

MONGOLIA
RESOLUTION OF THE FINANCIAL REGULATORY COMMISSION

May 23, 2012

No156

Ulaanbaatar

Approving the guideline on “the on-site assessment and evaluation of Savings and Credit Cooperative’s activities”

Based on the provision 6.1.2 of the Mongolian law on the legal status of the Committee on Financial Regulations hereby RESOLVES:

1. To approve the guideline on “the on-site assessment and evaluation of Savings and Credit Cooperative’s activities” as attached hereto and to enforce it from the 1st of June, 2012.
2. To repeal the procedures on “controlling and the assessment of Savings and Credit Cooperative’s activities” that approved by the Committee’s resolution No 92 of 2007 in aligning with the approval of this guideline.
3. To endorse the Working group /Kh.Bum-Erdene/ to monitor the implementation of the approved guideline and to notify publicly.

CHAIRMAND.BAYARSAIKHAN

THE GUIDELINE ON THE ON-SITE ASSESSMENT AND EVALUATION OF SAVINGS AND CREDIT COOPERATIVE'S ACTIVITIES

One.General provisions

1.1. The purpose of the guideline is to conduct on-site assessment from the Financial Regulatory Committee /hereinafter referred as to the Committee/on the operational and financial condition of Savings and Credit Cooperative/hereinafter referred as to "SCC"/, to ensure the implementation of the law on Savings and Credit Cooperative and other related rules, instructions, guidelines and requirements of the special permissions that have been approved by authoritative organizations, to identify possible risks and assess the financial and operational condition, solvency of the SCC and to undertake appropriate measures to eliminate revealed faults and violation.

1.2. The on-site assessment could be conducted in comprehensive or partial ways depending on its purpose. Under the "Comprehensive on site assessment", the activities shall be examined, and evaluated on the basis of all documented accounting materials that have been compiled for the period of the assessment while under the "partial on site assessment" the activities shall be examined, and evaluated any part of the activities in certain time for certain purposes depending on the current situation.

1.3. The Assessment working group shall conduct an on-site assessment on the financial and operational condition of SCC in according to the guideline that approved by the Committee's Chairman timely and effectively, to give conclusions and submit reporting during which the following indicators should be elaborated and done. There are:

- 1.3.1. Adequacy of owner's equity;
- 1.3.2. Active asset's quality ;
- 1.3.3. Managerial ability;
- 1.3.4. Profitability;
- 1.3.5. Liquidity or current ratio

1.4. During the assessment and conclusion of the above mentioned indicators', key identifying factor or main and related factors that has been indicated in the annexes should be estimated.

1.5. On the basis of the conclusion of the on-site assessment, overall assessment for SCC's financial and operational condition and its solvency shall be identified by given weighs as indicated in annex 6 and scored by the following. There are:

- "Good" or "1"
- "Satisfactory" or "2"
- "Medium" or "3"
- "Unsatisfactory" or "4"
- "Bad" or "5"

1.6. During the on-site assessment for a given SCC, the assessment working group should consider any results and measures that have been taken effectively after the previous assessment and determine any growth, declining tendency of a given financial indicator.

1.7. During partial assessment, conclusion should be based on the current given indicator's assessment.

Two. Adequacy of the owner's equity

2.1. In accordance with the annex 1 of this guideline, when making a conclusion on adequacy of the equity capital of the SCC, the assessment working group should consider and calculate whether the optimal ratio of equity capital to total active of the SCC is consistent with that approved by the requirements from the Committee and consider the SCC's risk coverage and its quality:

2.1.1. Whether asset share of the whole members and of any member is consistent with the that of the optimal level identified from the Committee;

2.1.2. Whether the reserve fund's amount is consistent with the optimal level identified from the Committee.

Three. Quality of Active asset

3.1. In accordance with the annex 2 of this guideline, when making a conclusion on active's quality, the assessment working group should identify the amount of on-balance and off-balance non-performing classified active asset, the level of active asset that are overdue, un-accumulated and with reviewed and renewed conditions, and their tendency, estimate sufficiency of risk funds for active assets and the amount of non-performing active assets, a SCC's ability to manage and enforce payment for its assets, the quality of the credit portfolio, credit and loan policy, the implementation of the related rules, instruction, credit risk derived from off-balance accounts, the concentration of the active assets, the ensuring the requirement of loan to total active asset, the efficacy of the credit and loan management, and instructions and guideline for risk identification and even information system condition of SCC. There are:

3.1.1. Whether it meets with the requirement on net credit outstanding amount that considered optimally from the Committee;

