**UNOFFICIAL TRANSLATION**

**JOINT DECREE BY**
**BANK OF MONGOLIA GOVERNOR AND**
**MINISTER OF FINANCE**

DATE: December 9th, 2016 **№ A-336/400** Ulaanbaatar

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## Regarding the approval of a revised regulation

In accordance with Article 19.1 and 28.1.2 of Law on Central bank of Mongolia, Article 35.5 and 35.6 of the Banking law it is hereby DECREED:

1. "The regulation on asset classification and provisioning and its disbursements" is herewith approved in accordance with the Annex of this decree.

2. "The regulation on asset classification and provisioning and its disbursements" is to be followed and adopted from December 20th, 2016.

3. A loan outsdanding satisfying following characteristics, the repayment maturity of which converted to days in line with the initial contract as of October 31st, 2016 shall not be considered as the Restructured loan:

   1) The loan, a repayment period of which from the date of its origination (issued) to the maturity date according to the initial contract is no more than one year (365 days) whereas extended maturity period stipulated in the new contract did not exceed that of the initial contract;

   2) The loan, a repayment period of which from the date of its origination (issued) to the maturity date according to the initial contract is no more than one year (365 days) whereas extended maturity period stipulated in the new contract did not exceed 50 percent of the period stated in the initial contract.

4. A loan, the maturity period of which has been extended during August 29th, 2014 to October 31st, 2016 shall be assigned a classification "Special mention" or lesser classes.

5. The date on which a bank may submit its request to apply the methodology specified in the Article 3.7.1 of "The regulation on asset classification and provisioning and its disbursements" is hereby set on January 1st, 2018 and onwards.

6. With the approval of this decree, the regulation previously approved by the joint decree #475/182 of Bank of Mongolia Governor and Minister of Finance on August 11th, 2010 is hereby rescinded.

7. The Article 3.2.1.5 of this regulation shall be put into effect from June 1st, 2018 whereas the percentage haircut rate stated in that Article is set at 80 percent shall be applied accordingly before this date.

8. It is hereby required for the Board of Directors and Senior management of banks to follow this regulation.

9. It is hereby ordered for the Supervision Department (N.Batsaikhan) of the Bank of Mongolia and Financial policy department of Ministry of Finance to follow through on the implementation of this regulation.

Duly signed by:

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| BANK OF MONGOLIA GOVERNOR | MINISTER OF FINANCE |
| N.BAYARTSAIKHAN /official stamp/ | B.CHOIJILSUREN /official stamp/ |

# REGULATION ON ASSET CLASSIFICATION, PROVISIONING AND ITS DISBURSEMENTS

## ONE. GENERAL PROVISIONS

1.1. The purpose of this regulation is to set the minimum requirements by the Bank of Mongolia (BOM) on classifying the loans defined in the Article 27.1[1] of Law on deposits, loans and banking transactions (DLBT) and other assets, as well as on establishing and disbursing loss provisioning on both loans and other assets stated in the Article 35.5[2] and Article 35.6[3] of The Banking law and to ensure regulated banks follow and comply with the set requirements.

1.2. This regulation shall be consistent with The Law on Central bank of Mongolia, DLBT, The Law on Credit information, the Administrative general law and other relevant legislations.

1.3. A bank shall comply with the minimum requirements set by the BOM to classify an asset with both quantitative and qualitative criteria in line with the methodologies shown in Annex 1 and Annex 2 of this regulation and establish its corresponding loss provisioning in line with the Article 3.3.3 and the methodologies shown in the Annex 3 of this regulation.

1.4. A bank shall, consistent with this regulation, develop its internal methodologies, guidelines and policies regarding its asset classification, loss provisioning and asset risk management taking into account its scope, complexity and operation and shall have the process to adequately follow them on a regular basis.

1.5. Provided there is a difference between the final asset classification, its corresponding provision by the bank and those by the BOM done in line with this regulation, a bank shall follow the classification and the provision set by the BOM.

1.6. A bank may classify its asset internally with the categories more than those stated in the Article 2.1.1 of this regulation and shall do so in such a way that they could be convertible into the basic categories stated in this regulation.

1.7. A Bank shall submit its compliance status report of minimum requirements on the asset classification, loss provisioning along with its internal classifications and estimates stated in the Article 3.6.1 of this regulation to the BOM within set timeframe.

1.8. A bank is obliged to adequately set the class of a given asset and calculate the corresponding provision all while complying with the minimum requirements set by this regulation.

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[1] Article 27.1 of DLBT: "The lender, on analysis of the loans it has granted, shall classify loan balances in accordance with instructions confirmed by The Bank of Mongolia"

[2] Article 35.5 of banking law: "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."

[3] Article 35.6 of banking law: "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."

1.9. The BOM shall review and monitor if the asset class and its respective provision estimated by the bank were done in line with the Article 1.4, 2.1.1, 3.1.1 of this regulation and shall require and enforce a bank to re-set the class and offset the provision in line with the minimum criteria of this regulation.

1.10. Provided the class of an asset determined by a bank using its internal regulation, guideline or the methodology stated in the Article 1.4 of this regulation is higher than that by this regulation, the class based on this regulation shall be followed.

1.11. The terminologies below shall have the following meaning:

1.11.1. "**Asset**" means loans and other credit equivalent assets;

1.11.2. "**Loan**" means a financial asset that grants the right to demand the repayment on the sum of money from the obligor based on the contractual obligation.

1.11.3. "**Other assets**" means other on-balance credit equivalent assets; securities other than central bank bills and government bonds; off-balance sheet items that creates a potential right to demand, receivable and asset/credit risks for a bank arising from the operations and activities of a bank such as financial guarantees, warranties, letters of credit (LC), derivatives and other contractual financial contingent liabilities.

1.11.4. "**Securities**" means those stated in the Article 4.1.8 of Securities Market Law;

1.11.5. "**Multiple assets**" means the collection of assets or an asset that satisfies the conditions set forth in the Article 2.2.1 of this regulation.

1.11.6. "**Asset/Credit risk**" means likelihood which an obligor fails to repay on time his contracted principal along with its respective interest partially or in full in accordance with the provisions specified in the contract concluded between a bank and an obligor;

1.11.7. "**Final asset class**" is the final class of a given asset determined as the lower of classes derived from qualitative criteria shown in the Annex 1 of this regulation and qualitative criteria shown in the Annex 2 of this regulation;

1.11.8. **Credit equivalent amount**" means the amount defined in the Article 3.2.1.2 and 3.2.1.7 of this regulation;

1.11.9. "**Risk profile**" means general overview or overall assessment of expected or unexpected risks of an obligor, or primary types of risks that need to be focused on or the risks that need to be managed on a management level of the obligor via using data and information on the obligor's financial standing and the activities;

1.11.10. "**Pooled assets**" means assets that are grouped or pooled based on the nature, characteristics, geographical location, maturity, types of products and services they offer, risk profile and other similar traits with the purpose of establishing the collective loss provisioning;

1.11.11. "**Unit asset**" means a specific asset included in the pooled assets;

1.11.12. "**Probability of default /PD/**" means PD parameter specified in the Annex 1 in Article 4.3.D of the BOM accounting batch material (Accounting guideline) estimated as the likelihood of default of both principal or interest payment for more than 90 days either in terms of loans or other assets;

1.11.13. "**Loss given default /LGD/**" means LGD parameter specified in the Article 4.3.D of the Accounting guideline estimated either in terms of loans or other assets;

1.11.14. "**Loss identification period /LIP/**" means LIP parameter specified in the Article 4.3.D of the Accounting guideline estimated either in terms of loans or other assets;

1.11.15. “**Asset/Credit risk parameter**” means any or all of the indicators stated in the Article 1.11.12, 1.11.13 and 1.11.14 of this regulation or other parameters used by a bank to estimate its asset/credit risks;

1.11.16. “**Specific provision**” means an amount of provision of a given asset, group of assets or the pooled assets with the downgraded classification followed by multiplying them with the corresponding provisioning rates upon the review or conclusion on the deterioration in their quality using the criteria set forth in this regulation;

1.11.17. “**General provision**” means an overall amount of provision accumulated from and charged on both on- and off-balance sheet assets with predetermined provisioning rates based on the overall potential, unexpected risks in the financial industry or in the banking activities.

1.11.18. “**Expected loss**” means an average amount of incurred asset losses throughout previous periods by a bank using the long-term loss data and observations and is subsequently applied to its internal methodology to determine the specific provision of a given asset;

1.11.19. “**Restructured asset**” means an asset the provisions of which such as the periodic repayments of interests, fees, commission and principals have been modified or maturity has been prolonged to accommodate and arrange for the temporary financial distress of the obligor in a smooth and orderly fashion and also an asset that satisfies criteria set forth in the Article 2.4.1 of this regulation;

1.11.20. “**Downgraded asset**” means an asset that is downgraded due to the conclusion that the likelihood that its scheduled payment would be repaid in full or partially has lowered based on the evaluation using the factors and criteria specified in this regulation or an internal methodology by a bank;

1.11.21. “**Revolving facility/asset**” means a given asset or pooled assets such as overdrafts, credit cards, credit lines and commitments where their specified amount, maturity, frequency of payments, maximum limits of drawing and other conditions have been set forth in such way that were more flexible, favorable to the obligor’s financial needs and may be granted to the obligor for continuous periods with longer frequency of payments relative to other regular assets;

1.11.22. “**Effective interest rate**” means an item specified in the Chapter 1 of Accounting guideline;

1.11.23. “**Repossessed asset**” means an item specified in the Article 4.5.b of the Accounting guideline;

1.11.24. “**Lower classification**” means the lowest of the classes assigned to a given asset;

1.11.25. “**Cross-collateralized**” means a single or multiple pledges of the assets granted to the obligor has/have been pledged to the assets granted to other obligors by that bank or other bank;

1.11.26. **“Cross-guaranteed”** means guarantor/guarantee of an asset granted to the obligor by a bank is also guarantor/guarantee of an asset to the other obligor by this bank or other bank;

1.11.27. “**Materiality**” means an extent or a degree to which the stakeholders to that entity may change their investment or economic decision due to the information or evidence that were omitted or presented in an incomplete or false manner. (Materiality depends on the nature, context and the amount of information/materials that were falsely disclosed or omitted)

## TWO. ASSET CLASSIFICATION REQUIREMENTS

### 2.1. General Provision

2.1.1. A bank shall classify its asset in terms of the classification categories stated in this regulation or more categories internally developed by a bank by simultaneously defining the asset class on both quantitative and qualitative criteria as shown in the Annex 1 and 2 of this regulation and consequently setting the final class as the lower of two.

