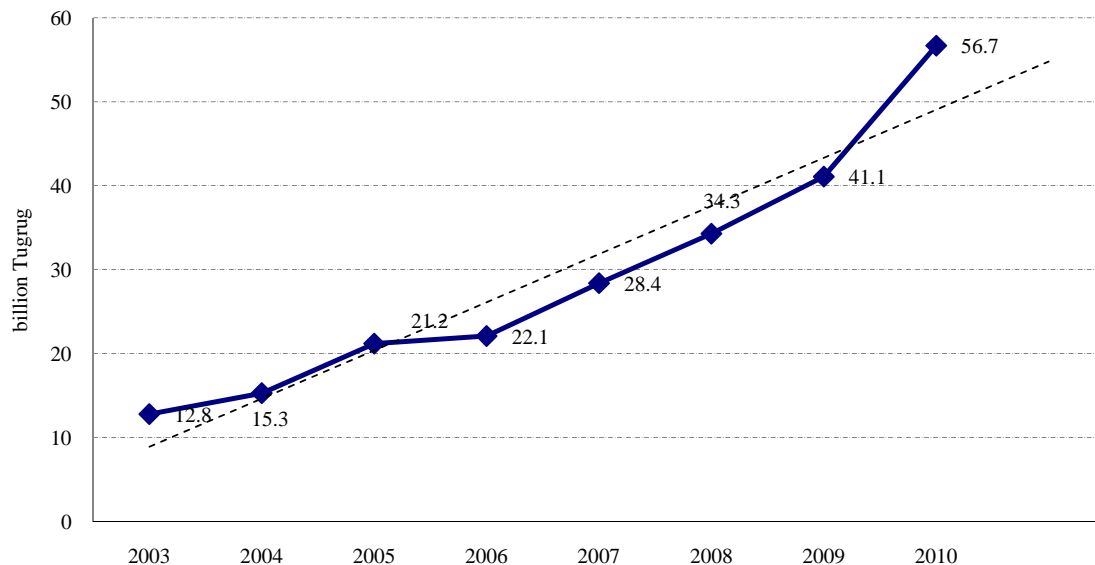
No		2007	2008	2009	2010
1.	Insurers (insurance branch offices)	15 /91/	16 /120/	18 /129/	17 /138/
2.	Insurance agents	690	1 167	1 676	2061
3.	Insurance intermediates	2	4	5	9
4.	Insurance loss appraisers	-	-	2	6
5.	Insurance actuaries	-	9	10	12
	<b>Total</b>	<b>707</b>	<b>1196</b>	<b>1711</b>	<b>2105</b>



The number of legal entities and individuals granted licenses to engage in insurance market operations has been tripled during 2007-2010 and during 2009 and 2010 it has increased by 394 licenses showing a dynamic growth of the insurance market.

As of 2010, total capital of insurance companies, engaged in long-term and general insurance operations at the insurance market, has reached to 56.7 billion Tugrug, which has increased by 15.6 billion Tugrug compared to year of 2009. In regard to Resolution No.153 of 2009 approved by Financial Regulatory Commission, the minimum paid-in-capital amount for insurance companies engaged in general insurance operations has been set out for 1 billion Tugrug and for insurance companies engaged in long-term insurance operations for 2 billion Tugrug that total capital of insurance companies has sharply increased in 2010 by 4.4 times compared to year of 2003, which can be seen in below graphic.

### Total amount of capital of the insurance companies



In 2010, if to list the insurance companies by their amount of total capital, Mongol Daatgal LLC had capital of 16.1 billion Tugrug occupying 28.3% of total market and leading the insurance market by its amount of capital and Monnis Daatgal LLC had capital of 1.0 billion Tugrug occupying 1.8% of total market.

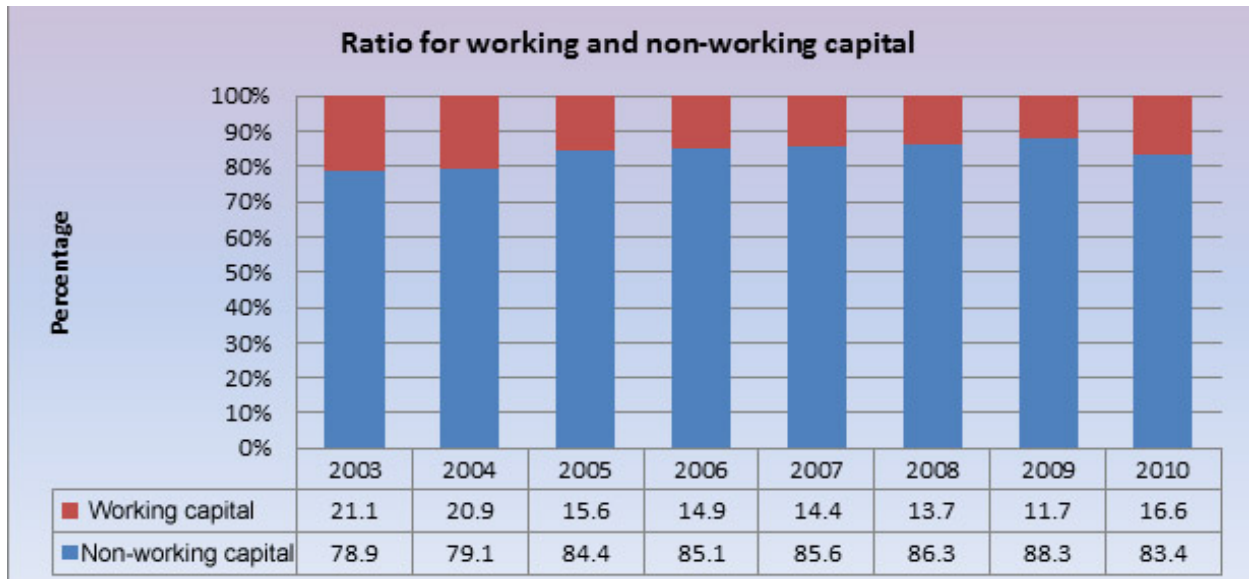
### Total capital of insurance companies

(million Tugrug)

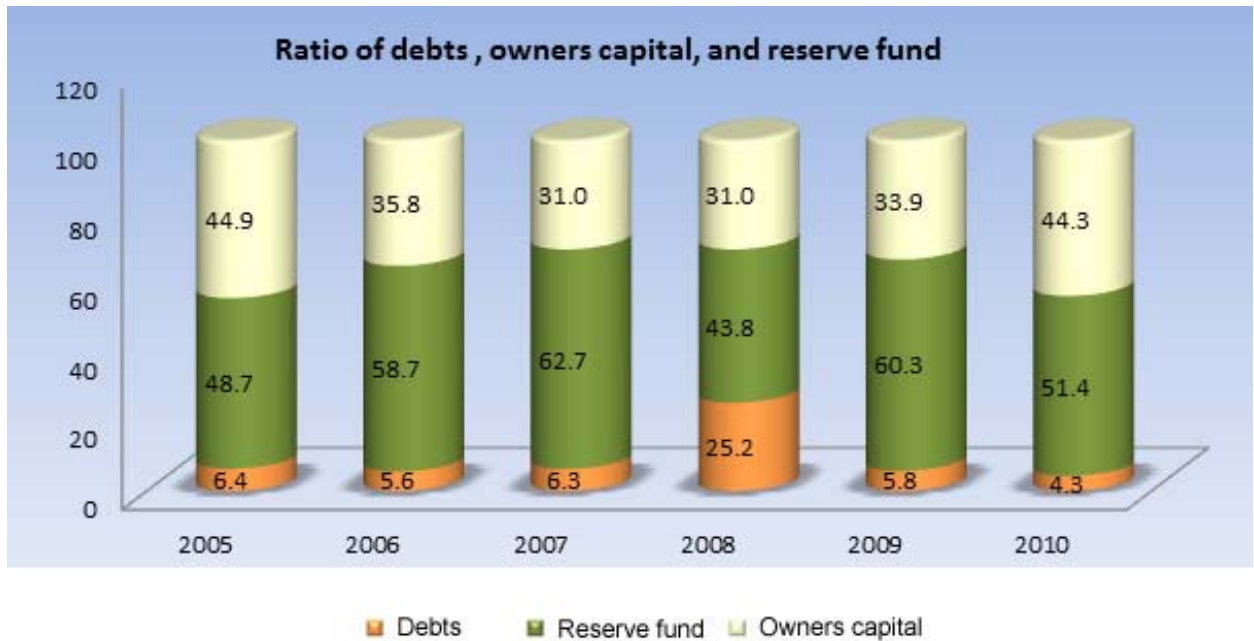
No	Insurance companies	Total capital	Percentage
1	Mongol daatgal LLC	16 058,3	28,3
2	Bodi daatgal LLC	5 072,0	8,9
3	Tenger daatgal LLC	4 310,2	7,6
4	Practical daatgal LLC	4 184,2	7,4
5	Mig daatgal LLC	4 103,5	7,2
6	Nomin daatgal LLC	3 029,1	5,3
7	Ard daatgal LLC	2 982,9	5,3
8	Soyombo daatgal LLC	2 437,6	4,3
9	National life daatgal LLC	2 142,7	3,8
10	Ganzam daatgal LLC	2 031,8	3,6
11	UB daatgal LLC	1 695,1	3,0
12	Mongoltrust holding daatgal LLC	1 677,5	3,0
13	Ulaanbaatar city daatgal LLC	1 655,6	2,9
14	Munkh daatgal LLC	1 526,5	2,7
15	Jonon daatgal LLC	1 408,5	2,5
16	Grand daatgal LLC	1 402,3	2,5
17	Monnis daatgal LLC	1 046,1	1,8
	<b>Total</b>	<b>56 763,9</b>	<b>100,0</b>