3.1.2. The ratio of non-performing loan to total loan;

3.1.3. Adequacy ratio of active asset's risk fund;

3.1.4. The total amount of loan that lent to one and several individuals with the same purpose should comply with the optimal level from the Committee;

3.1.5. Indicator for Privatization and other real estate assets;

3.1.6. Indicator for a net fixed asset.

3.2. Related factors:

3.2.1. Identification of ratio and the amount of active asset that has no income to total active;

3.2.2. Credit policy document, its implementation, credit union's activity or allowance of credit, its control and repayment:

a/ the amount of collateral and its quality;

b/ the ratio of the amount of allowance of credit to its repayment during the assessment period;

3.2.3. Enforcement and implementation of the related law, rules, instructions regarding credit, loan and other active asset;

3.2.4. The amount of non-performing and overdue active to total active, and identification of reasons for its growth and decline and any measures have been taken for reducing the amount of non-performing active.

Four. Managerial ability

According to the annex 3 of this guideline, the assessment working group will assess and make conclusion on managerial ability on the basis of the following factors. There are:

4.1. When assessing and concluding on managerial ability's quality, the assessment working group should consider any requirements regarding to operational activities of SCC are met, and managerial abilities on identifying, estimating and controlling over possible risks on the operations.

4.1.1. Average weight of other four indicators of this guideline.;

4.2. Related factors:

4.2.1. The fulfillment of the instructions from the previous on-site assessment from the Committee and its implementation's quality and performance;

4.2.2. Has ability to identify, estimate and manage active assets' other risks;

4.2.3. Whether it convening meetings of all members, launching a board of members, supervisory board, and credit committee is in consistent with the law, and their regular operational existence under the law;

4.2.4. How a SCC is gathering information on the sectoral activities, financial indicators, and creating environment for exchanging and sharing information on the SCC's managerial activities and their financial conditions;

4.2.5. Developing rules, instructions, guidelines in compliance with the related law and approval and abidance;

4.2.6. Designation of general director of SCC in compliance with the law, and general director, workers' abidance of the law;

4.2.7. Fairly and timely preparation of financial reporting and information in accord with the law and its assurance by the auditing organization.

Five.Profitability

In accordance with annex 4 of this guideline, the assessment working group should assess and conclude on profitability of SCC on the basis of the following factors. There are:

5.1. When the assessment working group are assessing and concluding profitability factors under the annex 4 of this guideline, they should consider ability of increasing own equity capital through accumulated profit, level of the profitability, its sustainability and tendency, its profitability's quality and sources, optimal level of risk funds, it profitability dependence on sudden windfall revenue and expenditure, budgeting, planning and their appropriate managing system, and the appropriateness of managerial information system.

5.1.1. Active's yield;

5.1.2. The growth and decline of the active asset's yield position during the assessment period (growth, decline of SCC's profit level as compared with the previous year, quarters, its tendency, clarification of its changes);

5.1.3. Consistency of operational cost amount to the benchmark defined from the Committee.

Six.Liquidity or Current ratio

The assessment working group should assess and conclude on liquidity or current ratio situation of SCC on basis of the following factors under the annex 5 of this guideline. There are:

6.1. Key or qualitative factors:

Under assessment of liquidity or current ratio of SCC, working group should consider tendency of growth or decline in allocated active, its sustainability, union's dependency on short-term, fluctuated sources, financing of long term active on crediting short term sources, the ratio of liquid active to active assets, sales possibilities of actives, adequacy of liquidity condition, existence of liquidity policy, appropriateness its rules, guidelines, its implementation, managerial strategy for funding, managerial information system and planning for attracting sources, managerial ability for

identification, measurement and observance of liquidity related risks and the outstanding amount of balance and off balance.

6.1.1. The consistency of the liquidity or current ratio with the benchmark from the Committee;

6.1.2. The consistency of loan ratio financed from bank, financial organization, project and programming with the benchmark and their repayment conditions.

6.2. Related factors:

6.2.1. The ratio of the amount of short term liability to total liability, and the amount of receivables, time consistency of liability repayment, the ratio of loan and the financing from others:

a/ Active and passive management, their repayment overdue time consistency, the ratio of loan and liability;

b/ the ratio of short term asset to total amount of liability.

6.2.2. The outstanding amount of liabilities, whether it has ever been postponed, the amount of postponed amount and its reason, solutions for it.

Seven.Overall assessment

The assessment working group should give overall assessment on operational and financial condition of SCC based on the following disciplines under the annex 6 of this guideline. There are:

7.1. Members of the assessment working group should give overall assessment and make conclusion collaboratively by each five indicators indicated in 2-6 annexes of this guideline based on own assessment under approved schedule.