2.1.1.1. Performing;
2.1.1.2. Special mention;
2.1.1.3. Non-Performing; of which:
2.1.1.3.a. Substandard;
2.1.1.3.б. Doubtful;
2.1.1.3.в. Loss.

2.1.2. All bank assets except those of off-balance sheet shall be reported to the Credit information bureau with their class determined by the quantitative criteria.

2.1.3. Final class of off-balance sheet assets shall be reported to the Credit information bureau.

2.1.4. Although the scheduled payment on the asset is past due but is classified performing by the qualitative criteria, a bank may classify such asset as performing by discretion if it views an obligor can repay his past due amount and return to the regular payment schedule within 15 days if the obligor is an individual and within 30 days if the obligor is a company since the date past due event. Provided past-due days of such asset exceed days specified above, the asset shall be downgraded as specified in the regulation.

2.1.5. Qualitative classification of an asset shall be determined using results of the evaluation templates/forms specified in the Annex 5 and Annex 6 of this regulation.

2.1.6. Unless requested by the obligor, a decision to lower the drawing limit on the revolving facility of an obligor by a bank shall be deemed a justification to downgrade the qualitative classification of that asset.

2.1.7. Provided the classification of an asset determined by the internal methodology of a bank is lower than that determined by this regulation, a bank may use classification of its internal estimate.

2.1.8. A bank shall timely adjust its evaluation on its assets' quality whenever a change occurs in the quantitative and qualitative assessment whereas the asset classification shall be done once a month, within the end of last working day of the said month.

2.1.9. A bank may classify its assets with a frequency more than that specified in the Article 2.1.8 of this regulation.

2.1.10. Provided a bank decides to change the type of a given asset, the classification prior to the change shall remain and the subsequent classification shall be determined based on the bank internal methodology and this regulation. Repossessed assets aimed at recovering the amount owed to the bank by an obligor or selling such assets shall not be deemed as type of asset being changed and classification and provisioning of repossessed assets shall be done as stated in this regulation.

2.1.11. A bank shall conduct analysis to determine the classes of its assets extended to companies to using the financial statements submitted by obligors on a quarterly basis and also require obligors to have their annual financial statements audited.

**2.2. Multiple assets/facilities**

2.2.1. Assets shall be collectively deemed as multiple assets, if their obligor or group of obligors satisfies the following conditions:

2.2.1.1. Obligors whose assets are cross-collateralized, cross-guaranteed to each other or whose financial activities are inherently interrelated;

2.2.1.2. Obligors the BOM or a bank concluded as having the ability to control or exert material influence on the ownership, products and services of other obligor or having linkages on a management level of obligors;

2.2.1.3. Other obligors that the BOM or a bank concluded that they could impose control on the operations and activities of other obligor based on the relevant documentations or evidences presented;

2.2.1.4. Suppliers or contractors, whose operations are inherently interrelated through their operations, activities, distribution channels based on the evidence in the forms of information, data and other source of documents collected by a bank;

2.2.1.5. Obligors other than those stated in the Articles 2.2.1.1-2.2.1.4 which the BOM or a bank concluded as having common or same risks.

2.2.2. Multiple assets specified in the article 2.2.1 of this regulation shall collectively be assigned a single classification, except for the following:

2.2.2.1. Assets of obligors are not cross-collateralized or cross-guaranteed;

2.2.2.2. Notwithstanding the assets were cross-collateralized or cross-guaranteed, in the event of default or payment interruption of principal or interest by the obligor, the BOM has concluded the overall amount owed to a bank could be recoverable by enforcing collateral and executing the guarantee, i.e. over-collateralized in which a bank is given on the security over other creditors;

2.2.2.3. The share of sum of the downgraded assets amount over the total amount of multiple assets is no more than 20 percent or a bank or the BOM has concluded that the repayment of these downgraded assets are independent from the rest of the multiple assets.

2.2.3. The relations and the linkages between multiple assets shall be defined based on the principles and the spirits of the definition of "Related party" specified in the article 3.1.2 of the Banking law.

2.2.4. Provided the obligor, aside from those extended by a bank, is also extended an asset by other banks and financial institutions, a bank shall compare its final classification of the asset to that obligor to those determined by other banks and financial institutions. Provided the comparison shows that final classification by a bank is two-notch higher than those of other banks and financial institutions, the final classification shall be set as one-notch higher than the lowest classification by other banks and financial institutions. The final classification of an obligor's asset shall be assigned as "loss", provided the asset extended to him by other bank and financial institutions has been written off the balance sheet.

2.2.5. In case where a bank or the BOM concludes that an asset extended to an obligor satisfies the requirements set forth in the article 2.2.2 of this regulation relative to that obligor's asset extended to him by other banks and financial institutions, the downgrading requirement stated in the 2.2.4 of this regulation can be waived.

2.2.6. The syndicated asset aimed to financing single project extended collectively by multiple banks and financial institution shall be deemed as one asset and subsequently, each contribution by a bank or financial institution to the syndicated asset shall be assigned the same or single final classification. The management or a due diligence of a syndicated asset may be assigned to one of the bank and the appropriate provisions shall be stated in the agreement between the institutions. Agreement shall clearly and adequately state the obligation and allocation of duties to each bank participating in the facility.

2.2.7. Provided a bank is participating in a syndicated facility without placing its funding (unfunded portion), its designated portion shall be recorded off-balance until such funding are allocated whereas the classification shall be done in accordance with the Article 2.2.6 of this regulation.

2.2.8. The exception stated in the Article 2.2.5 of this regulation shall not be applied to bank's portion of the syndicated assets with other banks.

2.2.9. An asset extended with the purpose of granting inter-bank guarantee or placing funding through collusion among banks shall be assigned a final classification no higher than substandard.

### 2.3. Off-balance sheet assets

2.3.1. Other off-balance sheet assets, (contingent) liabilities shall be classified using the qualitative criteria specified in the Annex 2 of this regulation.

2.3.2. A classification of off-balance sheet items such as financial guarantees, warranties and other contingent liabilities which require a bank to pay out the liabilities on behalf of the natural person or a legal person in line with the agreement concluded between parties shall be downgraded if a bank or the BOM concludes that one or more of the following circumstances has occurred for a bank counterparty. Of which:

2.3.2.1. It is observed that the counterparty's financial standing or the solvency status has deteriorated or continually being deteriorated or the economic sector or the industry in which the counterparty operates is hit with distress or crisis which may result in client's inability to repay the asset when it is recorded on-balance after the obligation has been met on the part of a bank;

2.3.2.2. An obligor entitled to draw on an irrevocable loan commitment, credit line or other equivalent assets, whose financial standing, creditworthiness or credit rating have deteriorated and as a result, it was concluded the likelihood him paying the scheduled amount has lowered;

2.3.2.3. A financial standing, solvency status of a counterparty to a bank where the parties have concluded the derivative agreement has deteriorated, or a risk of deterioration has risen or his/its credit rating was downgraded by the respective rating agencies or determined by the international supervisor authorities and as a result, the counterparty may not meet his obligation when the exercise date is due and a bank may not receive the specified amount in full or partially in due time.

2.3.3. Time-related characteristics of off-balance sheet items such as the exercise/transaction, time left to maturity shall be taken into account in order to classify the off-balance sheet items in accordance with the article 2.3.1 of this regulation.

2.3.4. When a bank meets the off-balance sheet obligations, the resulting amount owed by the counterparty or an obligor shall be transferred on-balance and the corresponding classification and provisioning shall be determined in accordance with the Article 2.1.10 of this regulation.

**2.4. Restructured assets**

2.4.1. Restructured assets are the assets for which some preferable conditions have been provided in the following forms due to the financial difficulties of obligor:

2.4.1.1. The periodic principal or interests payable on a monthly, quarterly, semi-annually, annually or payments with higher frequencies have been discounted in new agreement from the original agreement;

2.4.1.2. The interest rate has been discounted from initial set rate;

2.4.1.3. The accumulated interest receivables have discounted through the reduction or cancellation;

2.4.1.4. The due date for principal and interest payments has been extended or interest payments receivables have been added to the principal balance i.e. interest payment or interest payment has been capitalized;

2.4.1.5. The interest rate for repayment has been set below the interest rate for newly issued assets with similar risk profiles while extension for repayment (frequency of principal and interest payment) period;

2.4.1.6. The due date for repayment (frequency of principal and interest payment) has been extended for materially longer term than the due date of other assets with similar risk profiles;

2.4.2. Bank and obligor have to agree on new conditions and sign new contract to confirm the terms on the restructured assets. If a new contract which confirms restructuring has not been signed, then assets shall be considered as the non-restructured.

2.4.3. Bank shall make a decision on whether to restructure assets or not at the management level or similar committee level based on its internal assessment and bank shall justify its reason to restructure assets in terms of changing the due amount, due repayment, further financial position of obligor and its liquidity position and possibility of repayments under restructuring.

2.4.4. Due to an asset being defined as restructured asset, the balance outstanding of the asset, the amount of interest payment and receivables as well as changing amount of money cash-flow from obligor under new terms shall be adjusted.

2.4.5. Changes in terms or extension of due date for repayment condition under the restructuring shall be done in such a way that it was identical to the terms and schedules of payment for the newly issued assets with similar risk profiles. If restructuring of assets is not caused by the financial difficulties of obligor, these assets shall not be considered restructured.