The main reason of a high ratio for working capital in total capital is due to the requirement set out in the Resolution No.242 of 2008 approved by Financial Regulatory Commission on “Requirements for investment to be financed by insurers’ paid-in-capital and reserve fund”, which pushes the insurers to place their paid-in-capital and reserve funds’ capital in the form of cash or capital equivalent to that amount. In 2010, the amount of cash or capital equivalent to that amount and short-term investment has reached in total to 42.8 billion Tugrug occupying 90 % of total working capital that has increased by 3.7% points in the reporting period compared to previous year. The increase of ratio for working capital in total capital was due to approval of Resolution No.232 of 2009 on “Formation, disbursement, and inspection on general insurance reserve fund” and of Resolution No.170 of 2010 on “Requirements for capital’s location and investment on general insurance company”.



If to analyze total debts of insurance companies and the ratio for reserve fund, owners’ capital, and debts in owners’ capital over the past 4 years, the owners’ capital was occupying in average 37.2%, the reserve fund 56.7%, and total debts 6.1%, respectively in 2005-2007, then in 2008, it had a big change in its composition that the reserve fund was at 43.8% decreasing by 18.9 points, but total debts has increased to 18.9 points, which shown in the graphic below.



This situation was happened due to Appendix of Resolution No.241 of 2008 approved by Financial Regulatory Commission on “Insurance institutions’ database system” where the premium reserve fund of unearned income is deducted from the balance sheet of reserve fund and registered as advance income in balance sheet of debt. This Resolution on “Insurance institutions’ database system” has been improved and approved by Resolution No.275 of 2009 of the Financial Regulatory Commission renaming it as Resolution on “Defining the content and application of insurers’ and insurance professional participants’ supplementary financial statements”. In accordance with a new developed regulation, the unearned premium is counted as “the reserve fund” in the section of balance sheet that total debts and ratio for debts in owners’ capital in 2009 has sharply decreased compared to previous year.

Indicators	2006	Percentage	2007	Percentage	2008	Percentage	2009	Percentage	2010	Percentage
Debts	1153.6	5.6	1785.3	6.3	8666.2	25.2	2390.5	5.8	2446.9	4.3
Reserve fund	12198.3	58.7	17784.4	62.7	15033.9	43.8	24744.6	60.3	29174.7	51.4
Owners’ capital	7433.3	35.8	8808.2	31.0	10630.1	31.0	13920.6	33.9	25142.3	44.3
Lump sum	20785.2	100.0	28377.9	100.0	34330.2	100.0	41055.7	100.0	56763.9	100.0

If in 2009, total debts of owners capital and the ratio in owners’ capital was at 33.9%, in 2010 it has increased by 10.4 points compared to previous year and if the reserve fund in 2009 was 60.3%, it become 51.3% in the reporting period decreasing by 8.9 points compared to previous year.

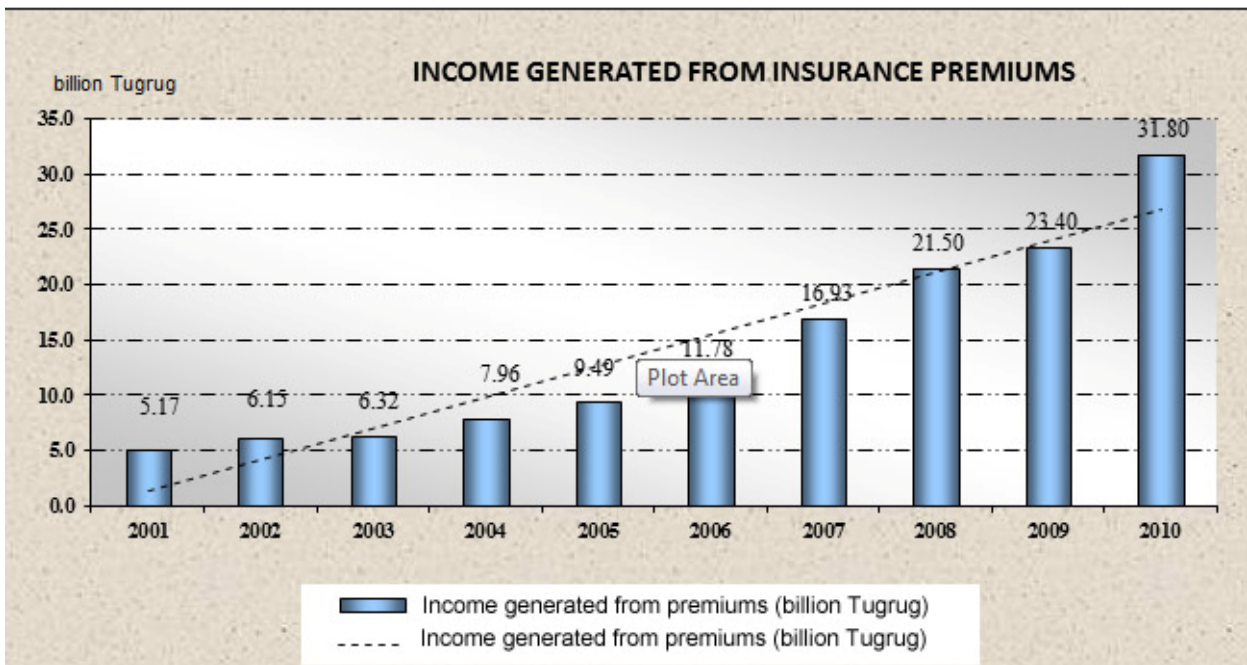
In 2009, if the ratio for owners’ capital in total debt was 5.8%, then in 2010, it was 4.3% increasing by 1.5 points.

The growth of owners’ capital was due to the Resolution No.153 of 2009 approved by Financial Regulatory Commission on setting out the minimum paid-in-capital amount for insurance companies engaged in general insurance operations for 1 billion Tugrug and for insurance companies engaged in long-term insurance operations for 2 billion Tugrug.

### **Income generated from insurance premiums**

In 2010, total income generated from insurance premiums for companies engaged in general and long-term insurance operations in insurance market has reached to 31.8 billion Tugrug that 31.5 billion Tugrug were counted for income generated from general insurance premiums and 0.3 billion Tugrug for income generated from long-term insurance premiums.

In the reporting period, income generated from re-insurance premiums for companies engaged in general insurance operations has reached to 7.5 billion Tugrug, from returned insurance premiums to 0.2 billion Tugrug, and from net insurance premiums to 23.8 billion Tugrug. As for income generated from long-term insurance companies, its income generated from re-insurance premiums has reached to 0.1 billion Tugrug and from net premiums to 0.2 billion Tugrug.



