

BANKING LAW OF MONGOLIA

(revised)

CHAPTER I General Provisions

Article 1. Purpose of the law

1.1. The purpose of this law shall be the regulation of relations concerning licensing of banks, the revocation of licenses, the establishment of general principles of a bank's management, organization and activities, supervision of banks and financial conglomerates and taking enforcement measures against them.

Article 2. Legislation on banking activities

2.1. The legislation on banking activities is comprised of the Constitution of Mongolia, the Law on Central Bank (Bank of Mongolia), this law and other relevant legislation, which is consistent with them.

2.2. If an international treaty to which Mongolia is a party is inconsistent with this law, then the provisions of the international treaty shall prevail.

Article 3. Definitions

3.1. The terms used in this law shall have the following definitions:

3.1.1. Bank is a profit seeking legal entity which has paid in capital consisting of cash funds invested by shareholders, and the shareholders of which bear financial liability to the extent of their invested capital, and is engaged in financial intermediary services such as taking deposits, extending loans on its own behalf and executing payments and settlements under a license from the Bank of Mongolia.

3.1.2. "Related party" set forth in this Law shall refer to the following individual and/or legal entity:

3.1.2.a. A direct and/or indirect holder of shares or securities convertible into shares, an individual, legal entity, and their stakeholder who entered into a deal to be owned in the future;

3.1.2.b. A direct and/or indirect issuer of shares or securities convertible into shares, an individual, legal entity, and their stakeholder who entered into a deal to be owned in the future;

3.1.2.c. An individual, legal entity, and their stakeholder that has a direct, indirect, sole, and joint control over and influence and/or has the potential to influence, under an agreement, any decisions related to activities the individual is engaged in and management, policy, and activities of a legal entity;

- 3.1.2.d. An individual, legal entity, and their stakeholder that accepted a direct, indirect, sole, and joint control over and influence on own management, policy, and activities and/or has such a possibility;
- 3.1.2.e. Chairman and/or member of the Board of Directors of a legal entity, member of executive management and authorized official;
- 3.1.2.f. Family member and relative of an individual set forth in provisions 3.1.2.a-3.1.2.e of this Law, legal entity and stakeholder that has direct and/or indirect control;
- 3.1.2.g. A legal entity that has direct and/or indirect control from the body set forth in 3.1.2.a-3.1.2.e of this Law, its stakeholder, or other types of a group formed to combine economic interests, and a stakeholder of a legal entity;
- 3.1.2.h. Other individuals and legal entities regarded by the BOM as a related party.

3.1.3. “Restructure a bank” means the comprehensive management, organizational, financial and other relevant measures taken to enhance the financial position and reduce the bank’s loss by making changes in the composition of paid-in capital and organizational structure of a bank, or by increasing or decreasing the paid-in capital.

3.1.4. “Reorganizing a bank” means the merger, acquisition, division, separation, and transformation in accordance with procedures set forth in the legislation.

3.1.5. “Assets, liabilities and equity of a bank” are terms defined in the accounting regulation adopted by the Bank of Mongolia in accordance with international standards.

3.1.6. “Financial conglomerate” means separate entities which are related parties to each other and one of which is a bank.

3.1.7. “Member of a financial conglomerate” means a legal entity which fulfills the requirements stated in provision 3.1.6 of this Law.

3.1.8. “Consolidated supervision” means the assessment of a financial position of members a financial conglomerate on a stand-alone and consolidated basis.

3.1.9. “Capital adequacy” means the assessment of adequacy of the bank’s capital base to cover losses caused by financial and operational risks.

3.1.10. “Regulatory capital” means the minimum level of capital adequacy set by the BOM and specified in 3.1.9 of this Law.

3.1.11. “Financial regulatory authority” means the BOM, Financial Regulatory Commission (FRC) and international organizations that have similar functions.

3.1.12. “Influential shareholder” means a body that owns 5 and more percent of the bank shares on its own and/or jointly with a related party.

3.1.13. “Bank unit” means the bank branch, representative office, settlement center, and settlement cash counter that do not have a legal entity mandate.

Article 4. Types of bank

4.1. A bank may be: State, privately or jointly owned, depending on ownership of its paid in capital; a

joint-stock or limited liability entity, depending on its incorporation; and a general or specialized bank, depending on the type of banking activities it performs.

Article 5. Non-interference with bank activities

5.1. Unless the law specifically provides to the contrary, the Bank of Mongolia and/or public administrative body shall not interfere with activities of a bank and illegitimately influence the bank's management and/or decisions.

5.2. A bank shall not bear responsibility for obligations undertaken by the State, and the State shall not bear responsibility for obligations undertaken by a bank unless the State specifically assumes that responsibility.

CHAPTER II

Banking activities

Article 6. Banking activities

6.1. Banks shall carry out the following activities under a license from the Bank of Mongolia:

- 6.1.1. Accepting deposits;
- 6.1.2. Disbursing loans;
- 6.1.3. Providing payments and settlements services;
- 6.1.4. Providing payment guarantees and warranties to third parties on its own behalf;
- 6.1.5. Purchasing, selling, and accepting and placing deposits in foreign currency;
- 6.1.6. Purchasing, selling, and accepting and placing safety deposits of precious metals and stones;
- 6.1.7. Receiving valuables into custody;
- 6.1.8. Conducting foreign remittance services;
- 6.1.9. Issuing, buying and selling securities;
- 6.1.10. Dealing in financial leasing transactions;
- 6.1.11. Selling and buying loan portfolios and other financial instruments;
- 6.1.12. Other financial transactions and services permitted by the laws and regulations and authorized by the BOM.

6.2. Banks, their subsidiaries and affiliate companies shall carry out the following activities under a license from the FRC:

- 6.2.1. Providing consultancy services and information regarding investment and finance;
- 6.2.2. Conducting trust operations;
- 6.2.3. Insurance intermediation;
- 6.2.4. Underwriting;
- 6.2.5. Custodian;
- 6.2.6. Factoring;
- 6.2.7. Other investment transactions and services executed upon the customer's request and on his/her behalf.

6.3. Banks, their subsidiaries and affiliate companies shall furnish the following documents to the BOM while applying for a license to engage in activities specified in provisions 6.1 and 6.2 of this Law:

- 6.3.1. which type of the activities specified in provisions 6.1 and 6.2 of this Law it intends to engage in;
- 6.3.2. funding sources required for the selected type of activities and proof of origin;
- 6.3.3. availability of an office space and technical equipment;
- 6.3.4. software to be used in the activities;
- 6.3.5. documents proving that the office space, technical equipment, and software meet security and safety requirements;
- 6.3.6. business plan.

6.4. The FRC may grant a license for the activities set forth in provision 6.2 of this Law to a bank, its subsidiary and/or affiliate company if the BOM notifies in writing of its no objection.

Article 7. Prohibited activities for banks, their subsidiaries and affiliate companies

7.1. No bank shall engage in any activities for profit other than the activities set forth in Article 6 of this Law. This provision shall exclude the temporary possession and sale of any property taken as collateral for purposes of recovering the loan.

7.2. Shareholders, Chairman and members of the Board of Directors, the Executive Director and officers of a bank shall not release and disclose to others, or use any information which is considered by the bank, its customers, and/or third parties as confidential, except in the following cases:

- 7.2.1. the individual to whom confidential information relates agreed in writing to disclosure ;
- 7.2.2. the Bank of Mongolia and its supervisors demanded in relation to performing their legitimate duties;
- 7.2.3. the court and prosecutor's office management lodged a request and/or the prosecutor's office accepted the request from management of the anti-corruption authority and police department due to their case registration and investigation work requirements;
- 7.2.4. if the violation of laws of Mongolia is proven, at the request of an international law-enforcement institution or Government of a foreign country which has concluded with Mongolia an Agreement on Legal Assistance;
- 7.2.5. the FRC demanded for supervising licensed activities and/or financial regulatory authority of a foreign country requested in line with the FRC's obligation under an international treaty.

7.3. Confidentially requirements described in provision 7.2 of this Law shall not apply to inter-bank data on bank lending, information to be furnished under the law and agreement on credit bureau, reports and data set forth in Articles 37 and 38 of this Law, and information exchanged between the bank and the issuer of asset-backed securities.