2.4.6. The assets except for the consumer financing, the terms of which has been extended or changed up to 12 months, may be exempt from being classified as restructured, if an obligor with reliability in terms of credit rating, creditworthiness and liquidity, is experiencing a temporary financial difficulties due to the general market/industry conditions or its internal characteristics where a bank assessed internally the obligor is capable to recover from difficulties and pay the principal and interest payments fully within the due date**.** If, during this period, a bank observes no justifiable signs of improvement in solvency, financial standing or observes further payment delays, such asset shall be deemed restructured starting from the date of the contract amendment and its corresponding classification and provision shall be determined using the provisions related to the restructured asset stated in this regulation.

2.4.7. It is prohibited to reclassify assets and split one asset as the separate parts of performing and downgraded assets without an official amendment in the contract.

2.4.8. It is prohibited to reclassify assets for the purpose of avoiding repaying required expenses to recognize impairment provision or to conceal financial and liquidity difficulties of obligor.

2.4.9. Bank may classify the restructured assets as the performing assets and make an adjustment according to article 2.4.4 of this regulation, if only all of these following requirements have been met:

2.4.9.1. Based on its internal assessment, a bank shall ensure that obligor is capable of fully paying the principal, interest and other payments required by new conditions set for restructured assets.

2.4.9.2. The effective interest rate for restructured assets is such that it is at a similar or higher level than the effective interest rate of other assets with similar risk profiles which the bank extended during the restructuring period.

2.4.9.3. Other terms and conditions for restructured assets shall be similar to the terms and conditions for other assets with similar risk profiles which the bank issued during the restructuring period.

2.4.9.4. The obligor shall repay the due amount within the due date after restructuring with the frequency greater of 4 months or for 3 times of scheduled payment with no delays.

2.4.10. The restructured assets for which the conditions set in article 2.4.9, except the Article 2.4.9.4 of this regulation have been met, may be classified performing regardless of the quantitative criteria with the BOM approval, if the obligor's financial and liquidity position have improved significantly, and obligor is an entity which increased its share capital and a new investor was assessed and ensured by the relevant documents.

2.4.11. The modifications specified in articles 2.4.9 and 2.4.10 of this regulation may be done only once.

2.4.12. The classification of restructured assets shall be determined using the repayment schedule of the initial contract based on the quantitative criteria for assets that haven't met the prerequisites and conditions for restructured assets set out in articles 2.4.9 and 2.4.10 of this regulation respectively.

2.4.13. It is prohibited for bank to receive the principal and interest payment through issuing additional assets or allocating resources.

**2.5. Repossessed assets- Assets acquired by for liability enforcement**

2.5.1. According to the Accounting guideline the repossessed assets shall classified separately as assets held for sale, assets not for bank use (further called as immovable assets), movable assets and financial assets as securities.

2.5.2. Repossessed asset classification for immovable and movable assets shall be based only on quantitative criteria mentioned in annex 6 of this regulation.

2.5.3. Other repossessed assets, except the immovable and movable assets, shall be evaluated through the quantitative and qualitative criteria as shown in Annex 1a and Annex 2 respectively, and final classification be made as shown in Annex 3a.

2.5.4. Repossessed assets such as immovable property in use with no more than 5 years and movable assets in use with no more than 1 year since their production date may be upgraded by one notch from the final classification determined in accordance to the 2.5.2 article of this regulation, excluding the performing assets.

2.5.5. Provided a bank has not determined the intention of use of repossessed assets when acquiring them, the securities shall be classified as the other financial assets and immovable and movable assets shall be classified as the other non-financial assets.

2.5.6. According to this regulation the intention of the use of repossessed assets shall be determined within 1 month since its initial recognition. Repossessed assets shall be transferred from other assets account into account related to use as stated in article 4.5.D of the Accounting guideline. If the bank considers it not possible to transfer assets into related accounts then the asset shall remain on the account of other assets.

2.5.7. Repossessed assets in form of securities shall be recognized as stated in articles 2.5.5-2.5.6 of this regulation and bank shall follow the regulation and treatment for securities classification and provisioning.

2.5.8. If a bank intends to use the repossessed assets for bank operation, the repossessed assets shall be transferred into Property account or Investment property account based on estimation of future economic benefit inflow and reliable cost measurement, and the provision for these assets shall not be built.

2.5.9. If the requirements for the particular classification of assets are no longer being met and the intention for use of assets has changed, the bank shall re-transfer the repossessed assets to the previous account and recognize the impartment provision and once re-transferred, it shall stay in the account permanently.

2.5.10. The amount of transfer from the repossessed assets into the Property account will be determined in compliance with the prudential ratio of assets as stated in “Regulation on setting prudential ratio to commercial banks”.

2.5.11. Non-financial repossessed assets held for sale and non-financial repossessed assets with high probability to be sold shall be recognized as Assets held for sale. These assets are required to be sold under normal sale conditions within 1 year since recognition and the impairment provision shall be recognized according to the articles 4.5 and 4.6 of the Accounting guideline. The amount will be presented in the related line of the Comprehensive report on the allowance for specific provisions as shown in Annex 4.c.

2.5.12. If assets referred in the article 2.5.11 of this regulation have not been sold within 1 year since the asset is recognized as held-for-sale, a bank shall re-transfer assets back to the Non-financial assets section of the other repossessed assets account. A re-transferred asset shall be classified in accordance with the quantitative criteria shown in the Annex 1.b of this regulation, in which an past-due days of an immovable asset in the form of the mortgage specified in the Article 1.2.1 of “The regulation on mortgage operation” shall be counted from date of its initial possession and for other immovable assets the past-due days shall be counted from the date of its re-transferal into the Other repossessed assets account and the corresponding provisions shall be calculated in accordance with the Annex 3.c of this regulation.

2.5.13. The assets specified in Article 2.5.11 of this regulation transferred to the account of other repossessed assets as stated in the article 2.5.12 of this regulation cannot be reversed or transferred back to the account of Assets held for sale due to reason that assets could not be sold within the intended period of time.

2.5.14. Immovable and movable assets may be classified loss independent of the quantitative criteria if the assets incurred damages caused by the internal or external factors, or external professionals or bank itself have evaluated the assets as impossible to sale or use.

## 2.6. Securities

2.6.1. Securities shall be recognized based on bank's intention and policy on classification of securities which complies with the articles 4.2.1 and 4.2.2 of accounting guideline.

2.6.2. Although there is not impairment requirement on trading securities and securities at fair value through profit and loss as shown in Accounting guideline, the assets shall be classified and specific provision shall be recognized in the following cases during the on balance and off-balance period:

- 2.6.2.1. Principal and interest payment of debt securities have been overdue or not repaid;
- 2.6.2.2. The dividend amounts which have been declared but not distributed within a due date;
- 2.6.2.3. Bank and other authority have announced the insolvency of issuer of security or its termination;
- 2.6.2.4. Bank itself or BOM have made a conclusion that the related securities may cause risks on assets.

2.6.3. In case of occurrence of the condition referred in article 2.6.2.3 of this regulation to equity share, the final classification of the securities shall be done according to the qualitative criteria and specific provision shall be established with consideration that assets are classified as the performing assets based on the quantitative criteria.

2.6.4. The prerequisites set out in the articles 2.6.2.1.-2.6.2.3, 2.6.3 of this regulation shall be followed when classifying the securities as the available for sale and estimate the specific provision.

2.6.5. Securities held to maturity and securities categorized as the loans and receivables shall be classified in accordance with the quantitative and qualitative criteria mentioned in this regulation and the related specific provision will be calculated as shown in Annex 3.1.

2.6.6. Banks' investments in associates, subsidiary, and joint venture are not the subject for classifying, however, the impairment provision shall be recognized according to the article 4.2.2 of an Accounting guideline.

2.6.7. If bank has no evidence to determine whether it has joint control or significant influence to investee as stated in article 4.2.2 of the Accounting guideline, the investment in equity share to other entity shall be classified in compliance with the article 2.6.4 of this regulation and the specific provision shall be estimated.

2.6.8. Bank shall inform BOM in written form within 3 business days if bank sold securities held to maturity or it has no permission to classify assets in this category.

**2.7. Pooled assets**

2.7.1. Assets with similar quality, type, repayment period, and risk profile that meet following requirements can be pooled:

2.7.1.1. Share of a unit asset shall be no more than 0.5 percent of the pooled asset;

2.7.1.2. Quality, location, risk profile, and other conditions of assets shall be similar;

2.7.1.3. Unit asset shall not be one of the 40 largest loans, or related asset;

2.7.1.4. Asset shall not be loan to the bank's related parties except for the mortgage loan and salary loan to the bank's employees;

2.7.1.5. Total outstanding amount of a pooled asset shall be no more than 20 percent of the bank's 40 largest loans.

2.7.2. Bank that meets the requirements specified in the article 2.7.1 of this regulation can pool small assets defined as assets to small and medium entrepreneurs or assets to individuals in terms of the bank's internal policy and methodology.

2.7.3. Revolving assets may be pooled.

2.7.4. Quantitative classification of each asset in the asset pool shall be done separately. Bank shall make specific provision on the whole of pooled assets according to the article 4.3.D of an Accounting guideline.

2.7.5. An asset that meets the requirement specified in the article 2.7.1 of this regulation can be added to the asset pool if any asset in the pool was repaid or removed from the pool and recorded off-balance.

2.7.6. If a bank or BOM concludes that an asset in the asset pool did not meet homogeneity requirement, or lost or changed such homogeneity, the asset shall be removed from the asset pool, and final classification of the asset shall be done based on both quantitative and qualitative criteria.

2.8. **Miscellaneous asset classification requirements to banks.**

2.8.1. Bank's board of directors and executives are responsible for risk management and risk monitoring. Bank's internal policy, regulation, guidelines, procedures on asset classification and risk management as specified in the Article 1.4 of this regulation shall cover following issues:

2.8.1.1. Asset risk management policy, method, and monitoring procedure shall be consistent with bank's management, structure, operational development, operational scope and risk profile.

2.8.1.2. Duties and responsibilities of internal audit unit responsible for specific provisioning and general provisioning shall be defined clearly in consistence with internal risk management internal policy, accounting guideline, and BOM's requirement set in this regulation.