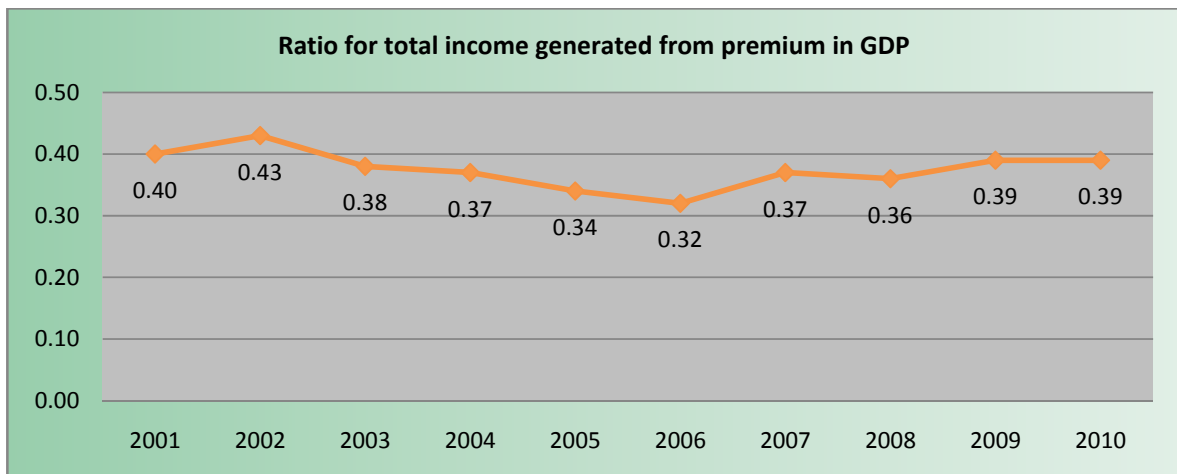
During the period of 2001-2010, total income generated from insurance premiums has reached to 26.63 billion Tugrug increasing by 8.4 billion Tugrug compared to the same period of 2009 that resulted not only on tendency for growth in centralizing income generated from insurance premiums, but also for increase of insurers' numbers.

If to compare total income generated from insurance premiums gained in 2010 by its type of insurance as the general and long-term insurances, it has increased compared to the same period of previous year by 17964.4 million Tugrug for property insurance, 2142.7 million Tugrug for auto vehicle insurance, 1578.4 million Tugrug for liability insurance, 1072.8 million Tugrug for accidents and treatments expense insurance, 242.8 million Tugrug for drivers' liability insurance, 686.9 million Tugrug for financial insurance, 974.1 million Tugrug for construction insurance, 390.6 million Tugrug for transportation insurance, 36.1 million Tugrug for health insurance, 55.8 million Tugrug for livestock insurance, 1.0 million Tugrug for accumulation insurance respectively and in total it has increased by 8368.9 million Tugrug compared to the same period of previous year.

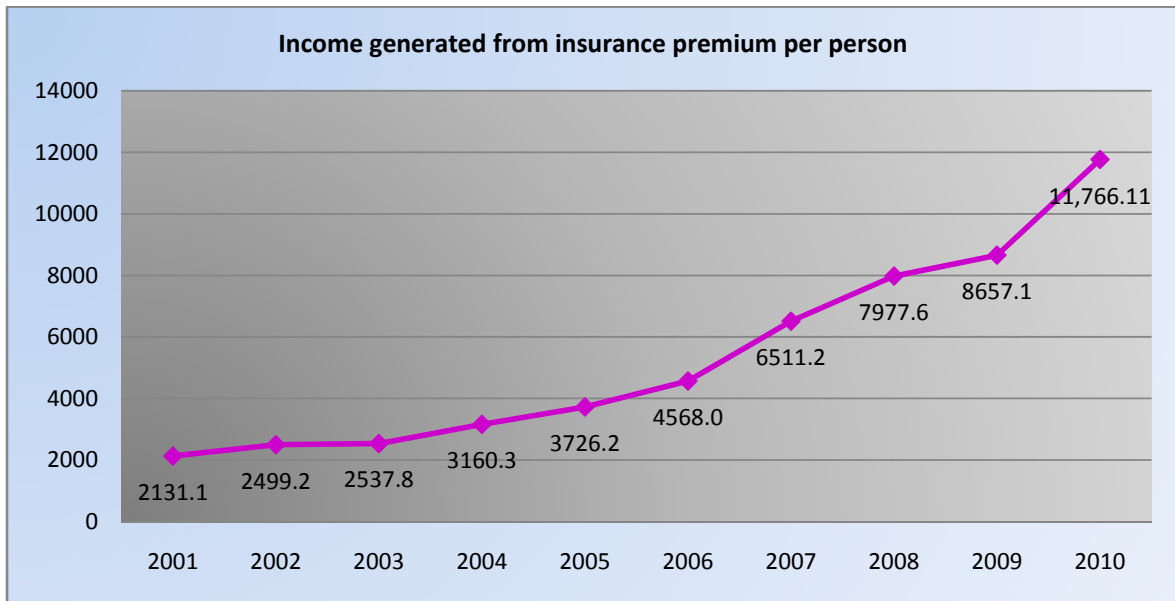
(million Tugrug)

Type of insurance	2009.12.31	2010.12.31	Change /+, /-
	Income generated from insurance premiums	Income generated from insurance premiums	
1.2. Capital insurance	6 450,4	8246,8	1796,4
1.3. Auto vehicle insurance	4 771,4	6914,1	2142,7
1.8. Aviation insurance	3 082,9	2342,6	-740,3
1.10. Liability insurance	3 078,6	4657	1578,4
1.1. Accident and treatment expense insurance	2 676,9	3749,7	1072,8
1.9. Drivers liability insurance	1 827,7	2070,5	242,8
1.11. Financial insurance	611,8	1298,7	686,9
1.5. Construction insurance	394,7	1368,8	974,1
1.4. Transport insurance	375,2	765,8	390,6
2.1. Life-term insurance	59,5	191,8	132,3
2.5. Health insurance	55,4	91,5	36,1
1.7. Livestock insurance	13,5	69,3	55,8
1.6. Agriculture insurance	1,3	0	-1,3
2.3. Accumulation insurance	0,3	1,3	1,0
2.4 Pension	0,0	0,6	0,6
<b>Total</b>	<b>23 399,6</b>	<b>31 768,5</b>	<b>8 368,9</b>

If to compare the amount of total insurance premiums with the GDP of the country, it was fluctuating from 0.32%-0.43% during the period of 2001-2010. The ratio for total insurance premiums in the GDP of the country was very low, due to the growth of economy in Mongolia and the growth and decline of other large sectors of the economy. If the ratio for total insurance premiums in the GDP of the country was 0.39% in 2009, then it was the same in 2010.