7.4. In addition to the prohibitions as defined in provision 7.1 of this Law, a bank, its subsidiary and affiliate company shall not engage in the following activities:

- 7.4.1. carry out or participate in activities aimed at providing the bank, alone or together with others, a dominant position in the financial markets, or creating unfair preferential position to itself or any third party;
- 7.4.2. offer underwriting services to a bearer of financial obligation or its related party if its loan and/or other financial obligation to the bank and/or a member of the financial conglomerate is in default;
- 7.4.3. while offering underwriting services, extend a loan or equivalent financial services and/or issue a guarantee and/or warranty to the issuer and/or its related party;
- 7.4.4. purchase securities underwritten by a member of the financial conglomerate;

- 7.4.5. sell securities underwritten by itself directly or indirectly to members of the financial conglomerate and/or engage in related activities;
- 7.4.6. provide underwriting services to a legal entity that have overdue loans with a bank or non-bank financial institution;
- 7.4.7. execute transactions other than payment of financial obligations to entities which are unable to meet requirements specified in provision 18.1 of this Law in circumstances other than permitted by the Bank of Mongolia;
- 7.4.8. make false or misleading advertisements or statements relating to its activities;
- 7.4.9. make donations to political parties and coalitions.

Article 8. Bank advertisement

8.1. Advertisements by the bank shall truly reflect its activities at a given time and shall be in conformity with the laws and legislation.

8.2. The Bank of Mongolia shall prohibit particular advertisement of the bank if it is considered to have the following contents:

- 8.2.1. If the bank's financial statements disclosed to the public contradict the actual financial position of the bank;
- 8.2.2. are not consistent with the legislation.

Article 9. Savings

9.1. A bank may accept savings from citizens of Mongolia or foreign countries, or stateless persons (hereinafter referred to as "individuals") and/or legal entities at their request, hold on a contractual basis and pay an interest.

9.2. Any relations pertaining to accepting savings and savings insurance shall be regulated by a law.

Article 10. Loans

10.1. A bank may extend loans to individuals or legal entities on its terms and conditions. The bank shall set lending rates on its own.

10.2. A bank may accept, under an agreement with the borrower and/or based on a court decision, the borrower's property, shares, and their dividends for payments of overdue loan principal and interest. This provision shall not apply to the case provided in provision 17.4 of this Law.

10.3. Lending activities of banks shall be regulated by a law.

Article 11. Payments and settlements services

11.1. A bank shall offer all types of payments and settlements services to its customers on the basis of an agreement signed with the customer.

11.2. A bank shall transfer funds from the customer's account upon the latter's order and within the limits of remaining account balance. Transactions executed pursuant to a decision by the court and/or bank receiver, or a contract or payment order signed by the customer and in which the customer

agrees to pay the debt without any dispute shall be regarded as transactions executed upon the customer's order.

11.3. Banks shall determine their fees and commissions for payments and settlements services.

11.4. Inter-bank settlements by banks shall be conducted through their accounts at the Bank of Mongolia.

11.5. Payments and settlements activities of the bank shall be regulated by a law.

Article 12. Issuance of warranty and guarantee

12.1. A bank may issue a guarantee and warranty to third parties on a contractual basis within the restrictions set out in provision 17.1-17.3 of this Law.

Article 13. Custody of valuables

13.1. In rendering services for custody of valuables (valuables as regarded by customers) a Bank shall determine terms for the custody contract in accordance with the legislation.

Article 14. Foreign exchange payments and settlements

14.1. Bank activities relating to the purchase and sale of foreign currencies and other financial instruments denominated in such currencies shall be regulated by a law.

Article 15. Issuing, accepting as collateral, purchasing and selling securities

15.1. Bank activities relating to the issuance, sale and/or purchase of securities to be traded on the capital market the constraints described in provision 17.4 of this Law shall be regulated by an applicable law.

15.2. With the authorization of the Bank of Mongolia, a bank may issue, buy, sell or accept as collateral securities to be traded on the money market and maturing within one year. These securities shall not be classified as asset-backed securities.

Article 16. Criteria for banks

16.1. A bank shall comply with the following requirements:

16.1.1. to maintain its reserve requirement and liquidity in the form and amount required pursuant to the regulations issued by the Bank of Mongolia and to safeguard customers' deposits and pay out and transfer funds on the first demand by a customer;

16.1.2. to comply with capital adequacy, loan loss provisioning, foreign currency exposure and other prudential requirements set by the regulation of Bank of Mongolia;

16.1.3. not to restrict customers from being customers of several banks;

16.1.4. not to make debit transactions from a customer's current account without the customer's consent. This provision shall not apply to a transaction for the payment of tax

debt, through undisputable procedures, from the current account of a taxpayer who failed to pay taxes within the timeline set by the law;

16.1.5. not to require the customer to use services of its subsidiaries, affiliate companies, branches or representative offices or other services as a pre-condition for receiving services of the bank.

16.2. A bank shall provide its customers with accurate information on its activities in accordance with accounting procedures and standard practices set by the Bank of Mongolia.

16.3. A bank shall be allowed, with the authorization of the Bank of Mongolia, to set up a subsidiary and/or affiliate company to engage only in financial activities.

Article 17. Restrictions on banking activities

17.1. The total value of loans, loan equivalent assets, guarantees and warranties provided to one person and/or his/her related party shall not exceed 20 percent of the capital of the bank.

17.2. The total value of guarantees and warranties issued by a bank shall not exceed the total value of its equity.

17.3. The maximum value of loans, loan equivalent assets, guarantees and warranties issued to the bank's related party shall not exceed 5 percent of the bank's equity, and the total amount not exceed 20 percent of the bank's equity. The following requirements shall be met in these transactions:

17.3.1. terms and conditions as well as interest rates of loans, loan equivalent assets, guarantee and warranties shall not be more concessional than those generally applicable under the terms and conditions of the bank;

17.3.2. the collateral of loans, loan equivalent assets, guarantee and warranties shall not be the borrower's contribution to the paid-in capital;

17.3.3. an individual shall not be permitted to take part in management activities of the bank in any form, if his loan or loan equivalent assets repayment is overdue more than six months or the total sum of loans, loan equivalent assets, guarantee and warranty extended to him exceeds 5 percent of the bank's capital.

17.4. Except for circumstances set forth in provision 17.5 of this Law, the total amount of securities a bank can purchase shall not exceed 20 percent of the capital of the bank and 10 percent of the total amount of the shares issued by one company. This shall not apply to securities issued by the Government and the Central Bank and shares of legal entities engaged in market information business, its subsidiaries and affiliate companies.

17.5. The total amount of asset-backed securities a bank can purchase shall not exceed 50 percent of the bank's capital.

CHAPTER III

Incorporating and re-organizing a bank

Article 18. Incorporating a bank

18.1. Any legal entity and individual except state and local government-owned legal entities (legal entities partially owned by the central and/or local government), non-governmental organizations, and their related parties shall be allowed to establish a bank. This provision does not apply to the Government's setting up a bank.

18.2. An approval is required from the Bank of Mongolia to establish a bank or its branch domestically and abroad.

Article 19. Criteria for bank founders (Fit-and-proper test)

19.1. Founders of a bank shall satisfy the following criteria:

19.1.1. to be licensed by and registered with authorities of a country, reports financial statements on an annual basis and/or shorter frequency in accordance with the laws and regulations of the jurisdiction;

19.1.2. the individual and/or legal entity's financial operations must be subject to regular supervision by the authorities in accordance with relevant laws and regulations;

19.1.3. financial statements and reports should be subject to external audit by an audit firm, licensed under the laws and regulations of Mongolia or internationally recognized and reputable, at least once a year;

19.1.4. the fact of cash invested in the bank's paid-in capital being net income from own operations of the founder and/or its related party shall be indicated in financial statements and reports filed to the authorities of the jurisdiction of registration;

19.1.5. no enquiries from authorities in relation to complaints and reference containing money laundering and terrorism financing aspects;

Article 20. Documents to be furnished

20.1. In addition to documents required under Articles 16 and 20 of the Law on State Registration of Legal Entities, founders and shareholders of a bank shall furnish the following documents:

20.1.1. an application for a banking license;

20.1.2. founding agreement (not applicable in case of one founder);

20.1.3. the charter of the bank;

20.1.4. feasibility study for the bank;

20.1.5. name and address of founders and influential shareholders, and financial statements of last three years of their related parties audited by firms that meet the requirements stipulated in the Law;

20.1.6. detailed description of management, personnel, technical facilities and premises of the bank in the templates set by the Bank of Mongolia;

20.1.7. proof of the amount of capital invested in the bank, sources, and origin of the funds.

20.2. The Bank of Mongolia can request to submit additional documents within the framework of the required documents, if it considers the documents submitted pursuant to provision 20.1 of this Law are incomplete or unclear. The Bank of Mongolia may approach law enforcement agencies for reference and/or enquiry regarding the founders, shareholders, and proposed management of the bank.