2.8.1.3. Operation of the asset risk management unit shall be updated in timely and proper manner considering credit risk, and other external and internal factors. Asset risk management policy and method shall be well documented and it shall cover following issues:

a. Asset quality monitoring,
b. Assessment method and procedure of assets recorded in balance and off-balance,
c. Risk assessment of obligor's business,
d. Collateral assessment,
e. Methodology to downgrade and write off assets when change in asset quality and probability of repayment occur,
f. Validation of asset classification and loss provisioning assessment,
g. Methodology to assess sufficiency of asset risk provisions for occurred and expected losses.
h. Actions and enforcement measures applied to non-performing and risky assets to be repaid, and contractual obligations to be fulfilled.
i. Banks shall apply methodologies capable to assess and confirm results and effects of asset risk models and methods.

2.8.1.4. Following factors can affect asset repayment:

a. Solvency of obligor or guarantor
b. Probability of agreement breach
c. Probability of liquidation, bankruptcy of obligor (legal entity), management change possibility;
d. Requirement and condition permitting structural and conditional changes in asset issued to obligor,
e. Methodology to analyze pooled asset classification change and tendency of pooled asset to be classified as Non-performing if asset pool is being assessed.
f. Collateral policy, collateral assessment, which have effect on asset qualitative assessment, on other parameters related to collateral type and collateral liquidity.
g. Other events where obligor and guarantor may fail to fulfill contractual obligations, and measures to be taken by bank if such events occur.

2.8.1.5. Conditions to what extend asset quantitative assessment and assessor's professional skill to be combined or to be limited shall be clearly defined.

2.8.2. Classification of assets to insolvent or bankrupted obligor shall be no higher than Doubtful.

2.8.3. An asset being investigated at the law enforcement agencies due to suspicion that asset may be related to criminal activity, shall be classified as Loss by both quantitative and qualitative criteria.

## 2.9. Upgrading asset classification

2.9.1. Bank may upgrade the asset classification up to Performing if the downgraded asset meets one of or all of the following conditions:

2.9.1.1. If an obligor pays all overdue interest amount and makes greater of last 3 scheduled repayments or scheduled repayments for the last 6-month period in addition to repaying all past due amount during the downgrade period;

2.9.1.2. If an obligor who does not receive bank's refinancing, continues to make both principal and interest payments on time, and outstanding amount does not exceed the sum of 3 scheduled repayment amount or the sum of scheduled repayment amount for the last 6 months after asset (except for asset contracted to be repaid lump sum at the end of the agreement period) is downgraded.

2.9.1.3. An obligor makes last 3 scheduled repayment on time or scheduled repayments for the last 4-month period on time, after all overdue repayments of downgraded asset were made.

2.9.1.4. If an obligor makes all overdue repayment and continues to make all scheduled repayment on time after revolving assets with overdue repayment, or with insufficient collateral was downgraded.

2.9.1.5. If an obligor is able to make scheduled repayment in future, and collateral is capable to cover asset repayment in short period of time after asset was downgraded, or during the onsite examination BOM concluded that the asset can be upgraded.

2.9.2. When a bank does asset evaluation mentioned in the article 2.9.1.5 of this regulation, it shall make sure that reasons for asset upgrade, obligor's solvency assessment that affected asset downgrading are well documented and attached to the asset profile. During the onsite examination BOM can impose limitation on asset numbers, amount, type, business sector, obligor's type mentioned in the article 2.9.1.5 of this regulation, and BOM will decide if asset upgrading can be done after examining related documents.

2.9.3. If BOM or a bank concludes that assets classified according to the articles 2.9.1.1 and 2.9.1.3 were done with the intention to continually get the funding from a bank or to upgrade asset classification on the part of the obligor, or asset quality was not improved, asset class will not be upgraded.

2.9.4. Clauses mentioned in the articles 2.1.2, 2.9.1, 2.4.9 of this regulation shall not be applied to assets mentioned in the articles 2.8.2 and 2.8.3.

## THREE. PROVISIONING ON ASSETS AND THEIR DISBURSEMENT

### 3.1. Core requirements for establishing loss provision

3.1.1. Banks shall set Loss Provision as following categories:

3.1.1.1. General provision;

3.1.1.2. Specific provision.

3.1.2. Total loss provision shall be determined as the sum of a general provision and specific provision.

3.1.3. Bank shall set its total provision sufficient enough to cover over all loss which bank both expected to incur and may face in the future due to uncertainty.

3.1.4. The amount of Loss Provision set out in the article 1.4 of this regulation shall not be less than that set out by this Regulation.

3.1.5. A Bank is prohibited from disbursing loss provision and any other risk reserves for any purposes other than those specified in the Regulation.

3.1.6. Taking into account its scope of operation and complexity of products and services, a bank may develop and implement internally the methodology to calculate and recognize the provision for impairment differently than that specified in this regulation by incorporating them into the internal methodology specified in the article 1.4 of the regulation. Loss provision estimated by the internal methodology shall be not less than those estimated by this regulation.

3.1.7. Bank shall report its established provision and its assessment both in line with this regulation and the internal methodology to the BOM within the timeframe specified in the article 3.6.1 of this regulation.

3.1.8. Bank shall ensure if the following are met before submitting a report of specific and general provision using internal estimate the BOM:

3.1.8.1. select factors which reflect effectively asset quality based on the economy and logical influence

3.1.8.2. Statistical approach and method shall be based on accurate assessment; it shall be transparent and clear;

3.1.8.3. No material error or change in the estimation;

3.1.8.4. Significant factors shall be included which are affecting to adverse effect to the repayment of asset.

3.1.9. Provision of bank assets shall be established for a given asset and multiple assets or pooled assets.

3.1.10. A single provision shall be established from the sum of multiple assets that have been mentioned in article 2.2.1 of the regulation. A separate provision shall be recognized for the portion of multiple assets allowed to be separated from the multiple assets that have met conditions stated in the article 2.2.2 of the regulation.

3.1.11. The amount shall be deducted by the specific provision from the assets except those recorded off-balance to estimate the risk weighed specified in the "Regulation on setting prudential ratio to commercial banks".

3.1.12. Off-balance assets shall be converted to its credit equivalent amount and its corresponding provision shall be estimated in accordance with this regulation and shall be recorded in the account "Reserves on Loans and its equivalent assets" as stated in the Accounting regulation.

3.1.13. In case the off-balance assets from which provision has been built in line with this regulation are transferred and recorded to on-balance in line with 2.1.10 of this regulation, their provision shall be transferred from the account "Reserves on Loans and its equivalent assets" to corresponding provision account on balance.

3.1.14. A Bank shall set provision for immovable and movable assets specified as repossessed assets in line with the Annex 3.c whereas other financial assets shall be provisioned using Annex 3.a of this regulation.

3.1.15. Book entries and recording of the transactions regarding setting, and canceling asset loss provision shall be done in accordance with the Accounting guideline approved by the BOM.

**3.2. The Asset base to which the provision to be charged**

3.2.1. General and Specific provision shall be charged from the asset base to which the following changes have been done:

3.2.1.1. Deposit-backed asset is amortized by the amount of deposit converted to MNT;

3.2.1.2. For funded off-balance LC, guarantee or equivalent assets will be amortized by the corresponding funds;

3.2.1.3. Assets backed by the Central bank bill; it will be amortized as 100 percent by the bill;

3.2.1.4. Assets with guarantees by multilateral development banks and financial institutions which rated AAA from international rating agencies (Such as Asian Development Bank, European Bank for Reconstruction established development banks) will be amortized as 100 percent by the amount of guarantee;

3.2.1.5. Assets with guarantee issued by the Mongolian or Foreign government, government bonds and similar securities, asset-backed securities, shall be amortized by the amount of guarantee discounted by the percentages specified in the Annex 4.i. of this regulation;

3.2.1.6. Amount drawn by an obligor within the permitted limit in case of overdraft, in other cases of revolving facility, full amount shall be applied;

3.2.1.7. For off-balance sheet items or financial derivatives, the amount higher of the: credit equivalent amount specified by the method in accordance with "The regulation on setting prudential ratios to commercial banks" or mark-to-market value method in accordance with the article 4.4.C of the Accounting manual.

3.2.1.8. For some collateral uncorrelated with the direct activities of an obligor, liquid or there exists a liquid market for the collateral by which the market price can be determined where the BOM has determined that the collateral was eligible through its on-site inspection and specific directives and regulation, asset shall be deducted by 20 percent of its collateral value.

3.2.2. The article 3.2.1 of this regulation shall apply to assets where its provision is estimated using impairment method specified in the Accounting regulation except for pooled assets.

3.2.3. The calculation of Risk weighted asset specified in the “Regulation on setting prudential ratio to commercial banks” shall done in such way that only the specific provision shall be deducted from the corresponding asset whereas the general provision shall not be deducted.

3.2.4. Off-balance assets shall not be offset with its specific provision.

**3.3. General Provision**

3.3.1. General provision is charged with the purpose of withstanding against the potentially unexpected general risks posed to banks due to general distress, vulnerabilities in the economic and financial sector or specific bank activities and is charged by expense and is accumulated in the “Risk reserve account” in line with the Article 4.2.1.d, 6.7 of Accounting guideline.

3.3.2. General provision shall be built and disbursed accordingly from recorded date of the asset up until its repayment.

3.3.3. BOM shall put the minimum provisioning rate for general provision for the following asset base. Of which:
3.3.3.1. Loans outstanding;
3.3.3.2. Other assets, off-balance sheet items and contingent liabilities

3.3.4. A bank may set its general provisioning rate specified in the article 4.2 of this regulation through internal methodology higher than those specified in the article 3.3.3 in this regulation so as to adequately incorporate its scope, complexity and financial sector. Accordingly, justification on the part of a bank shall be provided in the forms of relevant evidences and documentations.

3.3.5. Provided a unforeseen or unexpected loss is realized and recognized, the corresponding adjusted loss amount shall be offset by the reserve accumulated as general provision and subsequently be transferred to and recorded on their specific provision account.

**3.4. Specific Provision**

3.4.1. A Bank shall establish the minimum amount for specific provision according to the Annex 3.a, Annex 3.b and Annex 3.c of this regulation.