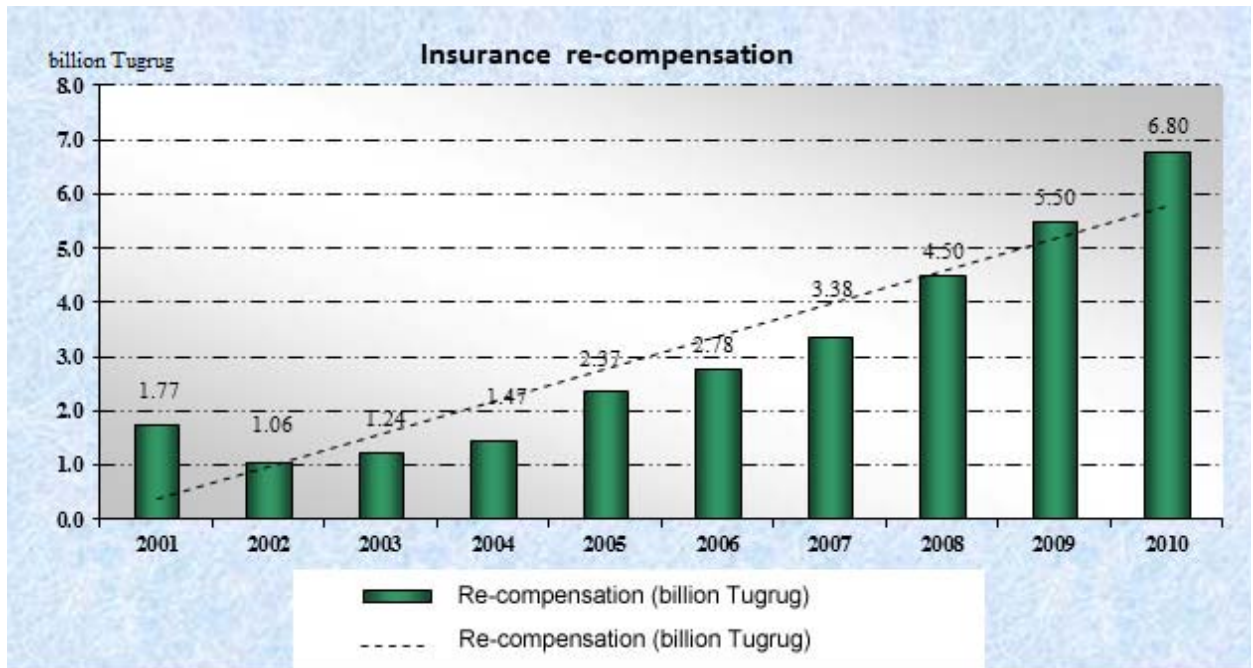


If in 2008, income generated from insurance premium per person has amounted to 7977.6 thousands Tugrug, it has amounted 8657.1 thousands Tugrug in 2009 and 11766.1 thousands Tugrug in 2010 that has increased by 3109.0 thousands Tugrug compared to the same period of previous year.



**Insurance re-compensation**

In 2010, the insurance companies have re-compensated in total 6.8 billion Tugrug to citizens and institutions, which has increased by 1.3 billion Tugrug compared to the same period of previous year.

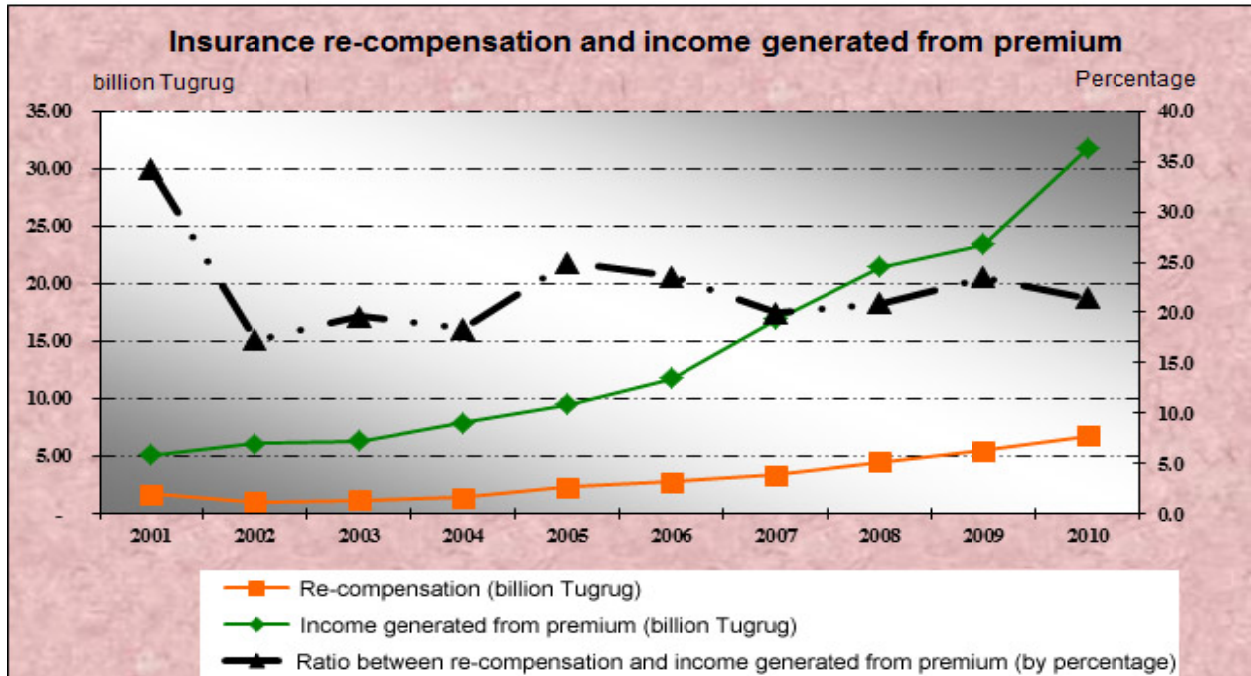


If to compare the income generated from insurance premium to insurance re-compensation for the last ten years, the amount of insurance re-compensation had a tendency for an increase following the income generated from insurance premium since 2003, but the growth dynamic for re-compensation was very low compare to annual income generated from insurance premium that a gap between income generated from insurance premium and re-compensation has largely increased. The insurance re-compensation has increased since 2001 and amounted in total to 5.0 billion Tugrug.

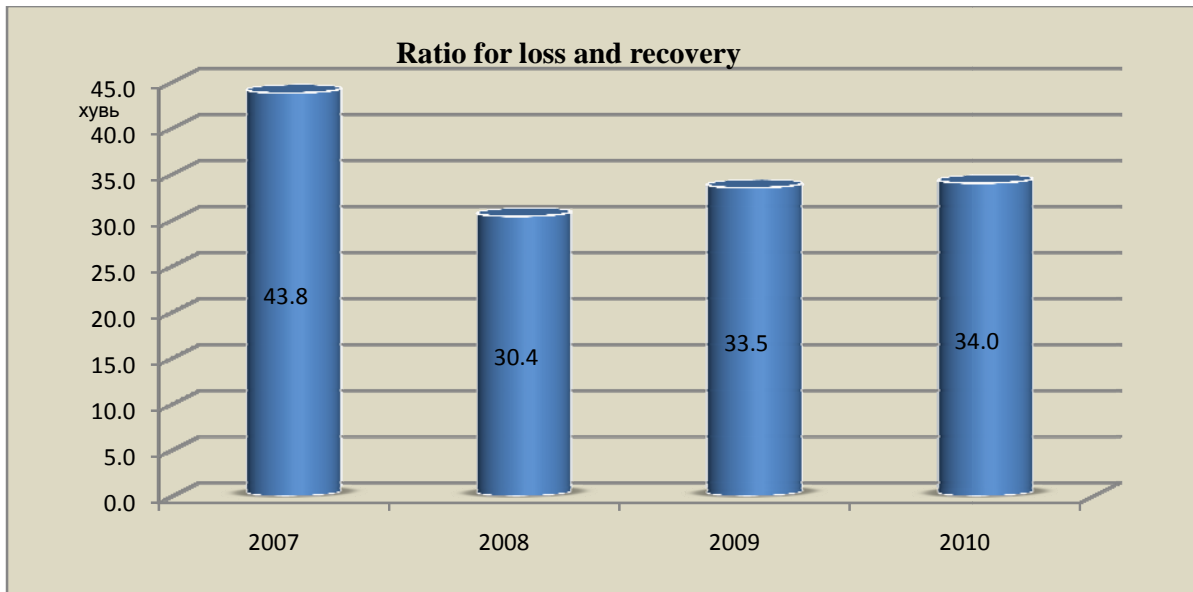
Type of insurance	Insurance re-compensation (million Tugrug)	Ratio
1.2. Capital insurance	1 425,5	20,90
1.3. Auto vehicle insurance	3 022,3	44,31
1.8. Aviation insurance	10,4	0,15
1.10. Liability insurance	224,1	3,29
1.1. Accident and treatment expense insurance	776,5	11,38
1.9. Driver's liability insurance	757,9	11,11
1.11. Financial insurance	419,6	6,15
1.5. Construction insurance	89,0	1,30
1.4. Transport insurance	38,4	0,56
2.1. Life-term insurance	15,0	0,22
2.5. Health insurance	30,7	0,45
1.7. Livestock insurance	11,4	0,17
1.6. Agriculture insurance		0,00
2.3. Accumulation insurance		0,00
<b>Total</b>	<b>6 820,8</b>	<b>100,0</b>

If to compare insurance re-compensation by its type of insurance issued in 2009, then if auto vehicle insurance was occupying 48.7 percent in total insurance re-compensation, property insurance 19.4 percent, driver's liability insurance 11.6 percent, respectively, in 2010, auto vehicle insurance has occupied 44.3 percent in total insurance re-compensation, property insurance 20.9 percent, accident and treatment expense insurance 11.38 percent, driver's liability insurance 11.1 percent respectively. However, there was no re-compensation for agriculture insurance and livestock insurance.