20.3. Documents required in this law from bank founders, shareholders and their related parties must be certified by competent authorities of the jurisdiction of registration and internationally recognized bodies. These documents shall be a part of the documents required for founding a bank.

20.4. Relations of establishing, reorganizing, dissolving a bank, and authorizing an equity investment in a bank shall be regulated by a regulation issued the Bank of Mongolia in conformity with this Law and other relevant laws.

Article 21. Bank Charter

21.1. The Charter of an entity to be engaged in banking activities, items set forth in provision 16.2 of the Company Law and the following items shall be incorporated:

- 21.1.1. the amount of paid-in capital;
- 21.1.2. bank management and organizational structure;
- 21.1.3. terms of reference of shareholders and Board of Directors meetings.

21.2. Any amendments to the bank Charter shall be registered with the BOM within 14 days after a decision on such amendments was made.

Article 22. Establishing a bank, branch or representative office of a bank with foreign investment and requirements for its activities

22.1. A legal entity seeking a banking license for a foreign-invested bank and its branch and/or representative office shall furnish the following documents to the BOM in addition to those set forth in Article 20 of this Law while meeting the requirements described in Article 19 of this Law:

- 22.1.1. the decision of a foreign bank or financial institution to establish a bank, a bank branch or a representative office within the territory of Mongolia;
- 22.1.2. the permission from a competent authority of the jurisdiction to operate on the territory of Mongolia;
- 22.1.3. other documents required by other relevant laws and regulations.

22.2. Additional requirements on operations of a bank, bank branch and/or representative office established in accordance with this Article shall be set under a regulation of the BOM.

Article 23. Granting a banking license

23.1. While reviewing an application for a banking license and other supporting documents, the Bank of Mongolia shall verify whether the following requirements are met:

- 23.1.1. whether the bank has capital paid in cash sufficient to run stable and efficient banking operations;
- 23.1.2. whether knowledge, education and experience of the Executive Director, members of the Board of Directors and other top managers are sufficient for conducting fair and profitable operations of a bank, and whether the Executive Director and members of the Board of Directors satisfy the criteria set out in provisions 32.1, 33.3, and 34.2 of this Law;

23.1.3. whether the bank will have an adverse impact on the country's economic security;

23.1.4. whether there is sufficient documentation to prove that cash invested in the bank's capital is obtained from legal activities.

23.2. The Bank of Mongolia shall accept an application for a banking license after verifying that the criteria specified in Article 19 and documentation requirements specified in Article 20 of this Law have been fully met. If additional information is required, the date on which the additional documents are submitted shall be deemed to be the date of receipt of the application for a banking license.

23.3. The Bank of Mongolia shall accept the application for a banking license and make its decision within 60 days after receiving the application specified in 20.1 of this Law on whether to issue a license and give a written notice about its decision to the founder within 3 days.

23.4. The Bank of Mongolia may grant additional permissions described in Article 6 of this Law if a bank has soundly conducted operations granted by the license.

Article 24. Refusal to grant a license

24.1. The Bank of Mongolia shall refuse to grant a banking license and authorize capital investment in the following circumstances:

24.1.1. the requirements set forth in Articles 18-22 and 36 of this Law are not met;

24.1.2. the charter of a bank is in contradiction with the legislation;

24.1.3. it is established that a bank that is to be incorporated is not able to have capital or proof of source for capital sufficient to comply with the requirements, or the materials submitted were false, or the capital was provided from a banking loan, or individuals for management positions of the bank do not satisfy the criteria set by this Law.

24.1.4. contradicts with relevant laws and decisions of financial regulatory authorities.

Article 25. Registration of banks

25.1. Pursuant to articles 18-22 of this law, banks licensed by the Bank of Mongolia shall be registered in the state business registry.

25.2. To establish a bank unit the approval from the Bank of Mongolia shall be obtained. Approval for establishing a bank unit shall be recorded on the banking license of the head bank without issuing a separate registration.

25.3. Registration of a bank in the State Registry shall be announced publicly.

Article 26. Name of a bank

26.1. The name of a bank shall consist of its own name and the word "bank".

26.2. It is prohibited for entities not holding a banking license to use the word "bank" in its name.

26.3. The name and the location of a bank shall only be changed with the consent of the Bank of Mongolia.

26.4. A bank unit shall use the name of the head bank.

Article 27. Revocation of banking licenses

27.1. The Bank of Mongolia shall revoke a banking license on the following grounds and announce it publicly:

27.1.1. upon a declaration of bank bankruptcy and insolvency or liquidation by competent authority;

27.1.2. it was revealed after the registration that false documents have been submitted to obtain a banking license;

27.1.3. the bank did not engage in any banking activities for more than one year after its registration;

27.1.4. declared false documents while making amendments to the structure and size of paid-in capital.

27.2. By revoking the banking license, all permissions for banking activities shall become invalid automatically.

27.3. If a banking license has been revoked or an application has been refused, the Bank of Mongolia shall not accept documents on a new application for a license within one year.

27.4. If the Bank of Mongolia has revoked a banking license due to reasons other than stated in 27.1 and 48.2 of this Law, the Board of Directors of the bank shall, within 30 days after and on the basis of such decision by the Bank of Mongolia, call for a shareholders meeting and shall issue a decision on liquidation of the bank.

Article 28. Primary conditions for reorganizing and liquidating a bank under shareholders meeting decision

28.1. Provided that the BOM authorizes, the bank can be reorganized and/or liquidated upon a decision by the shareholders meeting.

28.2. The decision to reorganize and/or liquidate a bank shall contain the establishment of a reorganization and/or liquidation committee, inspections committee charged with the duty to review property and valuables in the bank's books, members of these committees, and selection of an audit firm.

28.3. To obtain an authorization to reorganize and/or liquidate the bank, the following documents shall be furnished to the BOM within 3 days after the shareholders meeting issued such a decision:

28.3.1. shareholders meeting resolution on bank reorganization and/or liquidation;

28.3.2. document indicating the need, modality, conditions, and timeline of bank reorganization and/or liquidation, actions to be taken by the bank in relation to cease of its operations, corresponding timelines and stages, audited financial statements reviewed at the shareholders meeting;

28.3.3. organizational structure, legal status, and location of the entity to be formed after the reorganization, types of operation and business plan of the bank, implementation plan of reorganization, other information on proforma balance sheet;

- 28.3.4. estimates of the financial outcome of the proposed bank reorganization and beginning balance sheet of the reorganized bank.
- 28.4. The BOM shall issue and disclose to the public its decision on the proposed bank reorganization and/or liquidation within 60 days after receiving the relevant documents.
- 28.5. In establishing the date of receiving the documents set forth in 28.3 of this Law, the BOM shall follow provision 23.2 of this Law.
- 28.6. The bank reorganization shall be commissioned once the BOM issues its authorization on the matter.
- 28.7. The bank shall notify its depositors, customers, and borrowers of the reorganization decision within 3 days after obtaining an authorization from the BOM.
- 28.8. The BOM may partake an intermediary role in bank reorganization such as merger and acquisition.
- 28.9. The BOM shall refuse issue its authorization if any of the following circumstances materialize:
- 28.9.1. the documents set forth in provision 28.3 of this Law were incomplete and/or fraudulent;
 - 28.9.2. the documents set forth in provision 28.3 of this Law were in violation of the law;
 - 28.9.3. the criteria set forth in Articles 19, 20 and 36 of this Law were not met;
 - 28.9.4. the BOM deemed that the proposed reorganization/liquidation might negatively affect the customers' interests and financial sector stability.
- 28.10. The shareholders' meeting resolution shall be deemed void if the BOM refused to issue an authorization to reorganization and/or liquidation.
- 28.11. The bank shall be liquidated in accordance with relevant procedures pursuant to the BOM's authorization of the liquidation.

CHAPTER IV

Bank management and organizational structure

Article 29. Shareholders meeting of the bank

- 29.1. The shareholders meeting shall be the supreme governing body of a bank. In case of a bank with single shareholder, the powers of the shareholders meeting shall be exercised by the shareholder, and in case of a state-owned bank, the Government and a body authorized by the Government.
- 29.2. The shareholders meeting shall discuss and resolve the following matters:
- 29.2.1. approve the bank charter, its amendments and revisions;
 - 29.2.2. change the structure and size of equity;
 - 29.2.3. set up a subsidiary and/or affiliate company;
 - 29.2.4. reorganize the bank;
 - 29.2.5. liquidate the bank;
 - 29.2.6. review and approve the Board of Directors' annual report on bank operations;
 - 29.2.7. review and approve the Board of Directors opinion regarding audited financial statements;

- 29.2.8. appoint, terminate the appointment of, and dismiss members of the Board of Directors (this provision does not apply to independent members of the Board of Directors);
- 29.2.9. set out powers of the Chairman and members of the Board of Directors, institute the responsibility framework, remuneration, and terms of reference of the Board of Directors;
- 29.2.10. matters pertaining to the bank supervisor (Supervisory Board) shall be governed under Article 92 of the Company Law.