3.4.2. A Bank may estimate its specific provision based on its internal methodology and total of the estimated amount shall be no less than the minimum amount calculated according to this regulation.

3.4.3. A specific provision for off-balance assets shall be calculated as shown in Annex 3.b of this regulation taking into account the maturity date specified in the contract (to honor the commitment) and if stated in contract, the repayment schedule after it is transferred on-balance and the amount shall be recorded on “The reserves on loans and its equivalent assets” account specified in the Accounting regulation.

3.4.4. A Specific provision for pooled assets shall be calculated according to the 4.3.G of an Accounting guideline and as the sum of impaired and non-impaired portions.

3.4.5. In case of upgrading or downgrading the assets in line with articles 2.9 and 2.5.4 of this regulation other than off balance assets, securities using impaired methods and immovable and movable repossessed assets, the new classification shall set in such a way that it had the same qualitative and quantitative classification and provisioning is charged using the Annex 3.a. of this regulation.

### 3.5. Write-off of an asset

3.5.1. A bank shall write off following assets against provisions semi-annually under following conditions:

3.5.1.1. The amount with an aproval of Board of Directors, if obligor fails to repay whole asset amount within 180 days since court decision was made;

3.5.1.2. If court orders obligor to pay partial amount of assets, by residual amount under court decision;

3.5.1.3. The amount by judge's decision and senior executors order to suspend execution process of court decision;

3.5.1.4. Bad assets with poor prospects of recovery with an approval of the Board of Directors;

3.5.1.5. Articles 3.5.1 and 3.5.4 of this regulation are not applicable to assets extended to shareholders, executives, officials and members of the Board of Directors of the Bank.

3.5.2. If shareholders of a bank is unable to repay their assets extended by a bank, at first a bank shall sell the collateral and use the proceeds to pay off the asset. If principal and interest of the asset exceeds collateral proceeds, shareholder's shares of the bank shall be sold to pay off residual asset amount in line with the provisions in enforcement measures stated of the banking law.

3.5.3. A bank shall report on the written-off assets based on Article 3.5.1, 3.5.6 of this regulation to Shareholders' Meeting and submit the report with Shareholders' Meeting Minutes to the BOM no later than April of each year.

3.5.4. The written off assets shall be recorded off-balance and a bank shall continue its recovery, work-out measures towards these assets.

3.5.5. In the event the written-off assets are repaid, the recovered asset amount shall be recorded as other comprehensive income of a bank;

3.5.6. A bank may decide not to classify and provision the assets that are sold, transferred from its balance sheet, through securitization or other similar approaches based upon contract with third if they satisfy following conditions:

3.5.6.1. De-recognition conditions under IAS 39;

3.5.6.2. De-recognition conditions under IFRS;

3.5.6.3. Conditions stated in article 8.7.7 of accounting guidance.

3.5.7. Assets not satisfying condition stated in articles 3.5.6.1-3.5.6.3 of this regulation shall continually be recorded on balance sheet, classified and provisioned properly.

## 3.6. Reporting on Assets

3.6.1. Banks are required to submit on a monthly basis reports on asset classification, provisioning, written off assets, de-recognition, migration within assets and breakdown of provision in compliance with the template specified in tables of Annex 4 in both hard and soft copies to Supervision department of the BOM within no later than 5th day of following month. Of which:

3.6.1.1. Report on assets balance for provisioning according to Annex 4.a;
3.6.1.2. Consolidated report on assets outstanding, provisioning level according to Annex 4.b;
3.6.1.3. Comprehensive report on specific provisions by asset types according to Annex 4.c;
3.6.1.4. Report on migration of repossessed assets according to Annex 4.d;
3.6.1.5. Report on migration of restructured assets according to Annex 4.e;
3.6.1.6. Report on securities and breakdown of provision according to Annex 4.f;
3.6.1.7. Report on 20 largest multiple assets according to Annex 4.g;
3.6.1.8. Report on parameters of pooled assets according to Annex 4.h.

3.6.2. A bank shall submit written-off assets recorded off balance sheet to the Credit Information Bureau of the BOM in a timely manner.

## 3.7. Issuing permission to apply methodology on calculating specific provision, criteria and requirements

3.7.1. Loss provisioning to the pooled asset may be done by one of the following methods or combination of them:

3.7.1.1. internal loss experience;

3.7.1.2. mapping to external data;

3.7.1.3. Statistical loss model.

3.7.2. A bank may calculate specific provision using the methodologies specified in 3.7.1 of this regulation and whereas a bank decides to assess its specific provision on pooled assets with these methodologies in line with the minimum requirements of this regulation, it shall apply for a permission to apply such methodologies.

3.7.3. BOM shall grant its permission to use methodologies specified in 2.7.7 of this regulation to a bank that meets following requirements:

3.7.3.1. A bank shall have management information system capable of gathering and processing loss experience data;

3.7.3.2. Structure, characteristics, risk profile and other qualities of sample data shall be similar or comparable to the pooled asset;

3.7.3.3. Data used in the assessment shall be comparable, convertible and be mapped to the pool assets;

3.7.3.4. Sample data shall be proper enough to identify factors affecting pool asset quality, and shall be consistent with economic and market prospects.

3.7.3.5. Sample data scope and observation period shall be able to properly predict loss provisions and possible loss level of pool assets within predefined confidence level.

3.7.3.6. The methodology shall be consistent with the general requirements stated in 2.8 of this regulation.

3.7.4. A bank shall submit following documents to BOM to apply for the permission to apply methodology stated in 3.7.1 to assess specific provision on pooled assets:

3.7.4.1. Request to apply the methodology in question;

3.7.4.2. Resolution by the Board of directors to apply such methodology;

3.7.4.3. A report or a similar documents evidencing the selected methodology has been applied internally by a bank for over a year in which the consistency of risk parameters for pooled assets have been validated;

3.7.4.4. A legal document or a guideline specified in the 1.4 of this regulation based on which the methodology in question is to be applied;

3.7.4.5. An assessment of a bank proving its staff, expertise, software and hardware are well prepared and equipped for the methodology to be applied.

3.7.5. Asset loss estimation and factors used in the method shall be flexible enough to be adjusted by outcome from the assessment specified in Annexes 2-6 of this regulation in terms of asset quality.

3.7.6. Adjustments mentioned in the article 3.7.5 of this regulation shall be done at least annually.

3.7.7. Sample data for bank asset risk assessment shall be at least 5 year-period no matter what method mentioned in the article 3.7.1 of this regulation was chosen. Sample data longer than 5 years of period shall be used for the risk assessment if such data is available.

## FOUR. ENFORCEMENT, MONITORING AND ACCOUNTABILITY

4.1. Board of directors and senior management of a bank shall fairly estimate the classification of assets, expected loss from assets, the general and specific provisions, and report to BOM according to the time stated in the article 3.6.1 of this regulation.

4.2. The BOM may reset the general and specific provisioning rate of a particular bank or total banking sector stated in the article 3.1.1 of this regulation.

4.3. If necessary, BOM may set the upper or lower limit of risk parameters (PD, LGD, LIP and others), used to determine the specific provisioning rate for pooled assets, on a specific bank or banking sector and require banks to comply with them.

4.4. The provisions regarding classifications and provisioning of assets specified

4.5. In case that a bank evaluates that the quality of a particular asset, pooled assets or assets for financing a project, and all assets related to one specific obligor would soon deteriorate, having a negative impact on bank's solvency and prudential ratios, the bank shall inform BOM immediately.

4.6. A bank's internal audit unit shall monitor on how precisely bank assesses risk associated with assets, whether classification is being obtained fairly and completely, whether respective provisioning is being done and allocated, and be responsible for reporting to the Board of Directors.

4.7. BOM shall maintain both on-site and off-site supervision simultaneously in order to clarify matters such as how banks assess risk associated to assets as well as classification of assets, whether mitigation actions against contingent risk are taken prudently, whether classification is being assigned fairly and completely, and whether provisioning is being done completely and allocated prudently.

4.8. Banks shall submit the information on asset classification and its reclassifications to the Credit Information Bureau whenever any changes are made to the classification of assets.

4.9. In the course of BOM supervision obtained on bank management, if a supervisor of BOM reckons that a particular bank misclassified assets, didn't do complete provisioning, and deducted from the provisioning without any basis, the supervisor has the right to require the banks to correct the classification of the assets and do additional provisioning according to the jurisdiction on its capacity.

4.10. In the course of BOM supervision obtained on bank management, Internal Audit Unit, Loan Committee and Treasure Committee operation if any case arises such as classification didn't performed in compliance with this regulation, didn't do provisioning according to relevant rate and misuse the provision, the BOM has right to charge responsibility for bank, its management and/or relevant staff according to jurisdiction on its capacity.