In 2010, total insurance re-compensation has amounted to 6.8 billion Tugrug and the ratio between insurance re-compensation and income generated from insurance premium was 21.4 percent. This ratio in previous year was at 23.5 percent and the reason for its decline was an increase in insurance re-compensation by 1.4 times when it also has increased in income generated from insurance premium by 1.2 times.



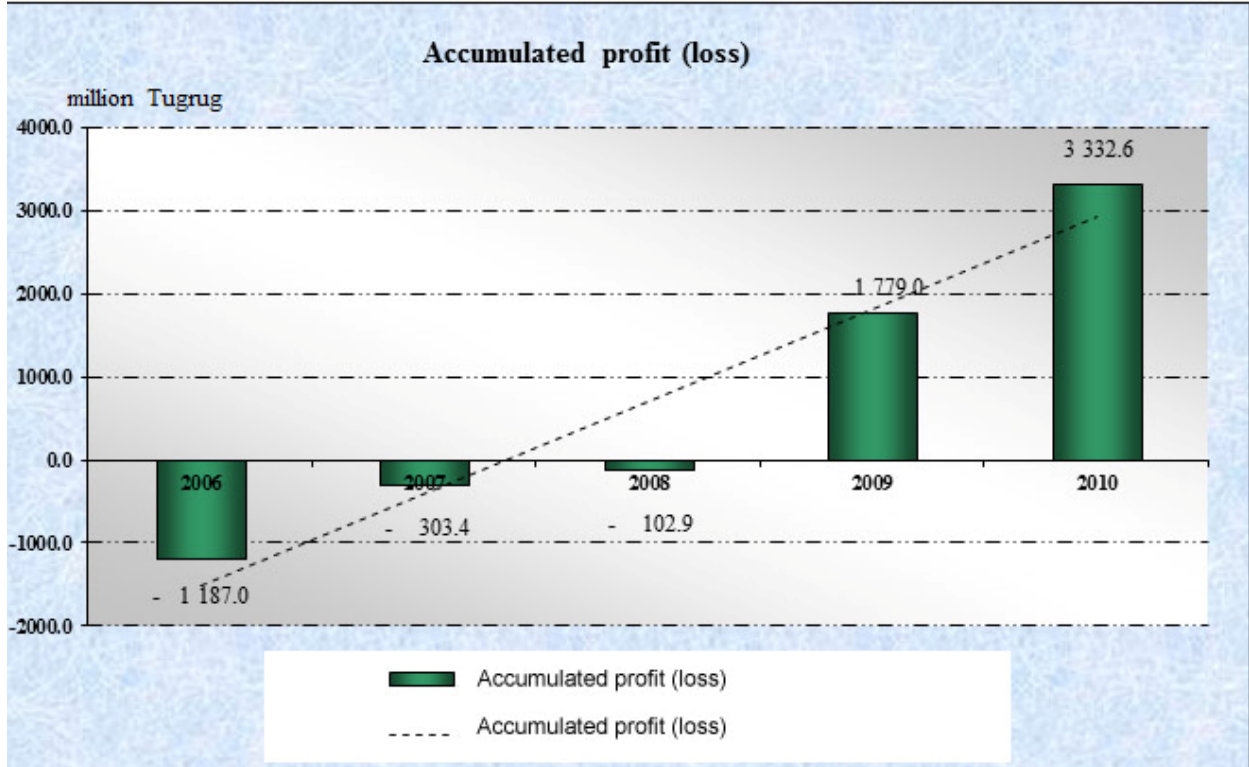
In 2007, the ratio between insurance loss and recovery was at 43.8 percent, in 2008 at 30.4 percent, in 2009 at 33.5 percent, in 2010 it has reached to 34.0 percent, increasing by 0.5 points compared to the same period of previous year.



**Profitability**

If, in scale of insurance sector's system, it was operating with accumulated loss of 1187.0 million Tugrug in 2006, 303.4 million Tugrug in 2007, 102.9 million Tugrug in 2008, then it had no accumulated loss in 2009 that its accumulated profit has reached to 1779.0 million Tugrug, 3332.6 million Tugrug in 2010. Accumulated profit in the reporting period has increased by 1553.6 million Tugrug showing a net profit of 4760.0 million Tugrug.

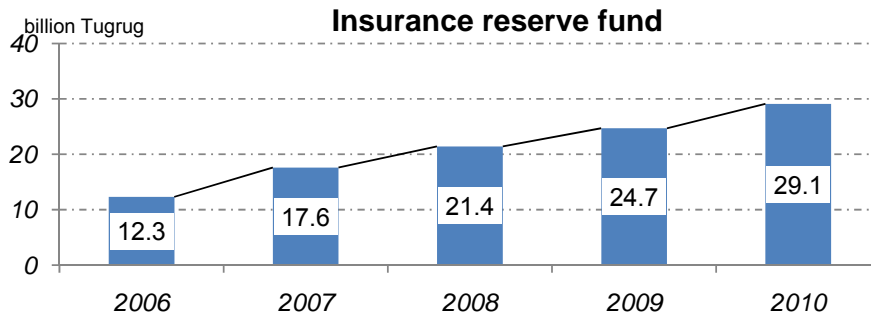
Indicators	2006	2007	2008	2009	2010
Accumulated profit (loss)	- 1 187.0	- 303.4	- 102.9	1 779.0	3 332.6



In 2009, in scale of insurance sector's system, if the insurance companies earned net profit of 2.4 billion Tugrug during the reporting period, in 2010 it has earned 4.7 billion Tugrug that has increased by 2 times or by 2.3 billion Tugrug compared to the same period of previous year.

**Insurance reserve fund**

If to compare outstanding for insurance reserve fund for the last 5 years, it shows the constant growth. In 2009, the amount of insurance reserve fund has reached to 24.7 billion Tugrug that increased by 1.2 times or by 4.4 billion Tugrug compared to the same period of previous year.

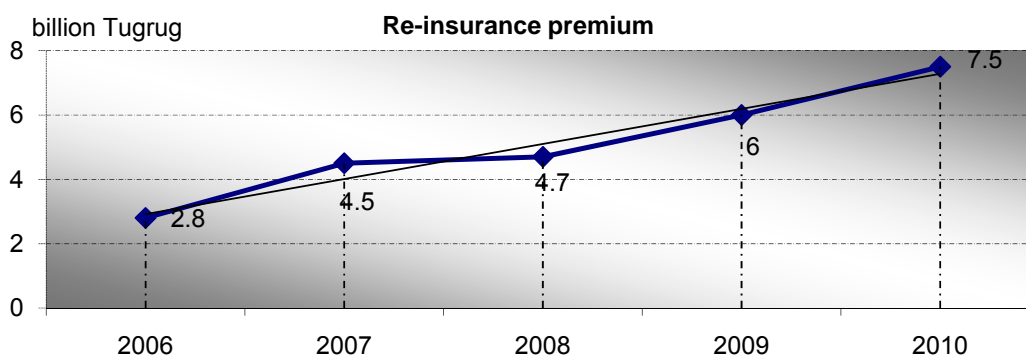




Out of total outstanding of reserve fund of 29174.7 million Tugrug, 29081.5 million Tugrug occupied by outstanding of reserve fund for general insurance companies and 93.2 million Tugrug by outstanding of reserve fund for long-term insurance companies.

### Re-insurance

If in 2009, the companies such as Ard Daatgal LLC, Bodi Daatgal LLC, Mig Daatgal LLC, Mongol Daatgal LLC, Nomin Daatgal LLC, Prime General Daatgal LLC, Practical Daatgal LLC, and National Life Daatgal LLC have reinsured their insurance risks and paid in total 6.0 billion Tugrug for reinsurance premium, then in 2010 the companies such as Ard Daatgal LLC, Bodi Daatgal LLC, Mig Daatgal LLC, Mongol Daatgal LLC, Nomin Daatgal LLC, Tenger Daatgal LLC, and National Life Daatgal LLC paid 7.5 billion Tugrug that increased by 1.5 billion Tugrug compared to the same period of previous year.