29.3. Votes of a legal entity and/or individual that do not meet the criteria set forth in Articles 19 and 36 of this Law at a shareholders meeting shall be deemed void. In this case, a decision from the shareholders meeting shall be deemed effective by majority of votes of other shareholders.

29.4. Other matters pertaining to calling for a shareholders meeting, delivering a notice, and the shareholders meeting decision entering into force shall be governed under Articles 60-74 of the Company Law.

Article 30. Procedure for convening a shareholders meeting of the bank at the initiative of the Bank of Mongolia

30.1. If enforcement measures are being undertaken under the banking legislation, the Bank of Mongolia or its Conservator may call for an extraordinary shareholders meeting of the bank, if necessary.

30.2. The date and time of a shareholders meeting of the bank shall be announced 30 days prior to the meeting day, in case of a provisional administration, the meeting can be convened prior to the date provided above.

30.3. In case of a provisional administration, a decision of the shareholders meeting shall enter into effect by the conservator's vote.

30.4. No shareholders meeting shall be convened if the bank is under BOM receivership.

Article 31. Board of Directors of the bank

31.1. A bank shall have a Board of Directors.

31.2. The Board of Directors of a bank incorporated as a joint stock company shall have 9 and more members while that of incorporated as a limited liability company 5 and more members.

31.3. The Board of Directors of the bank shall exercise the following powers:

- 31.3.1. set out, review, and amend the bank strategy, approve the organizational structure, risk management policy, annual budget, business plan, and performance targets;
- 31.3.2. appoint executive management of the bank upon consultation with the Governor of the Bank of Mongolia;
- 31.3.3. define the powers and responsibilities of executive management, oversee its activities and approve its compensation package;
- 31.3.4. call for regular and extraordinary shareholders meetings;
- 31.3.5. issue an opinion regarding the matters set forth in provisions 29.2.6 and 29.2.7 of this Law and present it to the shareholders meeting for consideration;

- 31.3.6. form an internal audit unit in the bank independent from executive management, appoint its managers and staff, approve its budget and staffing, outline its terms of reference, and approve salaries and bonuses;
 - 31.3.7. outline prudent governance policies and procedures of the bank and oversee their enforcement;
 - 31.3.8. establish proper controls encompassing the bank's accounting, financial reporting, external and internal audit, risk management, financial and operational control, and compliance;
 - 31.3.9. oversee the disclosure of financial statements specified in Article 37 and 38 of this Law and other information.
- 31.4. The terms of reference of the Board of Directors shall be governed under the charter of the bank and should incorporate the following duties of the Chairman and members of the Board of Directors:
- 31.4.1. perform duties duly within the powers established in the laws and regulations;
 - 31.4.2. prioritize the bank's interests over one's private and that of the body that appointed;
 - 31.4.3. not to benefit from profits secretly;
 - 31.4.4. avoid a conflict of interest and inform the Board of Directors in case of the occurrence of a conflict of interest;
 - 31.4.5. not to interfere with daily operations of the bank.
- 31.5. Issues pertaining to other matters such as convening a Board of Directors' meeting and resolutions from the Board of Directors meeting entering into effect shall be governed under Articles 76-79 of the Company Law.
- 31.6. The Bank shall deliver to the BOM certified copies of minutes and resolutions of shareholders and Board of Directors meetings, and documents capturing the count of votes at a shareholders meeting within 45 days from the decision of shareholders and Board of Directors meetings.
- 31.7. The internal audit unit's basic functions shall be to oversee the implementation of policies adopted by bank management, business plan and budget of the current year, and operational guidelines, and the accuracy of bookkeeping and financial statements, to safeguard assets, and to improve asset efficiency. It shall report its activities to the Board of Directors.

Article 32. Members of the BoD of the bank

- 32.1. Members of the Board of Directors shall meet the following criteria:
- 32.1.1. no overdue debt under a loan, warranty, and/or guarantee agreement;
 - 32.1.2. no criminal record in anti-state and economic crimes;
 - 32.1.3. no conflict of ethical and business reputation with regard to overseeing the bank;
 - 32.1.4. not be in a managerial position at professional institutions in the financial sector;
 - 32.1.5. if the candidate was in a managerial position at a bank and/or non-bank financial institution when its license was revoked, three years should be passed;
 - 32.1.6. if the candidate was subjected to an administrative penalty while being in a managerial position at an entity engaged in professional business on the financial market, three years should be passed.
- 32.2. A member of the Board of Directors can be a shareholder of the bank.

Article 33. Independent members of the Board of Directors

33.1. The Board of Directors of the bank shall have one or more independent members.

33.2. The regulation on nominating, appointing, and dismissing an independent member of the Board of Director of the bank shall be adopted by the Financial Stability Council set forth in Article 27² of the Central Bank (Bank of Mongolia) Law.

33.3. An independent member of the Board of Directors shall meet the following criteria in addition to those stipulated in 32.1 of this Law:

33.3.1. have a degree in banking, finance, and economics, at least eight years of professional experience, four years of which worked in a managerial position at a bank and/or financial institution;

33.3.2. not to hold a political and/or core civil servant's position;

33.3.3. have a proof that the bankruptcy and/or insolvency of a legal entity, in which s/he held a managerial position, was not related to him/her in any way;

33.3.4. not to be in a managerial position of and/or related party to the bank;

33.3.5. not to be an influential shareholder of the bank and/or not to have related party connections with the shareholder;

33.3.6. not worked at the bank in the last five years;

33.3.7. not to be receiving bonuses related to the bank performance;

33.3.8. not to have more than eight years of Board of Directors membership of the bank;

33.3.9. not to be a bank shareholder set forth in 3.1.12 of this Law, large client, and/or its manager.

33.4. The Bank of Mongolia shall adopt the regulation on establishing the status of a large client.

33.5. An independent member of the Board of Directors of the bank shall be on the audit and risk management committee and obliged to participate in approval of and vote on matters under the jurisdiction of these committees and conflict of interest deals stipulated in the Company Law.

33.6. The Board of Directors shall adopt the terms of reference of the audit and risk management committees.

Article 34. Executive Management of the bank

34.1. Executive management of the bank shall work under a contract and adhere to the following operational requirements:

34.1.1. give precedence to the bank's and its customers' interests over his/her own personal interests;

34.1.2. not to use any information about the bank and its customers, which is obtained in the course of his/her service in the bank, for the benefit of personal or third party's interest;

34.1.3. make a written disclosure to the Board of any conflict of interest as soon as a conflict of interest becomes apparent. In particular a conflict of interest shall exist whenever the Executive director or any of his/her related party has a direct interest about knowing financial situation of an entity that has business with the bank;

34.1.4. refrain from attending any discussions concerning his/her personal matters and interests;

34.1.5. manage the bank's day-to-day operations within his/her powers set by legislation and the Charter of the bank;

34.1.6. provide for conditions for bank staff to perform their duties without any conflict of interest;

34.1.7. establish and assess the performance of an internal control framework that ensures normal operations of the bank.

34.2. Executive management of the bank shall satisfy the following criteria:

34.2.1. have a degree in banking, finance, and economics, at least 3 years of managerial work experience in the financial sector, and a professional experience and expertise;

34.2.2. not to have overdue debt under a loan, guarantee and/or warranty agreement;

34.2.3. not to have any criminal record for anti-state and economic crimes;

34.2.4. no conflict of ethical and business reputation with regard to overseeing the bank;

34.2.5. satisfy prudential ratios and management skills requirements set forth by the Bank of Mongolia.

CHAPTER FIVE BANK CAPITAL AND CONSOLIDATED SUPERVISION

Article 35. Bank equity

35.1. The bank shall have its own equity, which shall be defined in accordance with the accounting regulation approved by the Bank of Mongolia.

35.2. Paid-in capital of the bank shall consist of cash contributions by bank Shareholders; its minimum amount shall be set by the Bank of Mongolia taking into consideration the country's economic situation, inflation developments, bank solvency, and peculiarities of bank operations.

35.3. The bank shall pay dividends only if it continues to meet prudential requirements set by the Bank of Mongolia after the distribution of dividends.

35.4. The bank's equity shall be defined as net of its net profits or losses and excess or shortfall of loan loss provisions.

35.5. The Bank of Mongolia together with the central public administrative body in charge of financial issues shall adopt a regulation on provisioning and disposal of the loan loss provisions by banks.