*ANNEX 1*

## ANNEX 1.a.

### TABLE ON QUANTITATIVE CLASSIFICATION OF ASSET

| Classification | BY PAYMENT OVERDUE DAYS | | | | |
|---|---|---|---|---|---|
| | **Performing** | **Special mention** | **Substandard** | **Doubtful** | **Loss** |
| **Loan *** | **≤ 15†; ≤ 30†** | ≤ 90 | 91-180 | 181-360 | ≥ 361 |
| Revolving facility** | ≤ 15 | 15-90 | 91-180 | 181-270 | ≥ 271 |
| Securities*** | - | ≤ 30 | 31-60 | 61-90 | ≥ 91 |
| Receivables and other assets | ≤ 30 | 31-60 | 61-90 | 91-120 | ≥ 121 |

†- As stated in 2.1.4 of this regulation
***** By loan principal and interest repayment
****** By revolving facility principal and interest payment
******* By securities principal and interest payment

## ANNEX 1.b.

### TABLE FOR CLASSIFICATION AND PROVISIONING OF REPOSSESSED ASSETS INCLUDING REAL ESTATES, MOVABLE ASSETS

| Classification | UNSOLD DAYS AFTER REPOSSESSION | | | | |
|---|---|---|---|---|---|
| | **Performing** | **Special mention** | **Substandard** | **Doubtful** | **Loss** |
| Real estates | ≤ 60 | Real estates | ≤ 60 | Real estates | ≤ 60 |
| Movable assets | ≤ 30 | Movable assets, other financial assets | ≤ 30 | Movable assets, other financial assets | ≤ 30 |

***ANNEX 2***

## GENERAL TABLE FOR EVALUATING THE QUALITATIVE CRITERIA OF AN ASSET

| Classification[1] | General standing of an obligor[2] | General economic and obligor's financial condition[3] | Availability of information of financial or non-financial nature[4] | Bank's rationale of assigning a classification of an asset in question[5] | For BOM use[6] |
|---|---|---|---|---|---|
| *Performing* | Obligor can honor the terms of the contract and there is no financial difficulty or lower or no risk to their ability to repay principal and interest of an asset in full and on a timely basis. | General condition of the economic sector in which an obligor operates and the financial standing of an obligor are both sound. | Information available allows for comprehensive and consistent evaluation of obligor's financial standings. | | |
| *Special mention* | Although an obligor is honoring the terms of the contract by repaying principal and interest of an asset on time, there are likelihood to which an obligor may fail to meet his scheduled payments in the future. | One of the following has occurred:<br>а) Borrowers mainly operating in an economic sector under stress or in a difficult situation<br>б) Borrowers who are experiencing transitory difficulties so their financial and economic situation has deteriorated in the short term, but it is likely that the situation could improve afterwards in the mid- and long-term. | Bank does not have all the required minimum documentation, but the missing data are not material enough to impact negatively on the evaluation of the financial and economic condition of an obligor. | | |
| *Substandard* | Doubts raised as to an obligor's ability to repay principal and interest of an asset as stated in the terms of the contract. Or the obligor has a history of having distressed assets. | Economic and financial condition of an obligor is in tangible distress and thus the core financial indicators are showing signs of deterioations. Of which:<br>а) Reduced liquidity and cash-flow or has negative signs;<br>б) High leverage or the ratio of debt to shareholers' equity is declining<br>в) Asset is inadequately secured or a collateral is illiquid and may be difficult to be sold to recover the asset value and is closely correlated with the industry in which the obligor operates<br>г) Reduced or negative profitability indicators | Information material to determine the financial standing of an obligor is missing or unavailable. | | |

| | | | | | |
|---|---|---|---|---|---|
| *Doubtful* | Obligor cannot repay principal and interest of an asset as stated in the terms of the contract. | Economic and financial condition of an obligor has deteriorated much severely than as described substandard classification. | Information essential to assess obligor's financial condition in inadequate or missing or the authenticity/integrity cannot be verified. | | |
| *Loss* | Only a small portion of principal and interest payment of an asset may be recoverable. | Obligor's financial condition has deteriorated to the point that principal or the interest payment cannot be executed | Information essential to determine the financial condition of an obligor is unavailable. | | |

**NOTE: 1**-Qualitative classification of an asset evaluated

**2**- Assessment is done taking into account all factors such as repayment schedule of an asset as well as the outcome of Component 1-3 of Annex 5, Annex 6 (Profile completeness, Financial indicators and others)

**3**-Assessed based on the outcomes of the second component (financial indicators) of Annex 5, Annex 6

**4-**Assessed based on the outcomes of the first (profile completeness) and third (others) component of Annex 5, Annex 6

**5-**Bank shall provide justified rationale and explanation as its decision to assign a particular classification to an asset in question and if necessary, it shall enclose all essential information, data, reports and other researches to this evaluation form.

**6-** The BOM shall provide if it agrees to the explanation provided by a bank or not with its own explanation or decision.

**Basic guidance as to determine the qualitative classification of an asset:** Using the table above, qualitative classification shall be determined **with two prevailing components out of the three components**. For instance, if both obligor's general economic condition and information availability are assigned as "Substandard", then the asset is classified as such. However, a bank may assign an asset with the classification based on the outcome of the remaining component only by providing convincing rationale and explanation as how the outcomes of the two components are immaterial to the final classification. Accordingly, the corresponding documents, materials and evidences may be enclosed to this evaluation form.

## ANNEX 3.a.

### TABLE TO ASSIGN FINAL ASSETS CLASSIFICATION AND ITS CORRESPONDING PROVIONING RATES

| Qualitative \ Quantitative | Performing | Special Mention | Substandard | Doubtful | Loss |
|---|---|---|---|---|---|
| Performing | Performing<br>0.5% | Special Mention<br>1% | Substandard<br>15% | Doubtful<br>35% | Loss<br>75% |
| Special Mention | Special Mention<br>5% | Special Mention<br>5% | Substandard<br>25% | Doubtful<br>35% | Loss<br>75% |
| Substandard | Substandard<br>5% | Substandard<br>15% | Substandard<br>25% | Doubtful<br>50% | Loss<br>100% |
| Doubtful | Doubtful<br>15% | Doubtful<br>25% | Doubtful<br>35% | Doubtful<br>50% | Loss<br>100% |
| Loss | Loss<br>50% | Loss<br>50% | Loss<br>75% | Loss<br>100% | Loss<br>100% |

**NOTE:** Final asset classification is determined by assigning whichever lower of the quantitative and qualitative classification and charge with corresponding provisioning rates as shown in the table above. For instance: If a given asset was assigned "Special mention" by quantitative criteria, whereas by qualitative criteria it was assigned as "Doubtful", then the final classification would be "Doubtful" and its corresponding provisioning rate is **25 percent** as shown in the table.

## ANNEX 3.b.

### TABLE TO ASSIGN FINAL CLASSIFICATION AND ITS CORRESPONDING PROVIONING RATES OFF-BALANCE SHEET ITEMS AND OTHER CONTINGENT LIABILITIES

| Period left to honor/finalize the contract \ Qualitative classification | Performing | Special Mention | Substandard | Doubtful | Loss |
|---|---|---|---|---|---|
| **Within 1 year** | 0% | 5% | 25% | 50% | 100% |
| **More than 1 year** | 0% | 1% | 15% | 35% | 75% |

## ANNEX 3.c.

### TABLE TO APPLY PROVISIONING RATES TO NON-FINANCIAL REPOSSESSED ASSETS

| CLASSIFICATION | Performing | Special Mention | Substandard | Doubtful | Loss |
|---|---|---|---|---|---|
| Minimum provisioning rates | 0% | 25% | 50% | 75% | 100% |

***ANNEX 4***

**ANNEX 4.a.** *(Reporting template)*

**REPORT ON ASSET BALANCE FOR PROVISIONING**

/thousand tugrugs/

| № | Asset classification | Balance | The amount of discounting for collaterals | | | | | | | | Net balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Deposit (100%) | CBB (100%) | IFDI (IMF, WB etc.) (100%) | Government guarantee (…%) | Foreign government guarantee (….%) | Off-balance liabilities | Others | TOTAL | |
| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9)=(1)+....+(4)+[(5)+(6)]*(..%)** | (10)=(1)-(9) |
| 1 | Loans* (total) | | | | | | | | | | |
| | Performing | | | | | | | | | | |
| | Special mention | | | | | | | | | | |
| | Non-performing | | | | | | | | | | |
| | Substandard | | | | | | | | | | |
| | Doubtful | | | | | | | | | | |
| | Loss | | | | | | | | | | |
| 2 | Guarantee, promissory note (total) | | | | | | | | | | |
| | Bids | | | | | | | | | | |
| | Performance guarantee | | | | | | | | | | |
| | Refund for advances | | | | | | | | | | |
| | Promissory note | | | | | | | | | | |
| 3 | Letter of credit (LC) | | | | | | | | | | |
| | Foreign trade LC | | | | | | | | | | |
| | Stand by | | | | | | | | | | |
| 4 | Credit line | | | | | | | | | | |
| 5 | Receivables and others | | | | | | | | | | |
| 6 | **Total** | | | | | | | | | | |

Note: * - includes the pooled assets, assets with flexible conditions and related assets; **- adjustments specified in Annex 4.i. of this regulation; (1) –Outstanding balance before collateral deduction; (2) -Adjustments stated in 3.2.1.1 of the regulation; (3) -Adjustments stated in 3.2.1.3 of the regulation; (4) -Adjustments stated in 3.2.1.4 of the regulation; (5), (6) -Adjustments stated in 3.2.1.5 of the regulation; (7) -Adjustments stated in 3.2.1.2 of the regulation; (8) -Adjustments stated in 3.2.1.8 of the regulation

**<u>ANNEX 4.b.</u>** *(Reporting template)*

**CONSOLIDATED REPORT ON ASSETS OUTSTANDING, PROVISIONING LEVEL**

/thousand tugrugs/

| № | ASSETS CLASSIFICATION | | Loans | Securities | Repossessed assets | Receivables and other assets | On balance risk bearing assets | Off balance liabilities | Total risk bearing assets |
|---|---|---|---|---|---|---|---|---|---|
| | | | (1) | (2) | (3) | (4) | (5)=(1)+…+(4) | (6) | (7)=(5)+(6) |
| 1 | Balance* **(1.1+1.2)** | | - | - | - | - | - | - | - |
| 1.1. | Estimated as impairment ** | | | | | | - | | - |
| 1.2. | Estimated as assets classification regulation | | | | | | - | | - |
| 2 | Impairment of specific provision **(2.1+2.2)** | | - | - | - | - | - | - | - |
| 2.1. | Estimated as impairment ** | | | | | | - | | - |
| 2.2. | Estimated as assets classification regulation **(2.2.1+2.2.1+2.2.3)** | | - | - | - | - | - | - | - |
| 2.2.1 | Performing: | | | | | | - | | - |
| 2.2.2 | Specific mention | | | | | | - | | - |
| 2.2.3 | Non-performing | | - | - | - | - | - | - | - |
| | a/ Substandard | | | | | | - | | - |
| | b/ Doubtful | | | | | | - | | - |
| | c/ Loss | | | | | | - | | - |
| 3 | **Impairment for general provision (a+b+c)** | | - | - | - | - | - | - | - |
| | **Asset category** | **Provision rate***** | =(1)*(3a) | | | =(4)*(3b) | | =(6)*(3c) | |
| | a/ Loans | 0% | - | | | | - | | - |
| | b/ Off balance liabilities | 0% | | | | | - | - | - |
| | c/ Other assets | 0% | | | | - | - | | - |
| 4 | **TOTAL IMPAIRMENT PROVISION [(2)+(3)]** | | - | - | - | - | - | - | - |
| 5 | **PROVISION RECOGNIZED BY BANK** | | | | | | | | |
| 6 | Excess (+) / deficit (-) **[(4)-(5)]** | | - | - | - | - | - | - | - |

