

**DECREE OF THE GOVERNOR OF
THE BANK OF MONGOLIA**

Date: Jul 30, 2014

No. A-122

Ulaanbaatar

Regarding amendments to the regulation on setting
and monitoring prudential ratios to banking operation

In accordance with the Article 28.1.2 of The Law on Central Bank (The Bank of Mongolia), it is hereby decreed:

1. The following Articles 2.6.2 and 2.6.3 to be added to the Regulation on setting and monitoring prudential ratios to banking operation approved by the decree #460 in 2010 by The Governor of the Bank of Mongolia:

“2.6.2. Tier II capital shall not exceed Tier I capital.”,

“2.6.3. Total subordinated debt amount qualified as Tier II capital shall not exceed 50 percent of total Tier I capital.”

2. The following amendments to be made in Annex 1 of the Regulation on setting and monitoring prudential ratios to banking operation:

10.5 “Domestic currency mortgage loans”, “with the risk weight of 50%”;

10.6 “Foreign currency mortgage loans”, “with the risk weight of 100%”;

10.8 “Other foreign currency loans issued to individuals and legal entities exposed to currency risk”, “with the risk weight of 120%”;

10.9 “Deposit backed loans”, “with the risk weight of 0%”;

10.10 “Other loans”, “with the risk weight of 100%”;

3. An entity satisfying one of the following conditions is defined as an entity hedged against currency risk:
 - 1) The ratio of total amount of scheduled foreign currency loan payments to total amount of sales and revenue generated in foreign currency adjusted to global market rate during the term is less than 85 percent;
 - 2) Entered in to foreign currency derivative contracts with the banks registered and operating in Mongolia during the term of the loan.
4. Bank’s amounts receivable from the Bank of Mongolia by the long-term swap contracts with the Bank of Mongolia in accordance with the “Regulation on long-term swap

contracts” approved by decree A-14 on January 17, 2014 by the Governor of the Bank of Mongolia shall be stated as “Other contingent liability” in the off-balance sheet account until the exercise day of the swap contract in the foreign exchange position report..

5. Clauses 1, 2 to be applied from July 1, 2015.
6. Bank CEOs are obliged to advise borrowers applying for foreign currency loans with the guidance set in the annex of this resolution.
7. Supervision Department (Mr.Ganbat D.) and Legal Department (Mr. Delgersaikhan D.) to supervise the fulfillment of this decree.

GOVERNOR

ZOLJARGAL N.

Annex of the decree A-122 of the
Governor of the Bank of Mongolia
approved in 30 July, 2014



THE BANK OF MONGOLIA

GUIDANCE TO BORROWERS APPLYING FOR FOREIGN CURRENCY LOANS

Although foreign currency loans have lower interest rate than loans denominated in MNT, foreign currency loans are exposed to currency risk due to the exchange rate fluctuations consistent with the macroeconomic conditions. Due to underestimation of currency risk, borrowers with foreign currency loans might incur losses and complication in repayment of loans. Thus, the Bank of Mongolia advises borrowers to reduce currency risk exposure by improving general knowledge of currency risk and currency risk reducing derivative instruments, choosing to borrow in MNT, engaging in derivative contracts (swap, forward contracts) when borrowing in foreign currency.