7.2. The leader of the assessment working group shall calculate total arithmetic score in cooperation with other members and give overall assessment on operational and financial condition of SCC and the final score shall approved by signature of every member of the working group and stamped by inspector.

7.3. The operational and financial condition of SCC shall be assessed and concluded by the following marks and scores depending on the overall assessment score. They are:

7.3.1. If overall assessment is between 1 and 1.6, SCC is “Good” or has normal operation;

7.3.2. If overall assessment is between 1.6 and 2.6, SCC is “Satisfactory” or vulnerable to risks;

7.3.3. If overall assessment is between 2.6 and 3.6, SCC is “Medium” or has conditions for imposing control measures;

7.3.4. If overall assessment is between 3.6 and 4.6, SCC is “Unsatisfactory” or has inclination to insolvency;

7.3.5. If overall assessment is between 4.6 and 5, SCC is “Bad” or insolvency.

7.4. In overall assessment, the assessment working group shall identify and express clearly related rationales, justification.

7.5. The assessment working group may scale up or down the overall assessment upon considering real factors that affect on the current and future financial conditions of SCC. When doing such re-assessment, it should identify clearly which real situation is the most likely to occur in the assessment conclusion.

7.6. To calculate arithmetic average of assessment that identified in annexes 1-6 of this guideline and to give overall assessment on operational and financial condition of SCC with the other Related factors and it should be approved by signature of all members of the assessment group and inspector and by stamp of the inspector.

7.7. If necessary for the assessment working group, before presenting its overall assessment on SCC's operational and financial condition, and assessment reporting, other act, materials for current SCC, the group may present them preliminarily management of the Microfinance department.

7.8. If the SCC does not accept the overall assessment of the assessment working group, it may make complaint in written form within 10 working days after familiarizing with the assessment reporting.

Eight.Responsibility

8.1. Financial officer has authority to take related measures and impose penalties for the SCC who had evaluated as medium and under medium within its power under the law.

FINANCIAL REGULATORY COMMISSION

ADEQUACY OF EQUITY CAPITAL

FACTORS		WEIGHTING SHARE	GOOD /1/	SATISFACTORY /2/	MEDIUM /3/	UNSATISFACTORY /4/	BAD /5/	OVERALL
1	KEY FACTORS							
1.1	Ensuring optimal ratio of equity capital to total active asset is consistent with the benchmark identified by the Committee	15%	Constantly performed	Performed less than the three subsequent quarters	Performed once in a while in every two or one quarter	Not performed in the last three subsequent quarters	Not performed in more than the last three subsequent quarters	
1.2	Ensuring the optimal ratio of one member's equity capital is consistent with the benchmark identified by the Committee	25 %						
1.3	Ensuring the optimal level of reserve fund is consistent with the benchmark of the Committee	60 %	Constantly performed	Performed less than the three subsequent quarters	Performed once in a while in every two or one quarter	Not performed in the last three subsequent quarters	Not performed in more than the last three subsequent quarters	
OVERALL		100 %						

ACTIVE ASSETS's QUALITY

	FACTORS	WEIGHTING SHARE	GOOD /1/	SATISFACTORY /2/	MEDIUM /3/	UNSATISFACTORY /4/	BAD /5/	OVERALL
1	KEY FACTORS							
1.1	Ensuring the net loan outstanding benchmark by the Committee	15 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
1.2	The ratio of non-performing loan to total loan	15 %	Up to 5 xyбb percent	Between 5-10percent	Between 10-30 percent	Between 30-50 percent	50 and more than it	
1.3	Adequacy ratio of Active assets' risk fund	15 %	Set in 100 percent of the fund	Set more than 91 percent of the fund	Set between 71-90 percent of the fund	Not yet set 30-50 percent of the fund	Not set more than 51 percent of the fund	
1.4	Ensuring the benchmark on the total amount of loan lent to one and more individuals who has the same purpose by the Committee	15 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
1.5	Indicator for Privatization and other real estate assets	15 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
1.6	Net fixed assets' indicator	5 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
2	RELATED FACTORS							
2.1	The ratio of the active who has no income to total active	5 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
2.2	Credit Policy document, its implementation, loan committee's activities or allowance credit, control, repayment	5 %	The ratio of repayment is more than 91 percent	The ratio of repayment is between 81-90 percent	The ratio of repayment is between 71-80 percent	3 The ratio of repayment is 61-70 percent	The ratio of repayment is less than 60 percent	

2.3	The Abidance of the related law, instructions, rules on credit or other active assets.	5 %	fulfilled				Not fulfilled	
2.4	The classification of credit under related rules, instructions	5 %	Classified 100 percent	Classified more than 91 percent	Classified between 71-90 percent of credit	Not classified between 30-50 percent of credit	Not classified more than 51 percent of credit	
OVERALL		100 %						