35.6. The regulation on provisioning and disposal of provisions for possible losses of other assets and activities except those specified in 35.5 of this Law shall be set by the Bank of Mongolia.

35.7. Procedures for setting up other funds except those stated in 35.5 and 35.6 of this Law shall be set by each bank.

35.8. Shareholders of the bank shall undertake financial liability and cover the loss to the amount of their contribution to the bank capital.

Article 36. Approval of bank ownership

36.1. The bank shall notify in writing the BOM in due course of any changes in the amount and structure of the bank's capital.

36.2. The bank shall notify in writing the BOM and obtain a prior authorization before the share ownership right is transferred if someone is going to become an influential shareholder and/or the amount and structure of shares owned by influential shareholders are to be changed and if the bank is going to issue shares and other securities classified as shares.

36.3. The BOM shall accept request for authorization of changes in the amount and structure of shares owned by influential shareholders and issuance of shares and other securities classified as shares and issue a decision on authorization within 60 days after the requirements set forth in Article 19, 20.1.5, 20.1.7, and 20.3 of this Law are satisfied and all documents are furnished completely. The bank shall be notified of the decision.

36.4. If a supervision exercise reveals the fact of someone becoming, on its own and/or jointly with its related party, an influential shareholder without the BOM's authorization or violation of 36.12 of this Law, voting and dividend rights of those shares shall be suspended, and the BOM shall require the bank to sell off the shares within 30 days starting from the last purchase until the legal limits are met. Any issuance and sale of shares and other securities classified as shares without the BOM's authorization shall be deducted from the bank's capital.

36.5. The requirements set forth in 36.1-36.12 of this Law shall equally apply to an individual, legal entity, and their related parties specified in Articles 19 and 20 of this Law, incorporating a bank and/or owning bank shares and other securities classified as shares.

36.6. An entity engaged in payments and settlements, and depository of securities shall deliver in accordance with the BOM's regulation a detailed report on share ownership of a bank organized as a joint stock company.

36.7. The BOM shall adopt a regulation on changes in the amount and structure of the bank's equity, and issuance, sale, and transfer of shares and other securities classified as shares.

36.8. For banks organized as a joint stock company, the regulation on public offering of shares and matter specified in 36.7 of this Law shall be adopted jointly by the BOM and FRC.

36.9. A bank shareholder shall be prohibited from selling its shares and other securities classified as shares back to the bank.

36.10. It shall be prohibited for an individual and legal entity to own bank shares indirectly on others' name.

36.11. It shall be prohibited to sell shares of a bank incorporated in accordance with Article 22 of this Law except to those authorized by the BOM.

36.12. It shall be prohibited for an influential shareholder with voting rights of the bank to be an influential shareholder with voting rights of another bank.

Article 37. Financial statements

37.1. Financial statements of a bank and financial conglomerate shall consist of a balance sheet, income statement, cash flow statement, interpretations and explanatory notes.

37.2. Financial statements of a bank, its parent company, their affiliate companies and subsidiaries, and financial conglomerates shall meet the following requirements:

37.2.1. financial statements shall be prepared in accordance with accounting principles adopted by the Bank of Mongolia in accordance with international standards;

37.2.2. a document with dates officially certifying that the financial statements are prepared accurately in accordance with 37.2.1 of this Law and stamped and signed by the Chairman of the Board of Directors, executive management and other relevant officials.

37.3. The bank, its affiliate companies and subsidiaries shall submit to the Bank of Mongolia monthly financial statements on a consolidated and individual basis by the 10th of succeeding month. A bank, its parent company and their affiliate companies and subsidiaries shall submit to the Bank of Mongolia quarterly financial statements on a consolidated and individual basis by the end of the first month of succeeding quarter.

37.4. The Bank of Mongolia reserves the right to request any additional evidence and documents related to financial statements of a bank, its parent company, their affiliate companies and subsidiaries.

37.5. A regulation on preparing consolidated financial statements of financial conglomerates shall be adopted by the BOM jointly with the FRC and the central public administrative body in charge of financial matters.

37.6. The bank shall maintain a standard back-up system with archives of physical and electronic data for protecting its banking and financial operations database from force majeure factors and other threats.

Article 38. Disclosure of financial statements and other information of a bank

38.1. The bank shall disclose to the public through the media, its quarterly financial statements that meet the requirements set forth in 37.2 of this Law in the first month of the succeeding quarter, and audited annual financial statements in the first quarter of the next year.

38.2. In addition to the statements stated in 38.1 this Law, the bank shall disclose the following information to the public through publication and/or posting on the website within five days after the decision was made:

38.2.1. performance report certified by the signature of Chairman of the Board of Directors and executive management of the bank;

38.2.2. organizational structure and legal status of the legal entity, structure and composition of shareholders;

38.2.3. financial and accounting systems, and internal audit framework;

38.2.4. names of influential shareholders, members of the Board of Directors, executive director and its deputy, chief accountant, managers of departments and divisions, and members of the Supervisory Board;

38.2.5. form, timeframe, and implementation approach of reorganizing the bank, organizational structure, legal status, and location of the legal entity to be formed, types of activities the bank will engage in, primary documents related to financial operations;

38.2.6. loans, L/C, other liabilities, works and services to the bank's related parties;

38.2.7. other information deemed necessary by the Bank of Mongolia to assess the bank's risks.

38.3. The Bank of Mongolia shall monitor the accuracy of the bank's financial statements and information disclosed to the public and/or posted on the website and require the bank to correct the financial statements and information if they were not disclosed in accordance with the relevant regulations or incorrect and/or with mistakes.

38.4. The information set forth in 38.2.5 of this Law shall be disclosed to the public upon the BOM's authorization of the reorganization.

Article 39. Reporting of the bank's financial statements and other necessary information

39.1. The bank, member of a financial conglomerate, their competent officials and employees are obligated to disclose in a complete and accurate manner to the Bank of Mongolia and supervisors of the Bank of Mongolia their financial statements, primary financial documents and their verifying documents, information, data and documents regarding management of the bank that are required to be compiled as stated in the relevant legislations, and the comprehensive list which details the equipments, tools, software and sub-software used in their financial operations, their precise locations as well as their passwords for access to ensure independent supervision.

39.2. Bank management, its related party and its competent officials and staff shall make every effort to allow supervisors of the Bank of Mongolia to exercise their regulatory duties.

39.3. If documents, information and data requested by the Bank of Mongolia and its supervisors under relevant legislation are deemed unavailable, the bank's related parties, competent officials and employees shall be obliged to send a written notification.

Article 40. Auditing financial statements

40.1. A bank, its parent company and their affiliate companies and subsidiaries shall have their financial statements and other required documents audited by an audit firm (auditor) at least once a year.

40.2. The audit firm (auditor) shall present its audit opinion on financial statements and documents to the Board of Directors and Supervisory Board.

Article 41. Submission of an auditor's opinion to the financial regulatory authority

41.1. An audit firm (auditor) shall submit the original copy of its final opinion to the audited bank and the Bank of Mongolia within the first half of a year.

41.2. An audit firm (auditor) shall inform the Bank of Mongolia of its opinion within five days if the following conclusions are made on the basis of documents provided by the bank:

41.2.1. the bank may experience an serious financial difficulties in the near future due to insolvency or possible insolvency;

41.2.2. if it considers that the bank staff was engaged in unfair, illegal operations, which had a negative impact on the financial situation of the bank.

41.3. An audit firm (auditor) shall inform in writing the Bank of Mongolia and Financial Regulatory Commission within five days if it reveals with regard to a bank organized as a joint stock company a

situation specified in 41.2 of this Law and a violation of the regulation on large and/or conflict of interest deals specified in the Company Law.

Article 42. Tax payment

42.1. Banks shall pay taxes according to relevant laws and regulations.

SUBCHAPTER II

Consolidated supervision

Article 43. Conducting consolidated supervision

43.1. While conducting specific supervision of operations of a member of the financial conglomerate, the BOM shall perform consolidated supervision jointly with the central public administrative body in charge of financial matters and FRC and consolidate and assess financial statements of entities involved.

43.2. Relations pertaining to the commissioning of consolidated supervision on members of a financial conglomerate, preparation and reporting of their financial statements and other relevant information, and performing examination shall be regulated under a regulation adopted by the Bank of Mongolia jointly with the FRC and central public administrative body in charge of financial matters.

43.3. In case where a member of the financial conglomerate is registered and/or domiciled abroad, the Bank of Mongolia, for the purpose of conducting consolidated supervision and exchange of necessary information, may cooperate effectively by concluding an agreement and/or memorandum of understanding with financial regulatory authority of that country.