### Insurance intermediary companies

There were operating 2 insurance intermediary companies in 2007, 4 insurance intermediary companies in 2008, 5 insurance intermediary companies in 2009, 9 insurance intermediary companies in 2010. In 2010, the new licenses were granted to Renaissance Group LLC, Loyalty Solution LLC, Jomolhari LLC, Mongolian International Brokers LLC.

In 2010, total income generated from operations of insurance intermediary companies has reached to 193.6 million Tugrug and out of which 177.3 million Tugrug of income was generated from intermediary services and 16.3 million Tugrug from other sources.

No.	Name of insurance intermediary companies	Income generated from insurance intermediary	Ratio
1	Asimon Brokers LLC	35,8	20,2
2	AME LLC	23,5	13,3
3	Achit Undarga LLC	24,9	14,0
4	Loyalty Solution LLC	34,6	19,5
5	MGIB LLC	23,8	13,4
6	Sky Erdene LLC	22,7	12,8

7	Renaissance Group LLC	12,0	6,8
8	Jomolhari LLC	0	N/A
9	Mongolian International Brokers LLC	0	N/A
	<b>Total</b>	<b>177,3</b>	<b>100,0</b>

If Asimon Brokers LLC was occupying 20.2 percent of income generated from insurance intermediary services by leading the sector, then Loyalty Solution LLC has occupied 19.5 percent of income generated from insurance intermediary service and they were occupying in total 40.0 percent of market's income generated from insurance intermediary.

#### **Insurance loss assessor companies**

If, there were operating 2 insurance loss assessor companies in 2009, then in 2010 it has increased by 4 news companies. The companies such as Vendo LLC, Gerege Estimate LLC, Fine Estimate LLC, and Mega Marz LLC were granted with licenses to engage in insurance loss assessing operations.

In 2010, the insurance loss assessor companies have earned in total 119.9 million Tugrug from their general operations, out of which 36.0 million Tugrug of income was generated from insurance loss assessing operations and 83.9 million Tugrug of income generated from other operations.

<b>No.</b>	<b>Name of insurance loss assessor companies</b>	<b>Income generated from insurance loss assessing operations</b>	<b>Ratio</b>
1	Best Estimate LLC	14,3	39,7
2	Gerege Estimate LLC	4,9	13,6
3	Fine Estimate LLC	3,5	9,8
4	Itgelt Estimate LLC	7,9	21,9
5	Mega Marz LLC	5,4	15,0
6	Vendo LLC	0	No report sent
	<b>Total</b>	<b>36,0</b>	<b>100,0</b>

The companies such as Best Estimate LLC and Itgelt Estimate LLC granted with the licenses in 2009 were dominating and occupying 61.6% of total market's income generated from insurance loss assessing operations and these two companies compared to other loss assessing companies were carrying their operations in consistent manner.

#### **4.2. Activities for advancing the legal and regulatory framework of the insurance market**

Within the scope of developing insurance market, the Financial Regulatory Commission has paid a special attention on creating a new system for driver's liability insurance and has drafted in joint cooperation with the Ministry of Justice and Home Affairs Law on Driver's liability insurance and made its preparatory work for submission to the Government and Parliament of Mongolia. The approval of this law shall have its significance in full protection of third parties' interests as passengers and pedestrians by the law and formation of the legal grounds for third parties' insurance re-compensation in case of auto vehicle accidents.

In general, the specificity of insurance market's operations lays on confidence of the citizens and insurers of the insurance market that the Financial Regulatory Commission, within the scope of increasing this confidence among the citizens, has conducted activities for improving the financial capacity of insurance companies and increasing the volume of capital in paid-in-capital by two times in 2010.

Moreover, the Financial Regulatory Commission has applied the recommendations provided by international experts and within the scope of improving the package of insurance rules, it has approved 1 new regulation, revised 4 regulations, instructions, and methods and working on their enforcement.

Also, it has approved the new and revised regulations or amendments regulating the insurance operations such as "Regulation on formation, disbursement, and supervision of general insurance reserve fund", "Location of capital of the general insurance company, investment, and its requirements", "Regulation on segregate placement of insurer's capital and supervision on its disbursement", "Guidelines on defining suitable bodies", "Regulation on granting licenses to engage in general insurance operations, in reinsurance operations, and in professional insurance participatory operations".

During the reporting period, the Financial Regulatory Commission has accomplished fully the development of insurance regulating package rules stated in the Law on Insurance of Mongolia in order to fulfill the requirements set out for regulating insurers and insurance professional participators' operations that meets international insurance market standards by enforcing the approved and revised insurance regulations and instructions.

The Financial Regulatory Commission has started its activity in implementing the approval of "Code of insurance companies' corporate governance", which was one of the biggest important activity in the reporting year.

Within the scope of targeted activates, the Financial Regulatory Commission under the announced year of 2010 as year for "Reformation of the Business Environment" took a measure for reducing by two times the regulatory fee generated from insurance representatives, based on request of the Mongolian Insurers Association, which became one of the significant measures for supporting insurance companies' operations.

#### **4.3. Activities for enforcing the supervision and inspection of the insurance market**

In the reporting period, it has received quarterly reports on financial and insurance operations from 15 companies engaged in general insurers operations in insurance market, 1 engaged in long-term insurance operations, 8 engaged in insurance intermediary operations, and 6 engaged in insurance loss assessor operations and has analyzed and consolidated them and implemented off-site supervision.

As result of implementing the policy measures on stabilizing the protection of domestic insurance market from financial risks, the solvency rate of insurers' granted with the licenses to engage in insurance operations has met almost its criteria.

In the reporting period, within the scope of regulating the licenses for insurance market participators and developing infrastructure of the insurance sector, it has granted the licenses for 1 company to engage in general insurance operation, for 4 companies to engage in insurance intermediary operations, for 4 companies to engage in insurance loss assessor, for 2 companies for additional insurance operations, and has approved for 14 companies to make amendments into the shareholders' composition and the volume for paid-in-capital, for 11 companies to assign authorized officer in the positions, for 2 citizens to engage in actuary

operations, for 2 companies to merge their operations, and has terminated the licenses for 2 companies engaged in insurance operations.

The Financial Regulatory Commission has conducted Conference for insurance sector's executives, where they have exchanged their views and opinions within the insurance sector's system on problems and challenges facing in domestic insurance market and the way for overcoming it, and have discussed and defined the measures for protecting the legal rights of insurance market's participators, which became an efficient outcome of this conference.

In total 18 applications and complaints were received, reviewed, and solved by the Financial Regulatory Commission in regard to violation of citizens and customers' right and insurance re-compensation. If to compare this number with number of previous year, which was 72, then it has sharply declined as result of a decrease in the cases of violating the insurers' rights by insurance companies in accordance with requirements set out by the Financial Regulatory Commission.

The Financial Regulatory Commission has developed a draft on Program on mid-term development of the insurance sector and has discussed this program by conducting a round-table meeting among the professional institutions' officers participating in the insurance market.

The Financial Regulatory Commission has been providing constant references on legal regulation of insurance market and consolidated indicators of insurance companies' financial capacity and insurance sector's development. This activity helped a lot for respecting interests of insurance companies, customers, citizens, and institutions, for providing with news and information on current development insurance market, for protecting their legal interest, and consequently for enhancing open and transparent information flow on insurance and financial market.

In the reporting period, in total 17 on-site planned and 12 unplanned and partial inspections were conducted in insurance companies' financial and insurance operations, respectively and related responsibilities and duties were assigned to abolish their misconducts on time-base, which performance was conducted. Within the scope of this activity, it has imposed the fines and penalties to those institutions and the relevant body violated the regulations and law on Insurance, in accordance with the law and has taken a measure for its full payment.

In the reporting period, it has imposed a penalty in total amount of 10.5 million Tugrug to those insurance companies for their misconducts and failures from financial and insurance operations that was detected during on-site inspection and income generated from these penalties were allocated to the state budget.