**ANNEX 4.c.** *(Reporting template)*

**COMPREHENSIVE REPORT ON SPECIFIC PROVISIONS BY ASSET TYPES**

**Loan** /thousand tugrugs/

| № | Quantitative / Qualitative | Performing | Specific mention | Substandard | Doubtful | Loss | Adjustments* | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| 1 | Performing | | | | | | | - |
| 2 | Specific mention | | | | | | | - |
| 3 | Non-performing | | | | | | | - |
| 4 | Substandard | | | | | | | - |
| 5 | Doubtful | | | | | | | - |
| 6 | Loss | | | | | | | - |
| 7 | **TOTAL** | - | - | - | - | - | - | - |

**Revolving facilities/assets** /thousand tugrugs/

| № | Quantitative / Qualitative | Performing | Specific mention | Substandard | Doubtful | Loss | Adjustments* | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| 1 | Performing | | | | | | | - |
| 2 | Specific mention | | | | | | | - |
| 3 | Non-performing | | | | | | | - |
| 4 | Substandard | | | | | | | - |
| 5 | Doubtful | | | | | | | - |
| 6 | Loss | | | | | | | - |
| 7 | **TOTAL** | - | - | - | - | - | - | - |

**Note: *-** Adjustments stated in Articles 2.8.2, 2.8.3 Of this regulation.

**ANNEX 4.c. - Continued** *(Reporting template)*

**COMPREHENSIVE REPORT ON SPECIFIC PROVISIONS BY ASSET TYPES**

**Receivables and other assets** /thousand tugrugs/

| № | Qualitative / Quantitative | Performing | Specific mention | Substandard | Doubtful | Loss | Adjustments* | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| 1 | Performing | | | | | | | - |
| 2 | Specific mention | | | | | | | - |
| 3 | Non-performing | | | | | | | - |
| 4 | Substandard | | | | | | | - |
| 5 | Doubtful | | | | | | | - |
| 6 | Loss | | | | | | | - |
| 7 | **TOTAL** | - | - | - | - | - | - | - |

**Securities** /thousand tugrugs/

| № | Quantitative / Qualitative | Performing | Specific mention | Substandard | Doubtful | Loss | Adjustments* | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| 1 | Performing | | | | | | | - |
| 2 | Specific mention | | | | | | | - |
| 3 | Non-performing | | | | | | | - |
| 4 | Substandard | | | | | | | - |
| 5 | Doubtful | | | | | | | - |
| 6 | Loss | | | | | | | - |
| 7 | **Estimated as impairment **** | | | | | | | - |
| 8 | **TOTAL** | - | - | - | - | - | - | - |

**Note: *-** Adjustments stated in Articles 2.8.2, 2.8.3 Of this regulation.

** - Impairment amount stated in accounting guideline.

**ANNEX 4.c. - Continued** *(Reporting template)*

**COMPREHENSIVE REPORT ON SPECIFIC PROVISIONS BY ASSET TYPES**

**Repossessed assets** /thousand tugrugs/

| № | Classification | Balance | Performing | Specific mention | Substandard | Doubtful | Loss | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| | **Minimum rate for provision** | | **0%** | **25%** | **50%** | **75%** | **100%** | |
| 1 | Balance of property (intangible assets) | - | | | | | | |
| | Related provision | | - | - | - | - | - | - |
| 2 | Tangible assets | - | | | | | | |
| | Related provision | | - | - | - | - | - | - |
| 3 | Balance of financial assets | - | | | | | | |
| | Related provision | - | - | - | - | - | - | - |
| 4 | **TOTAL** | | - | - | - | - | - | - |
| 5 | Property /intangible assets/ held for sale | | | | | | | |
| 6 | **Estimated as impairment**** | | | | | | | |

**Off balance sheet items** /thousand tugrugs/

| № | Qualitative / Contract expiry date | Amount equivalent to loans | Performing | Special mention | Substandard | Doubtful | Loss | TOTAL OF SPECIFIC PROVISION |
|---|---|---|---|---|---|---|---|---|
| 1 | Within 1 year | | 0% | 5% | 25% | 50% | 100% | |
| 2 | Balance | - | | | | | | |
| 3 | Provision | | - | - | - | - | - | |
| 4 | More than 1 year | | 0% | 1% | 15% | 35% | 75% | |
| 5 | Balance | - | | | | | | |
| 6 | Provision | | - | - | - | - | - | |
| 7 | **TOTAL** | | - | - | - | - | - | 0 |

**Note: * -**Asset specified in Accounting guideline, **- Impairment amount of immovable properties classified in Held for sale account.

**ANNEX 4.c. - Continued** *(Reporting template)*

**COMPREHENSIVE REPORT ON SPECIFIC PROVISIONS BY ASSET TYPES**

**Pooled assets** /thousand tugrugs/

| № | Pooled assets category | Number of subcategory in total pooled assets | Number of total pooled assets | Number of member asset | Balance to estimate provision | | **Specific provision** | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Not impaired portion | Impaired portion | **Non-impaired portion** | **Impaired portion** |
| 1 | Loan | | | | | | | |
| 2 | Assets with flexible condition other than loan | | | | | | | |
| 3 | Receivables and other assets | | | | | | | |
| 4 | **TOTAL** | - | - | - | - | - | - | - |
| 5 | | | | | | | - | |

**ANNEX 4.d.** *(Reporting template)*

**REPORT ON MOVEMENT OF REPOSSESSED ASSETS**

| **№** | **Repossessed assets** | **Previous month's outstanding** | **Of which assets moved to following classifications:** | | | | | **Returned from the transferred account****** | **Newly added** | **Outstanding of current period** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | **Fixed assets** | **REHFIP*** | **AHFS**** | **AFSS**** | **SHFIP***** | | | |
| | | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | **(7)** | **(8)** | **(9)= =(1)-[(2)+(3)+…..+(6)]+(7)+(8)** |
| 1 | Non Financial assets **(1.a+1.б)** | | | | | | | | | |
| | a/ Immovable assets | | | | | | | | | |
| | a.1/ Mortgage† | | | | | | | | | |
| | a.2. Others | | | | | | | | | |
| | b/ Movable assets | | | | | | | | | |
| 2 | Financial assets **(2.a+2.б)** | | | | | | | | | |
| | a/ Securities | | | | | | | | | |
| | б/ Other | | | | | | | | | |
| 3 | Total **(1+2)** | | | | | | | | | |

## NOTE:

†- Immovable assets repossessed from the Mortgage loans specified under 1.2.1 of "The regulation on Mortgage operations
*****-Real estate held for investment purpose
****-**Asset held for sale
*****-**Available for sale securities
****-Adjustment stated in the article 2.5.12 of this regulation

**ANNEX 4.e.** *(Reporting template)*

**REPORT ON MOVEMENT OF RESTRUCTURED ASSETS**

Restructured assets /in thousand tugrugs/

| № | Type of assets | Previous month's outstanding | Paid | Newly classified as restructured | Migrated to "Pass"* | Of which: Fulfilled 2.4.10 of the regulation | Other adjustments** | Current period's outstanding |
|---|---|---|---|---|---|---|---|---|
| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) =(1)-(2)+(3)-(4)+(6) |
| 1 | Loan (Total) | | | | | | | |
| | Pass: | | | | | | | |
| | Special mention | | | | | | | |
| | Non-performing (a+b+c) | | | | | | | |
| | a/ Substandard | | | | | | | |
| | b/ Doubtful | | | | | | | |
| | c/ Loss | | | | | | | |
| 2 | Securities | | | | | | | |
| 3 | Receivables and other assets | | | | | | | |
| 4 | Other | | | | | | | |
| 5 | **TOTAL** | | | | | | | |

*For loan, write in the corresponding row of the previous classification (Particularly, if restructured loan previously classified as Substandard migrated to Pass, write the outstanding amount of loan in the corresponding row of Substandard)

**Foreign currency exchange rate effect and other

**ANNEX 4.f.** *(Reporting template)*

**REPORT ON BREAKDOWN OF OUTSTANDING SECURITIES AND ITS PROVISIONING**

**Breakdown of outstanding securities** /in thousand tugrugs/

| **№** | **Type of securities** | **SMIFVOTAP*** | | **Held to maturity** | **Available for sale** | **Loan, Receivables** | **Subsidiary, Controlled company, Investment in joint ownership** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | | **Trading** | **by fair value** | | | | | |
| **1** | Outstanding amount **(1.1+1.2)** | | | | | | | |
| 1.1. | Estimated according to the impairment** | | | | | | | |
| 1.2. | Estimated according to regulation on asset classification | | | | | | | |
| **2** | Specific provision **(2.1+2.2)** | | | | | | | |
| 2.1. | Estimated according to impairment | | | | | | | |
| 2.2. | Estimated according to regulation on asset classification **(2.2.1+2.2.1+2.2.3)** | | | | | | | |
| 2.2.1 | Pass: | | | | | | | |
| 2.2.2 | Special mention | | | | | | | |
| 2.2.3 | Non-performing **(a+b+c)** | | | | | | | |
| | a/ Substandard | | | | | | | |
| | b/ Doubtful | | | | | | | |
| | c/ Loss | | | | | | | |
| **3** | Actual provisioning of the bank | | | | | | | |
| **4** | Excess (+) / Deficit (-) **[(2)-(3)]** | | | | | | | |

**Note:** *- Securities measured in fair value of trading and profit-loss; **- Amount of impairment estimated according to the accounting guidance