43.4. Consolidated supervision specified in 43.1 of this Law shall be performed as an individual and consolidated assessment of financial capacity and solvency of members of the financial conglomerate, flow of funds between them, investments, liabilities, receivables, and loans between them, relationship of their other financial obligations, works, and transactions on the basis of reports of their financial operations and that of their related parties, compliance with prudential ratios on the financial capacity and solvency of the bank and members of the financial conglomerate enforced by the financial regulator.

43.5. A member of the financial conglomerate shall be obliged to submit the information required by the Bank of Mongolia, within the pre-determined date, through its bank member.

Article 44. Records on related parties and financial conglomerates

44.1. The bank shall maintain a database on its related parties, their loans, loan equivalent assets, guarantee, and warranty.

44.2. The bank shall furnish to the Bank of Mongolia the information in the database set forth in 44.1 of this Law within five days after the bank incorporation and inform the Bank of Mongolia of changes in the database within three days.

44.3. Information on a member of the financial conglomerate and the bank's related party and changes thereof shall be furnished to the Bank of Mongolia by the bank in accordance with relevant regulations within a week after the changes were made.

44.4. The central public administrative body in charge of state registration shall make information available to the Bank of Mongolia and the bank upon their request in order to identify a members of the financial conglomerate of a related party in accordance with this Law.

Article 45. Exclusion from consolidated supervision

45.1. The Bank of Mongolia may exclude a member of the financial conglomerate from consolidated supervision in the following cases:

45.1.1. type and size of operations is deemed to be minimal or no effect to the bank's financials and solvency;

45.1.2. exclusion of that particular legal entity causes no hindrance to appropriate implementation of consolidated supervision.

45.2. The Bank of Mongolia shall notify of its decision to exclude from consolidated supervision to the bank, its parent company and the member of the financial conglomerate.

CHAPTER VI ENFORCEMENT MEASURES

Subchapter I Enforcement measures against a bank

Article 46. Selected enforcement measures against banks

46.1. The Bank of Mongolia shall take the following enforcement measures depending on the type of violation if the bank breaches laws and regulations and/or decisions made by the Bank of Mongolia on matters within its powers in a way otherwise stated in Article 48 of this Law:

46.1.1. issue written warnings;

46.1.2. pass an order requiring remedial actions taken by a fixed date;

46.1.3. impose administrative penalties specified in Article 68 of this Law;

46.1.4. suspend or bind the Board of Directors to dismiss the Executive Director by a fixed date, and if the obligations were not fulfilled by the fixed date, dismiss executive management from office;

46.1.5. cease dividend distributions;

46.1.6. cease the payment of salaries, bonuses and compensations to the Board of Directors, executive management, and other competent officials;

46.1.7. restrict, cease and/or suspend all or part of banking activities;

46.1.8. appoint a controller responsible for monitoring the bank activities and reporting to the Bank of Mongolia;

46.1.9. revoke the banking license.

46.2. Actions set forth in 46.1.4-46.1.9 of this Law shall be taken if the violations were not remedied by a fixed date specified in the BOM's decision, although the BOM took against the bank enforcement actions set forth in 46.1.1-46.1.3 of this Law.

46.3. If the bank failed to file relevant information inquired by the BOM in accordance with laws and regulations and if the bank's actual performance cannot be assessed due to its failure to file financial statements other information in a complete, accurate, and timely manner in accordance with this Law and other laws and regulations, the enforcement actions set forth in Article 48 of this Law shall be undertaken regardless of the bank's compliance with capital adequacy ratios.

46.4. If the bank is to fail to satisfy any of capital adequacy ratios after distributing dividends and/or paying out salaries, bonuses, and compensation to the Board of Directors, executive management, and other competent officials, the actions set forth in 46.1.5 and 46.1.6 of this Law shall be undertaken.

46.5. The Bank of Mongolia shall set the procedures to impose the enforcement actions set forth in 46.1 of this Law.

Article 47. General principles in relation to enforcement actions

47.1. When taking enforcement actions pursuant to Articles 46 and 48 of this Law, the Bank of Mongolia shall apply the principle of equality so as to treat events with similar circumstances in the same way.

47.2. A stakeholder may appeal to the court if it considers that the decision on enforcement actions to be taken by the Bank of Mongolia is ungrounded.

47.3. The imposition of enforcement actions shall not be a grounds for exclusion from liabilities to be imposed on the bank as provided in other legislation.

Article 48. Enforcement actions against bank that fail to comply with capital adequacy ratios

48.1. The Bank of Mongolia shall undertake the following enforcement actions against a bank that failed to comply with up to 80 percent of any of capital adequacy ratios, depending on the bank's specifics and nature of a violation:

48.1.1. cease dividend payments;

48.1.2. demand the bank to submit a plan for restoring the compliance with capital adequacy ratios (hereinafter referred to as the plan) specified in Article 49 of this Law;

48.1.3. ban the establishment of new bank units, investment in other entities, purchase of stocks, and engagement in new types of activities other than required as part of the implementation of the plan;

48.1.4. revoke, partially or fully, licenses of activities that cause a loss to the bank except those warranted as part of the implementation of the plan;

48.1.5. cease salaries, bonuses, and compensations paid to the bank's executive management;

48.1.6. ban deposit-taking, issuance of certificates of deposit and other securities not classified as equity and enter into contracts for capital raising without the BOM's authorization;

48.1.7. demand the bank to issue additional common and preferred shares to increase the bank's equity and offer the shares to potential investors that satisfy the criteria set forth in Article 19 and 36 of this Law;

48.1.8. appoint a controller responsible for monitoring the bank activities and reporting to the Bank of Mongolia;

48.1.9. ban lending, issuance of guarantees and uncovered LC, purchase of discounted promissory notes, and investment in securities except Treasury and BOM securities;

48.1.10. revoke licenses of activities that cause a significant loss to the bank;

- 48.1.11. suspend and/or dismiss executive management of the bank from office;
- 48.1.12. ban the raising of funds from domestic banks and non-bank financial institutions;
- 48.1.13. ban any distributions from accumulated earnings without a prior notice to the BOM;
- 48.1.14. require to take actions by a fixed date regarding the dissolution of bank units that are causing significant losses to the bank and detaching from a financial and/or non-financial entity in which the bank has a stake;
- 48.1.15. appoint a provisional administration;
- 48.1.16. other actions in accordance with laws and regulations deemed necessary by the BOM.

48.2. A receiver shall be appointed by the BOM to a bank whose non-compliance with any of capital adequacy ratios is above 80 percent.

48.3. When the bank is under provisional administration and/or receivership, the plan shall not be referred to assets backed by asset-backed securities.

48.4. The revoking and/or termination of the bank's obligations to a holder of securities shall be referred to extraordinary circumstances of asset-backed securities.

Article 49. Plan for restoring the compliance with capital adequacy ratios

49.1. The plan shall have the following contents:

- 49.1.1. a comprehensive list of actions to be taken by the bank to bring the CAR up to prudential levels, timeframe, budget, expenses, and description;
- 49.1.2. financial and prudential ratios reports as of the launch and completion of the implementation of the plan;
- 49.1.3. if the plan envisages any changes in the structure and size of the paid-in capital, a decision from the shareholders meeting shall be enclosed;
- 49.1.4. other information and materials required by the BOM.

49.2. The plan shall satisfy the following criteria:

- 49.2.1. be in compliance with the banking laws and regulations;
- 49.2.2. have contents set forth in 49.1 of this Law;
- 49.2.3. actions under the plan should not increase the general level of the bank's risk;
- 49.2.4. be delivered to the BOM within the timeframe set forth in 49.3 of this Law;
- 49.2.5. be certified by the signature of the Chairman of the Board of Directors and executive management.

49.3. The bank shall deliver its plan within 14 days after the non-compliance with CAR was taken place.

49.4. The BOM shall review the plan within 10 days and authorize its implementation if it deems that the requirements under this Law are met.

49.5. If it is necessary to receive additional information, materials, and facts from the bank in the process of the plan review, the date set by the BOM by which all requested information was submitted shall count as the date of submission of the plan.

49.6. If it is deemed that the implementation of the plan is not feasible and/or is unsatisfactory, the BOM shall take enforcement actions set forth in Article 48 of this Law.

SUBCHAPTER II PROVISIONAL ADMINISTRATION AT BANKS

Article 50. Imposition of provisional administration

50.1. An emergency means the carrying out of administrative, organizational, financial and other measures as a package under the Bank of Mongolia's decision to improve the soundness of the financial condition of the bank or to improve its operations if the BOM's supervision revealed that the bank is likely to become insolvent due to its non-compliance with requirements set forth in 16.1.1 and 16.1.2 of this Law for 3 months.