Based on request submitted by insurance institutions, it has terminated the licenses for 103 insurance representatives in total, who were not engaging in insurance market operations.

The Financial Regulatory Commission has made an analysis on reports of insurance institutions' financial and insurance operations, conducted constant off-site inspections, and submitted the responses to the reports that became the ground for implementing regulatory policy towards sustaining a stable financial condition in insurance market and consequently giving an actual overview of insurance sector.

In the reporting period, in regard to approval of revised Law on the Banking, it had a tendency in establishing the new insurance intermediary companies with participation of the

bank and deepening of relations between the banks and insurance institutions that there is a need in conducting the consolidated inspections in insurance companies and relevant commercial banks' operations in order to pay more attention on prevention from financial crimes may occur in insurance sector in the future.

#### **4.4. Activities for promoting the insurance market and enhancing insurers' financial education**

The study showed that one fourth of total population of Mongolia has engaged in any of insurance contracts directly or indirectly. From one side, this is because of low cash accumulation due to population's income and from other side, incomplete understandings of the citizens regarding the insurance market operations. Therefore, with the purpose to increase the measures for explaining and providing understandings on importance of insurance market to the citizens and for protecting the insurers from the risks may occur in their life, health, capital, and responsibilities, the Financial Regulatory Commission has made a transparent system for public to access the news and information on insurance market through newspapers, mass media, radio, television, and the Commission's website in swift manner, provided with advisory services to insurers and institutions, and supported and assisted the insurance market participators.

In 2010, we have given in total 15 interviews and direct discussions through central and local radios and televisions and 20 articles, news, and information in daily newspapers to public in regard to significance of insurance services, the specificity and difference of general and long-term insurance products, current situation of insure sector's development, and its further tendency.

With the purpose to deliver in swift manner and to make transparent information to citizens and customers in regard to financial and insurance operations of professional institutions participating in insurance market, the Commission has placed at its website the monthly information on insurance companies' operations, monthly financial balance sheets, comprehensive monthly and end year consolidated introduction of insurance sector and has published the end year auditing results of all insurance companies' financial reports in the newspapers.

In 2010, in regard to advancing the legal regulation of insurance sector, the Commission via its website has delivered to public in total 22 information on its implemented policy measures and issued decisions, approved and enforced regulations and instructions, the insurers, its branches, insurance representatives, insurance intermediaries, insurance loss assessors, and insurance actuaries that were granted with licenses to engage in insurance operations, and the licensed auditors were granted with licenses to engage in auditing operations of financial reports of the insurance institutions and has issued in total 88 official written instructions and references to institutions and citizens.

In November of 2011, on the occasion of 76<sup>th</sup> Anniversary on Establishment of Mongolian Insurance Institution, the Financial Regulatory Commission in joint cooperation with Mongolian Insurers Association has conducted an insurance festival and sport tournament. During this event, with the purpose to enhance the citizens' knowledge and education on insurance market, it has delivered comprehensive information through television on history of insurance sector's development, current situation of insurance market, and its future tendency, the importance of insurance, burning issues of insurance sector, and new insurance products such as micro-finance insurance and livestock-based insurance indexes.

In the reporting period, the Financial Regulatory Commission paying a specific attention for development of insurance sector's infrastructure, has organized the serial insurance trainings and seminars with the purpose to enhance capacity and expertise of professional institution's personnel participating in insurance market.

The Financial Regulatory Commission, in order to implement its objective to form the confidence and trust for citizens and insurers in insurance market, has issued and enforced its decision on increasing the minimum amount of paid-in-capital of insurance institutions by 2 times in 2010 in regard to approval of new amendments made in the Law on Insurance, by paying a significant attention on strengthening the insurance companies' financial capacity and capital amount.

In the reporting period, thanks to the enforcement of new approved insurance regulations and instructions, it has created the conditions for general and long-term insurers' and insurance professional participators' operations to meet the requirements for international insurance market's standards and for advancing the legal framework to enforce the insurance regulations and law.

## **FIVE. OTHER REGULATORY ACTIVITIES IMPLEMENTED BY FINANCIAL REGULATORY COMMISSION**

**5.1.** In regard to approval of amendments of the Law on Handling of settlement operations by national currency and Regulation on foreign currency, the Commission's relevant regulating servicing institutions have defined the regulatory policy for supervising the enforcement of the legislations and intensifying its pursuance on issues related to settlement operations handled by legal bodies and citizens other than banks in the territory of Mongolia.

With the purpose to in halt any cases breaching the laws, in order to enhance the enforcement of the law, the Financial Regulatory Commission has opened-up information-line phone and within the scope of obtaining an information from the citizens, it has received an information in total from 19 citizens in 2010, where it has conducted and took the related supervisions and acts.

In regard to enhancing the law enforcement, it has conducted on-site inspection during 5-11 May, 2011 at Ulemj LLC, Eco Construction LLC, Talst Shopping Center, Metro Mall (ZSNB LLC), Sant School, and Bayar Construction LLC, in accordance with approved guidance on on-site inspection of business entities and has delivered the State inspectors' official note to ZSNB LLC, Ulemj LLC, Talst Shopping Center, and Eco Construction LLC.

Also, during 21 June-1 July, 2010, it has conducted on-site inspections at Skytel LLC, G-Mobile LLC, Unitel LLC, Mobicom LLC, Aeromongolia LLC, Ezinis Airways LLC, Korean Airlines (Representative Office in Ulaanbaatar), Air China (Representative Office in Ulaanbaatar), Aeroflot (Representative Office in Ulaanbaatar), Air Market LLC, Naran Travel LLC, Air Link LLC, IAT LLC, ACJet LLC, Air Network LLC, Amudas Mongolia LLC, Mon Air Tour LLC, Star Zone LLC, Airtrans LLC, and Air Ticket LLC.

In addition, it has conducted on-site partial re-inspection at 12 companies were inspected previously during 06-17 September, 2010. In the reporting period, in total at 40 companies the enforcement of these regulations and law were inspected.

During inspection processes, it has detected in total 4 failures and misconducts, where the State inspectors' official notes were delivered to them and has imposed administrative fine for 2,160 thousands Tugrug at 1 legal entity for its serious misconducts.

**5.2.** The operations of foreign currency exchange points were regulated within the Law on Non-bank institutions' operations and as result of granting the licenses, to engage only in foreign currency exchange operations, in total for 46 legal entities fulfilled the conditions and requirements, non-bank institutions has been granted a license in currency exchange under the new non bank institutions law, the submission of the reports on financial and prudential ratio's indicators has increased and the quarterly information on currency transactions has consolidated and introduced to the Commission's executives and delivered to the Bank of Mongolia, if it required to do so. Also, as result of involvement in on-site inspections' processes, assignment of responsibilities and duties to them, and taken relevant measures in accordance with the laws, the number of failures and misconducts are decreasing sharply.

**5.3.** The Financial Regulatory Commission has paid a specific attention on supporting the each new created relations and new products in the market. As result of effective and initiative work on creating the capital-backed securities market in the capital market and the relations for its legal environment, it has submitted the Law on Mortgage on Real Estate, in 9 July, 2011 and the Law on Capital-backed Securities, in 23 April, 2010, which were approved by the Parliament. Further, it will pay more attention on developing, issuing, and advancing the related rules and regulations required for enforcement of the law.

**5.4.** In accordance with assigned duties to the Financial Regulatory Commission by Parliament, in relation to Resolution No.20 of 2010 on "Pursuance of temporary regulation in regard to engage in defining the grading system operations for capital-backed securities", it has approved and pursuing the Regulation on "Granting the licenses to engage in defining the grading system operations and registering its operations" by sophisticating the project on general methodology for defining the rating system of the company's special drawing rights with international standards and the country's specificity and characteristics.

**5.5.** The Government of Mongolia has announced year of 2010 as year for "Reformation of the business environment" and has implemented its issued operational plan, where in total 13 direct responsibilities, within this scope, were planned by the Financial Regulatory Commission of which 11 responsibilities were executed fully. Two remaining responsibilities shall be implemented and executed completely in 2011. It has developed a draft of several policy regulating documents that supports the objectives and missions of business environment reformation such as "Corporate Governance Program", revised draft of the Law on "Company", "General Methodology on Company's Special Drawing Rights", revised draft of the Law on "Non-bank financial institutions' operations", and revised draft of the Law on "Securities Market".