MANAGERIAL ABILITY

FACTORS		WEIGHTING SHARE	GOOD /1/	SATISFACTORY /2/	MEDIUM /3/	UNSATISFACTORY /4/	BAD /5/	OVERALL
1	KEY FACTORS							
1.1	Average assessment of other four indicators of this guideline/calculated by arithmetic average /	40 %						
2	RELATED FACTORS							
2.1	The fulfillment of the instructions from the previous on-site assessment from the Committee and its implementation's quality and performance	15 %						
2.2	Has ability to identify, estimate and manage active assets' other risks	5 %						
2.3	Whether it convening meetings of all members, launching a board of members, supervisory board, and credit committee is in consistent with the law, and their regular operational existence under the law	10 %						
2.4	How a SCC is gathering information on the sectoral activities, financial indicators, and creating environment for exchanging and sharing information on the SCC's managerial activities and their financial conditions	5 %						
2.5	Developing rules, instructions, guidelines in compliance with the related law and approval and abidance;	10 %						
2.6	Designation of general director of SCC in compliance with the law, and general director, workers' abidance of the law	5 %						
2.7	Fairly and timely preparation of financial	10 %						

reporting and information in accord with the law and its assurance by the auditing organization							
OVERALL	100 %						

PROFITABILITY

FACTORS		WEIGHTING SHARE	GOOD /1/	SATISFACTORY /2/	MEDIUM /3/	UNSATISFACTORY /4/	BAD /5/	OVERALL
1	KEY FACTORS							
1.1	Active's yield(Тайлант хугацааны татварын дараах цэвэр ашиг/Нийт активын дундаж)	30 %	The least deviation from the average of aggregation	Less than the average of aggregation	Equal to the average of aggregation	More than the average of aggregation	The most deviation from average of aggregation	
1.2	The growth and decline of the active asset's yield position during the assessment period (growth, decline of SCC's profit level as compared with the previous year, quarters, its tendency, clarification of its changes)	30%	The most increased, the least declined from the average of the aggregation	Increased more than the the average of the aggregation	Equal to the average of the aggregation	Less increased than the average of the aggregation	Least increased and the most declined than the average of the aggregation	
1.3	Ensuring the consistency of operational cost amount to the benchmark defined from the Committee.	40 %	performed				Not performed	
OVERALL		100 %						

LIQUIDITY OR CURRENT RATIO

FACTORS		WEIGHTING SHARE	GOOD /1/	SATISFACTORY /2/	MEDIUM /3/	UNSATISFACTORY /4/	BAD /5/	OVERALL
1	KEY FACTORS							
1.1	Ensuring the consistency of the liquidity or current ratio with the benchmark from the Committee	45 %	Constantly performed	Performed less than the three subsequent quarters	Performed once in a while in every two or one quarter	Not performed in the last three subsequent quarters	Not performed in more than the last three subsequent quarters	
1.2	Ensuring the consistency of loan ratio financed from bank, financial organization, project and programming with the benchmark and their repayment conditions	30 %	yes	-	-	-	no	
2	RELATED FACTORS							
2.1	the ratio of short term asset to total amount of financing from others	15 %	Fully protected from the difficulties	Vulnerable to the risks after more than 1 year	Vulnerable to the risks between the period of 2 quarters and 1 year	Vulnerable to the risks in 2 quarters	Vulnerable to the risks in 1 quarter	
2.2	The outstanding amount of liabilities, whether it has ever been postponed due time of payment, the amount of payment and its reason, solutions	10 %	Never postponed	Possible to postpone	Postponed by 1 quarter	Postponed by 2quarters	Postponed by more than 3quarters	
OVERALL		100 %						

OVERALL ASSESSMENT ON OPERATIONAL, FINANCIAL CONDITION AND SOLVENCY OF SCC

No	INDICATORS	WEIGHTING SHARE	ASSESSMENT BY ASSESSMENT		ASSESSMENT FROM THE PREVIOUS ASSESSMENT	CHANGES
			By indicators	weighed		
1	ADEQUACY OF OWNER'S EQUITY	20.00 %				
2	QUALITY OF ACTIVE	20.00 %				
3	MANAGERIAL ABILITY	30.00 %				
4	PROFITABILITY	15.00 %				
5	LIQUIDITY OR CURRENT RATIO	15.00 %				
OVERALL		100.00%				

PS: 1. The rationale for every scaling up or down should be clearly stated.

ASSESSED BY:

LEADER OF THE ASSESSMENT WORKING GROUP

...../NAME/

MEMBERS OF THE ASSESSMENT WORKING GROUP:

...../NAME/