50.2. The Bank of Mongolia shall appoint its conservator and/or a board of conservators (hereinafter referred to as the conservator) for a period of up to one year to the bank under provisional administration to manage it. Terms of reference of conservators shall be issued by the Bank of Mongolia consistent with this Law.

50.3. The bank under provisional administration shall cover all operational expenses related to the implementation of the provisional administration.

50.4. Shareholders of the bank have the right to appeal to the Court with respect to the Bank of Mongolia's decision to impose a provisional administration on the bank within 10 days after such a decision was made. Such an appeal would not be the basis to suspending the decision on provisional administration.

Article 51. Decision on provisional administration

51.1. The Bank of Mongolia's decision on imposing a provisional administration on the bank shall include the following matters:

- 51.1.1. the name, location and address of the bank;
- 51.1.2. the grounds for imposing a provisional administration;
- 51.1.3. the date of commencement and the duration of the provisional administration;
- 51.1.4. a list of restrictions to be imposed on bank operations;
- 51.1.5. the full name of a conservators.

51.2. The Bank of Mongolia shall disclose to the public its decision on imposing a provisional administration.

Article 52. Appointment of conservator

52.1. The Bank of Mongolia may appoint its employee and/or other bodies as a conservator to manage the bank during the provisional administration.

52.2. Remuneration of the conservator shall be determined by the Bank of Mongolia and covered by the bank under provisional administration.

52.3. The conservator shall conduct his/her activities in compliance with laws and regulations and other regulations and guidelines issued by the Bank of Mongolia pursuant to this Law.

52.4. The Bank of Mongolia shall have the right to replace the conservator.

52.5. The conservator shall be liable for any losses arising from his/her wrongful acts and not be liable for losses related to common bank risks.

Article 53. Actions to be taken during provisional administration, rights and duties of conservator

53.1. During the provisional administration, the following actions shall be taken by the Bank of Mongolia:

- 53.1.1. suspension of shareholders' rights;
- 53.1.2. suspension of full powers of the Board of Directors, executive management and management of bank units;
- 53.1.3. temporarily transfer of management rights to the conservator;
- 53.1.4. take measures for reconciling accounting and financial statements of the bank.

53.2. The conservator shall have the following rights and duties:

- 53.2.1. make an independent decision with respect to activities of the bank;
- 53.2.2. if necessary, partially or completely suspend fulfillment of obligations with respect to deposits during the provisional administration;
- 53.2.3. amend or terminate loan, deposit or other agreements between the bank and its customers that contain conditions that are not consistent with general terms and conditions and which have had an adverse impact on the bank interests;
- 53.2.4. conclude agreements on behalf of the bank;
- 53.2.5. lodge a claim on behalf of the bank;
- 53.2.6. terminate and/or amend employment contracts, and if necessary, hire temporary employees;
- 53.2.7. change the bank's equity size and structure to comply with capital adequacy requirements;
- 53.2.8. outline a bank reorganization plan;

53.3. The bank and its branches and units shall be obliged to implement decisions of the conservator. The Bank of Mongolia shall be responsible for liabilities arising from the compliance of such a decision.

53.4. Executive management of the bank under provisional administration shall report his/her performance and income disclosure to the conservator in accordance with relevant regulations.

53.5. All transactions made on behalf of the bank and at the expense of the bank without the formal consent of the conservator shall be considered invalid.

53.6. The Bank of Mongolia shall terminate the provisional administration and lift all or part of restrictions imposed on the bank's activities when the bank is recovered.

53.7. Amendments made to the charter of the bank during the provisional administration shall remain in force.

53.7. The full authority to manage the bank formed as a result of the implementation of a bank reorganization plan shall be transferred to shareholders.

Article 54. Implementation of the bank reorganization plan during the provisional administration

54.1. The conservator shall submit its plan of bank reorganization to the Bank of Mongolia within 30 days and the BOM shall approve the plan within five days after the submission.

54.2. If the implementation of the bank reorganization plan requires budget financing, the BOM shall approve the plan jointly with the central public administrative body in charge of financial matters within five days.

54.3. Upon consultation with the BOM, the central public administrative body in charge of financial matters shall approve a procedure for budget financing for the implementation of a bank reorganization plan.

54.4. The conservator may implement the bank reorganization plan as follows:

- 54.4.1. sell assets only, as packaged with debt and other liabilities, or in other forms;
- 54.4.2. raise paid-in capital of the bank up to the level that meets the capital adequacy requirements;
- 54.4.3. sell the bank and its units;
- 54.4.4. reorganize the bank and carry out other necessary activities.

**SUBCHAPTER III
Receivership of banks**

Article 55. Receivership of banks

55.1. Receivership shall mean the procedures applied by the Bank of Mongolia to restructure a bank by transferring its full authority of management and ownership rights to a receiver, or compulsory liquidation of the bank.

Article 56. Grounds for Receivership and recognition of bank insolvency

56.1. The Bank of Mongolia may enforce receivership if any of the following grounds materialize:

- 56.1.1. if the Bank of Mongolia considers that the provisional administration at the bank has not recovered the bank's operations;
- 56.1.2. the bank becomes insolvent.

56.2. The Bank of Mongolia shall consider a bank is insolvent if any of the following circumstances arise:

- 56.2.1. a bank fails to pay out money to depositors, customers and other clients, who have right to demand, at their first request;
- 56.2.2. the circumstances set forth in 48.2 of this Law have arisen.

Article 57. Implementation of bank receivership actions

57.1. Receivership of a bank shall be implemented as follows:

57.1.1. restructure the bank, take actions in accordance with 54.2 of this Law if the restructuring requires budget financing;

57.1.2. compulsory liquidation of the bank as a legal entity, and having right to dispose of its assets in accordance with Article 66 of this law.

57.2. In case the restructuring of a bank is considered to meet the demand of claimants better than its compulsory liquidation, the Bank of Mongolia shall make a decision on restructuring of the bank and shall approve a restructuring plan.

57.3. In the case restructuring of a bank is not considered viable, or the implementation of the restructuring plan was not successful within 6 months of a decision made by the Bank of Mongolia as stated in 57.2 of this Law, the Bank of Mongolia then shall make a decision on compulsory liquidation of the bank.

Article 58. Receiver of a bank

58.1. The Bank of Mongolia shall appoint a receiver either from its officials or other individuals who meet the following criteria:

58.1.1. possessing professional knowledge and experience as well as professional ethics and proficiency in area of banking operations;

58.1.2. no criminal record;

58.1.3. no debt in arrears from this bank;

58.1.4. no related party relation with the bank shareholders, chairman and members of the Board of Directors, executive management or other employees;

58.1.5. if the receiver is a legal entity, should have property and financial resources sufficient for fulfilling its duties.

58.2. The remuneration of the receiver shall be set by the Bank of Mongolia and shall be paid by the bank under receivership.

58.3. The receiver shall comply with decisions issued by the Bank of Mongolia.

Article 59. Immediate effect of receivership

59.1. Upon the appointment of a receiver, full powers of management and disposal right of the bank's assets shall be assigned to the receiver.

59.2. If at the time of appointment of a receiver, an expiry date for claims of the bank on property, assets and payment would fall due within 6 months, the right for claims shall automatically be extended by a period of six months from the date of such appointment.

59.3. It shall be prohibited to make payments in an indisputable manner from income earned from the sale of assets and property pledged under the bank loan under the court decision approved previously.

59.4. If the payment or transfer of the bank that was made 3 months prior to receivership, was intended to give advantage to some people's interests over others and if the payment or transfer of the bank that was made 12 months prior to receivership and the payment beneficiary is a shareholder, Chairman and members of the Board of Directors, executive management, officer of the bank or any other related party, these payments will be revoked except the following transactions:

- 59.4.1. amount of payment made to a depositor has not exceeded a limit to a single depositor established by the Bank of Mongolia;
- 59.4.2. property transferred to others was paid at a market value;
- 59.4.3. remuneration and benefits (excluding bonuses or special allowance) to the Chairman and members of Board of Directors, executive management and bank officials do not exceed the level of salaries they were getting before;
- 59.4.4. transfer funds to a special purpose company in order to issue asset-backed securities except such transaction does not have a fraud nature.

Article 60. Appeal to court against appointment of a receiver

- 60.1. The appeal to court shall not be the basis to suspend or cease the receivership.
- 60.2. The Court shall settle the appeal according to legislation.