## **SIX. ACTIVITIES FOR DEVELOPING AND STRENGTHENING ITS COOPERATION WITH INTERNATIONAL AND REGIONAL INSTITUTIONS**

The Financial Regulatory Commission, in the reporting period, in regard to its international cooperation has not only expanded its existing traditional cooperation, but has also supported the proposals and initiatives for developing bi-lateral cooperation and implemented the following activities:

**6.1.** The Financial Regulatory Commission has set out a main goal for joining the Appendix A, by approving the join of Appendix B of the MOU of International Organization of Securities Association (IOSCO) in 2009.

The purpose of this MOU is designed to combat against a violation of the Law on "Securities and Derivatives", which is a significant for defining international standards of trans-boundary cooperation. If the Financial Regulatory Commission fulfills the requirements set out in Appendix A and fully join the MOU, it will have a full authority to exchange

information on all related securities' operations, to cooperate and to consult with authorized securities institutions of other countries joined the other MOUs, which will have a high importance in having a consolidated understandings of the market and creating a legal framework for securities market sophisticated to international standards.

**6.2.** We are working on preparation work for joining the MOU of International Association for Insurance Supervisors (IAIS). Within this scope, in order to fulfill a preparation work on joining the MOU of International Association for Insurance Supervisors (IAIS), we have sent to IAIS in May our request on handling the process for providing the legal explanations on insurance laws. Furthermore, we have developed in cooperation with Legal division of the Financial Regulatory Commission the legal explanations required for joining the MOU of International Association for Insurance Supervisors and submitted in August the responses to MOU questions in translated format into English language and implementing its further preparatory work for signing the MOU with current institution.

**6.3.** Within the scope of advancing the financial market's legal framework and supporting the traditional relations with the GIZ (German International Cooperation Agency), we have sent to GIZ our request along with its application on inviting international expert from International Immigration and Development Center (CIM) of the GIZ to work at the Commission's Securities Department, due to shortage of professional expertise experts in the field of capital market in Mongolia. The selection process of the experts is underway.

**6.4.** In July month of reporting period, the Financial Regulatory Commission has joined the membership of Joint Alliance for Providing the Financial Services (AFI). The main goal of this organization is designed to provide the financial support to people with low income from developing countries. This organization has been initiated by German International Cooperation Agency and Bill & Melinda Gates Foundation.

As result of joining the AFI, the members are provided with the possibility to receive the financial, technical, and logistical assistances and supports, in order to exchange with gained comprehensive financial knowledge, to receive mid-term and long-term grants aimed to assist implementing the development of a complex policy on financial new initiatives, to acquaint with studies and achievements played an important role to solved the successful implementation of the financial policy, and furthermore, to participate in the world and regional policy conferences and seminars conducted by AFI on annual-base as well as in trainings, activities, and exchange programs conducted for working groups, which has its many advantages.

Also, as result of joining the AFI, the members are provided with the possibility to receive the financial support from Bill & Melinda Gates Foundation, especially for us it has provided with the possibility to implement the projects and programs in the field of micro-financing. As result of this action, we have agreed in the end of March 2011 to implement the project on mobile banking' information exchange in joint cooperation with AFI.

With the result of this action, we have concluded to implement new project on the field of mobile banking with the AFI in March 2011.

**6.5.** Under the Project, announced by Japanese International Cooperation Agency (JICA), on Enhancing capacity of the government organizations in 2011 by Japanese Government, the Commission, with the purpose to improve a professional skill of professional participators and investors of the securities market, has developed a project proposal on "Financial Sector's Education", which was sent to the Ministry of Finance and Representative Office of JICA. This project was drafted based on needs and requirements for improving a



professional education of the professional participators of this booming capital market, the Commission's personnel, and investors.

**6.6.** Within the scope of enhancing a preparatory work of the Project on "Improving capacity of the FRC" and "Establishing the financial training center" under the project of Luxembourg Development Agency, an international expert is appointed at current Commission to work on this project. A launch of this project will provide the possibilities to take a relevant measure for strengthening the Commission's human resource, to involve the Commission's executives and professional experts in masters and bachelors degree training courses, to establish the financial education training center of the FRC along providing with its equipments and methods and methodologies for training courses, and to conduct trainings and seminars for professional participators of the financial market.

**6.7.** The Financial Regulatory Commission has put all its efforts in efficient continuation of works were implemented in last year such as to organize a preparatory work on signing the MOU with the Financial Supervision Agency (FSS) of Republic of Korea and the Securities Commission of Hong Kong, to ensure a preparatory work on signing the MOU with the Financial Supervision Agency (PFSA) of Poland, and to ensure the fulfillment of the MOU on bilateral agreement signed with Securities Regulatory Commission (CSRC) of Republic of China.

**6.8** The Financial Regulatory Commission has sent to the Asian Development Bank (ADB) its request on financing the Project on "Improving capacity of savings and cooperatives". As result of this request, the representatives from Financial Regulatory Commission, the Ministry of Finance of Mongolia, and Asian Development Bank have signed the MOU on Project on financial services provided to poor and low income people and grant of \$2.5 million has been granted from the Poverty Reduction Grant Fund of the Government of Japan.

**6.9.** Within the scope of TA/7112 MON Project on "Developing a capital market", which is funded by the Asian Development Bank (ADB), it has conducted awareness and educational campaign of draft Law on "Securities Market" and trainings and seminars on capital market operations for public that hold at districts' centers of Ulaanbaatar city and four other provinces.

**6.10.** It has conducted a seminar on topic of "Assessment of financial sector in Mongolia and reformation of capital market" in joint cooperation with Section of Financial Sector, State Administration, and Regional Cooperation of East Asia Department of the Asian Development Bank.

## **SEVEN. A BRIEF REPORT ON 2010 BUDGET AND FINANCIAL STATEMENTS OF THE FINANCIAL REGULATORY COMMISSION**

The Parliament of Mongolia, according to the budget reconciliation, has approved the current expenses for Financial Regulatory Commission at 911.6 million Tugrug in 2010, of which 441.0 million Tugrug or 48.4% generated from financial sources of state budget, 470.6 million Tugrug or 51.6% generated from its general operational income or from regulatory service fees, respectively.

In 2010, there were not planned and approved any state budget investments and expenses from international loans and aids.

## **7.1. Income generated from general operation**

In accordance with regulations approved by the Commission on “setting out the regulatory service fees to generate from license holders”, the Financial Regulatory Commission has generated its income from its general operations, and in the reporting period, it has centralized 692.2 million Tugrug from regulatory service fees and has deposited 436.9 million Tugrug to funding account dedicated for general operations.

If to look the main operational incomes by its type, service field, and ratio, then 26.6% was generated from insurance companies’ regulatory service fees, 22.7% from securities regulatory fees, 21.8% from NBFIs and SCCs, and 24.4% from securities transaction fees of the Securities Clearing House and Central Depository Center, respectively.

The Financial Regulatory Commission has received 437.6 million Tugrug of state budget out of 476.3 million Tugrug, and has performed its planning at 91.9 %.

## **7.2. Expenses and funding from the main operation**

In the reporting period, the budget current expenses of the Financial Regulatory Commission has been approved at 977.6 million Tugrug, of which its performance has reached at 904.7 million Tugrug by economizing 6.9 million Tugrug or 0.8 percent of the budget current expenses.

From the performance of total budget current expenses 49.0% was spent for basic salary, 6.4% for premiums on transport and meal, 6.4% for additional bonuses, 6.8% for social security expenses paid to employee by employers, 0.9% for stationery, 1.4% for transport fuel expenses, 7.9% for post and telecommunication expenses, 1.6% for domestic business trips, 2.1% for overseas business trips, 4.8% for trainings and promotional activities, 0.2% for current renovation works, 1.1% for software engineering, 2.8% for charges, fees, and other expenses, 0.1% for foreign guests’ expenses, 0.1% for sport and social activities, 4.2% for one-time benefit and bonuses, and 3.8% for international membership fees.

## **THE FINANCIAL REGULATORY COMMISSION OF MONGOLIA**