Article 61. Announcing the commissioning of bank receivership

- 61.1. A receiver appointed under this law shall, within 24 hours of such an appointment, post in each office of the bank a notice announcing that the bank has been placed under receivership. Customers shall also be given such a notice.
- 61.2. The receiver shall make a similar notice stipulated in 61.1 of this Law available to the public and shall send a copy of such notice to the Bank of Mongolia.

Article 62. Full powers of the receiver

- 62.1. A receiver shall have the following powers:
 - 62.1.1. to continue or discontinue specific operations of the bank;
 - 62.1.2. to stop or limit the payment of the bank;
 - 62.1.3. to re-set deposit rates, provided that the revised rates shall not be less than the minimum interest rates applied at that time;
 - 62.1.4. to terminate investment contracts and to make changes to the loan interest rates and maturity, bank service fees;
 - 62.1.5. to terminate contracts of employment and other contracts and, if necessary, hire required employees;
 - 62.1.6. to disclose some information deemed necessary;
 - 62.1.7. to conclude agreements on behalf of the bank;
 - 62.1.8. to lodge a claim on behalf of the bank and represent the bank at Court hearings;
 - 62.1.9. to evaluate and sell off loan and property pledged for a loan extended to others;
 - 62.1.10. to make payments on behalf of the bank, within the limits set by the Bank of Mongolia.

Article 63. Immediate actions to be taken by the receiver

- 63.1. Upon taking over management and asset disposal rights of the bank, the receiver of a bank shall take the following actions immediately:
 - 63.1.1. as stated in 35.8 of this Law, write off the bank losses proportionate to shareholders' stake, and reflect these changes in the financial statements.

- 63.1.2. make inventory and prepare a list of all assets of the bank; to take the assets under control;
- 63.1.3. collect assets and property of the bank under the possession of others;
- 63.1.4. return valuables kept under deposit custody to their owners;
- 63.1.5. develop and submit to the Bank of Mongolia a restructuring plan and/or liquidation proposal within 3 months.

63.2. In case of a decision to liquidate the bank, the following measures shall be taken:

- 63.2.1. to set a list of assets for sale and their selling prices and inform relevant bodies;
- 63.2.2. to set the time to receive claims from bank creditors and announce it publicly;
- 63.2.3. to determine ways, amounts, payment schedule, and order of claimants payment and inform the claimants about them within 2 months of receipts of claims.

63.3. The Bank of Mongolia shall review and approve the plan set forth in 63.1.5 of this Law within 10 days after receiving from the receiver.

Article 64. Priorities in payment of claims

64.1. The receiver of the bank shall follow the order of priority listed below when settling claims from the income received from sale of the assets of the bank:

- 64.1.1. completion of Court ordered payments to be made by the bank to others for damage caused to their life or health;
- 64.1.2. expenses incurred by the receiver's activities;
- 64.1.3. credits extended to the bank after the appointment of a receiver;
- 64.1.4. deposits and account payments and interest payable to citizens;
- 64.1.5. deposits and account payments and interest payable to legal entities;
- 64.1.6. repayment of loans extended by others;
- 64.1.7. other claims against the bank.

64.2. If the amount earned from the sale of the bank's assets is insufficient to cover the claims the applicable principle shall be that each class of claim shall be paid in full in accordance with its order of priority.

64.3. If the amount available for payment for any category of claims listed above is insufficient to settle the payment in full, the amount available shall be distributed proportionately to claimants in the same category.

64.4. Any assets remaining after all claims listed in 64.1 of this Law have been paid shall be distributed among the shareholders in proportion to their shares in the bank on the basis of priority of superior over normal rights.

Article 65. Disposing bank assets under receivership

65.1. The receiver shall take the following actions on disposal of bank assets after his/her appointment:

- 65.1.1. arrange the transfer of all or part of the bank's liabilities and its collateral assets to others within one year on a contractual basis;
- 65.1.2. sell off assets of the bank within two years.

65.2. In order to carry out transactions provided for in 65.1 of this Law, the receiver shall:

- 65.2.1. reduce the bank's liabilities and deposit payments by not less than the payment available to pay after liquidation;
- 65.2.2. settle bank loan outstanding of depositors against their deposits at the bank.

65.3. When exercising his/her right to dispose of the bank's assets, the receiver shall ensure that depositors are given first priority.

Article 66. Conclusion of bank receivership

66.1. The receiver of a bank shall submit a report on implementation of a restructuring plan and completion of sales of all assets of the bank to the Bank of Mongolia.

66.2. The receivership shall be deemed concluded once the report specified in 66.1 of this Law is approved by the Bank of Mongolia and disclosed to the public.

Article 67. Declaring bank bankruptcy

67.1. Bankruptcy of a bank shall be declared by the court.

67.2. The court shall resolve liquidation after declaring the bank's bankruptcy based on principles set out in this Law and in accordance with the legislation on bankruptcy.

CHAPTER VII MISCELLANEOUS

Article 68. Sanctions against the violation of the banking legislation

68.1. If a violation of the banking legislation does not constitute a criminal offence, the following penalties shall be imposed by a supervisor of the Bank of Mongolia:

68.1.1. opening a bank and/or a bank branch without authorization shall result in confiscation of all illegal income and a fine equal to 50-150 times the minimum wage;

68.1.2. engaging in banking activities without obtaining a license from the Bank of Mongolia shall result in confiscation of all illegal income and a fine equal to 50-150 times the minimum wage;

68.1.3. failure to comply with requirements described in Article 7 of this Law shall result in confiscation of all illegal income and a fine equal to 2-10 times the minimum wage if an employee and/or official failed to comply, a fine equal to 20-150 times the minimum wage if the bank and/or a member of the financial conglomerate failed to comply;

68.1.4. failure to comply with requirements described in Article 17 of this Law and restrictions imposed under a decision of the Governor of the Bank of Mongolia shall result in confiscation of all illegal income and a fine equal to 5-15 times the minimum wage if an employee and/or official failed to comply, a fine equal to 50-150 times the minimum wage if the bank failed to comply;

- 68.1.5. failure to comply with the banking legislation and decisions of the Governor of the Bank of Mongolia issued for implementing the laws shall result in a fine of 5-15 times the minimum wage for employees and officers of a bank and of 50-100 times the minimum wage for banks and their affiliate companies and subsidiaries;
- 68.1.6. intentionally impeding supervisory actions shall result in a fine of 2-15 times the minimum wage for individuals and 5-25 times the minimum wage for bank employees and officers;
- 68.1.7. concealing payment and settlement documents or delaying transactions shall result in a fine of 5-25 times the minimum wage for bank employees or officers and of 50-250 times the minimum wage for banks;
- 68.1.8. failure to submit reports, balance sheets and other documents to the Bank of Mongolia in accordance with the relevant rules and making public the balance sheets according to Article 38 of this Law without serious grounds, the bank and member of the financial conglomerate shall be fined for 50-150 times the minimum wage and bank employees and officers for 5-50 times the minimum wage;
- 68.1.9. failure to comply with requirements described in Article 16 of this Law shall result in a fine of 50-250 times the minimum wage for banks and their affiliate companies and subsidiaries;
- 68.1.10. if a report made public contained fraudulent and biased information, the bank or the Chairman of the Board of Directors, executive management and other competent officials that attested the accuracy of reports and information shall be fined for the amount equivalent to 100 times the minimum wage;
- 68.1.11. disclosure of fraudulent and biased information or advertisement and violation of Article 8 of this Law shall result in a fine of 200-250 times the minimum wage for a bank and its affiliate companies and subsidiaries and a fine of 5-25 times the minimum wage for the bank's executive director who was in office during the disclosure of such information;
- 68.1.12. engaging in banking activities prohibited by this Law shall result in confiscation of all illegal income and a fine of 50-250 times the minimum wage for a bank and member of the financial conglomerate, 5-25 times the minimum wage for bank employees and officers and for releasing confidential information, a fine of 5-45 times the minimum wage for an individual who released the information;
- 68.1.13. a legal entity that violates the banking legislation otherwise except those specified in 68.1.1-68.1.12 of this Law and fails to comply with requirements imposed by the BOM and its supervisors shall be subject to a fine equivalent to 50-250 times the minimum wage and a bank employee and official a fine 5-25 times the minimum wage.
- 68.2. Fine revenues specified in 68.1 of this Law shall be collected to the state budget.
- 68.3. Property damages resulting from the violation of the banking legislation shall be compensated in accordance with the Civil Code.

68.4. If it considers that the fines imposed in accordance with 68.1 of this Law are unreasonable, an appeal can be made to the administration or court.

Article 69. Law effect

69.1. Articles 29, 31, 32, and 33 of this Law shall come into force on 1 June 2010.

SPEAKER OF PARLIAMENT

D. DEMBEREL