**ANNEX 4.g.** *(Reporting template)*

**REPORT ON 20 LARGEST MULTIPLE ASSETS**

/in thousand tugrugs/

| № | Type of assets | Classification of assets | Number of assets* | Number of obligors* | | | Outstanding amount of multiple assets* | Evidence on classification of assets** | | | Of which: | Amount of collateral | Specific provision | Share of capital |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | Of which: | | | 1 | 2 | 3 | Portion of other classification*** | | | |
| | | | | | Legal entity | individual | | | | | | | | |
| 1 | Multiple assets1 | | | | | | | | | | | | | |
| 2 | Multiple assets2 | | | | | | | | | | | | | |
| 3 | Multiple assets3 | | | | | | | | | | | | | |
| 4 | Multiple assets4 | | | | | | | | | | | | | |
| 5 | Multiple assets5 | | | | | | | | | | | | | |
| 6 | Multiple assets6 | | | | | | | | | | | | | |
| 7 | Multiple assets7 | | | | | | | | | | | | | |
| 8 | Multiple assets8 | | | | | | | | | | | | | |
| 9 | Multiple assets9 | | | | | | | | | | | | | |
| 10 | Multiple assets10 | | | | | | | | | | | | | |
| 11 | Multiple assets11 | | | | | | | | | | | | | |
| 12 | Multiple assets12 | | | | | | | | | | | | | |
| 13 | Multiple assets13 | | | | | | | | | | | | | |
| 14 | Multiple assets14 | | | | | | | | | | | | | |
| 15 | Multiple assets15 | | | | | | | | | | | | | |
| 16 | Multiple assets16 | | | | | | | | | | | | | |
| 17 | Multiple assets17 | | | | | | | | | | | | | |
| 18 | Multiple assets18 | | | | | | | | | | | | | |
| 19 | Multiple assets19 | | | | | | | | | | | | | |
| 20 | Multiple assets20 | | | | | | | | | | | | | |
| **21** | **TOTAL** | | | | | | | | | | | | | |

Note: *- Assets estimated based on 2.2.1 of this regulation, **- To select from 3 main evidence for classifying as multiple assets: if 2.2.1 of regulation - 1, 2.2.2 of regulation -2, 2.2.3 of regulation - 3, 2.2.4 of regulation - 4, 2.2.5 of regulation – 5 *** - As stated in 2.2.2 of the regulation.

**ANNEX 4.h.** *(Reporting template)*

**REPORT ON INDICATORS OF PARAMETERS OF POOLED ASSETS**

| № | Type of portfolio | Estimation of parameter* | | | Maximum - Minimum** | | | | | | Estimation method*** | Covering periods | | Number of observations | Frequency of information**** (monthly, quarterly, semi-annually, annually etc.) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | PD | LGD | LIP | PD | | LGD | | LIP | | | Starting date | Ending date | | |
| | | | | | max | min | max | min | max | min | | | | | |
| 1 | Housing... | | | | | | | | | | | | | | |
| 2 | Retail... | | | | | | | | | | | | | | |
| 3 | Payment card’s... | | | | | | | | | | | | | | |
| 4 | Microfinance... | | | | | | | | | | | | | | |
| 5 | Consumer ... | | | | | | | | | | | | | | |
| .... | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| | And so on... | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |

Note: *- Rounded to three decimal places

**- Maximum and minimum values of parameters for the period of the estimation

*** - To select from the methods stated in the this regulation (ILM-internal loss experience; MED - Mapping to external data; SLM - Statistical Loss Model)

**** - Annually -1, semi-annually - 2, quarterly - 3, monthly - 4

**ANNEX 4.i.** *(Reporting template)*

### THE REFERENCE TABLE ON ASSET HAIRCUT RATES BY GUARANTEES AND THE LIKE-SECURITIES

**Long term**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **RATING*** | Standard and Poor's | AAA / AA- | A+ / A- | BBB+ / BBB- | BB+ / B- | CCC+- or lower | No rating |
| | Fitch | | | | | | |
| | Moody's | Aaa/Aa3 | A1/A3 | Baa1/Baa3 | Ba1/B3 | Caa1- or lower | 80% |
| Outlook* | | | | | | | |
| Positive | | 100% | 100% | 90% | 80% | 0% | |
| Stable | | 100% | 100% | 90% | 70% | 0% | |
| Negative | | 90% | 90% | 80% | 60% | 0% | |

**Note:**

*- If rated by two or more rating agency, lower rating and the outlook shall be applied

**Short term**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **RATING** | Standard and Poor's | A-1+ | A-1 | A-2/A-3 | B | C-or lower | No rating |
| | Fitch | F1+ | P-3 | F3 | B | C-or lower | |
| | Moody's | P-1 | P-2 | P-3 | Prime-or lower | | |
| Deduction percentage | | 100% | 100% | 80% | 40% | 0% | 80% |

**Note:**

*- If rated by two or more rating agency, lower rating shall be applied

***ANNEX 5***

***QUALITATIVE ASSESSMENT OF ASSET ISSUED TO INDIVIDUAL***

| № | Assessment factors | | Score | | | Explanation if criteria is assessed as unsatisfactory* |
|---|---|---|---|---|---|---|
| **1.** | **Completeness of the asset file*** | | **Yes/No** | | | **Adverse effect level of Materiality**** |
| **1.1.** | Whether decision made by authorized person in accordance with bank's internal regulation has provided? Whether bank's assessment of obligor has provided? | | | | | |
| **1.2.** | Asset application document | | | | | |
| **1.3.** | Asset agreement, and amendments to the agreement | | | | | |
| **1.4.** | Employer Reference on obligor | | | | | |
| **1.5.** | Evidence of other income, income source | | | | | |
| **1.6.** | Evidence of steady deposit and other savings for no less than 2 years | | | | | |
| **1.7.** | If it is necessary; sources of family income. | | | | | |
| **1.8.** | Collateral | | | | | |
| | **1.8.1.** | Reference[4] | | | | |
| | **1.8.2.** | Valuation documents | | | | |
| | **1.8.3.** | Certificate of state registration | | | | |
| | **1.8.4.** | Examination document | | | | |
| **1.9.** | Contracts for collateral and/or guarantee | | | | | |
| **2.** | **Financial indicators of the obligor** | | **Score/ Comparison***** | | | **Materiality adverse effect level**** |
| | | | Value[1] | Δ%[2] | Peer average[3] | **Comment or description of each indicator** |
| **2.1.** | Obligor's Debt/Income | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **2.2.** | Change in Debt/Income and last 3 months trend | | | | | |
| **2.3.** | Household Debt/Income | | | | | |
| **2.4.** | Change in Household Debt/Income and last 3 months trend | | | | | |
| **2.5.** | **Asset/Value (LTV)** –Mortgage and other collatraliazed asset | | | | | |
| **3.** | **Other** | | **Yes/No** | | | **Adverse effect level of Materiality**** |
| **3.1.** | Collateral and Guarantee | | | | | |
| | 3.1.1. | Is market value of collateral sufficient to cover the asset's principal and interest payment? | | | | |
| | 3.1.2. | Change of collateral value | | | | |
| | 3.1.2. | Whether the right to sell the collateral and recovering assets has been fully transferred to the bank. | | | | |
| | 3.1.3. | Sectoral conditions of sale of the collateral | | | | |
| | 3.1.3. | Whether there is guarantee/ warranty from third- party. | | | | |
| | 3.1.4. | Guarantor's financial condition if obligor is guaranteed or under guarantor assistance | | | | |
| **3.2.** | Information obtained from Credit Information Bureau | | | | | |
| | 3.2.1. | Credit history of obligor | | | | |
| | 3.2.2. | Whether there are any past due assets or other types of debt to Obligor | | | | |
| | 3.2.3. | Whether there are any assets that was downgraded in recent period | | | | |
| **3.3.** | Other Information | | | | | |
| | 3.3.1. | Condition of obligor employment / retention of work and self-employment / | | | | |
| | 3.3.2. | There is no negative data of obligor payment inquiries from other government and law enforcement authorities and non-governmental institutions | | | | |

| | | | | |
|---|---|---|---|---|
| | 3.3.3. | Bank is assessing a financial situation of obligor without any difficulties | | |
| | 3.3.4. | Economic situation, unemployment and the impact of payments situation of the sectors engaged in the obligor's payment of the obligor's financial situation and whether the expected positive impact in the future | | |
| | 3.3.5. | Obligor is covered by an insurance, reducing asset risk associated with repayment | | |
| | 3.3.6. | Bank internal data collected regarding the obligor do not suggest obligor's payment risk of negative impact | | |

***Note:***

***-** Explanation shall be provided only to criteria assessed as ‘unsatisfactory’.

****-** In case if assessment grade was ‘unsatisfactory’ and as a result decision has not been made or assessment has been excluded from overall assessment, evidence of materiality and other related documents shall be attached

***- Obligor’s financial indicators on monthly, quarterly and annual basis for 1-2 year period for longer period if such information is available shall be attached to this table and shall be updated on regular basis.

**1**-Financial indicators for the reporting period shall be recorded.

**2-Financial indicator value of last reporting period shall be compared to the** value of previous reporting period. Increase /I or ↑/ shall be marked If there is positive change, Decrease /D or ↓/ shall be marked if there is negative change, or Stable /S or ~/ shall be marked if there is no change.

**3- Financial indicator value of last reporting period shall be compared to similar obligor group average or similar business sector average.** Increase /I or ↑/ shall be marked If there is positive change, Decrease /D or ↓/ shall be marked if there is negative change, or Stable /S or ~/ shall be marked if there is no change. Internal data or external data obtained from authorities can be used for group and business sector average calculation. Source for the data shall be provided and data used for group and business sector average shall be attached to this table.

4-References stated in the Articles 23.2.3, 23.4 of DLBT

**Asset classification guideline:** Bank shall provide explanation and conclusion if criteria have potential negative effect on asset quality assessment. Such explanation and conclusion shall be provided for criteria assessed as ‘unsatisfactory’ or criteria having material effect. Evidence, explanation, and other related documents shall be attached to this table if necessary.

***ANNEX 6***

***QUALITATIVE CRITERIA OF ASSET ISSUED TO LEGAL ENTITY***

| № | Assessment criteria | | Assessment | Explanation if criteria is assessed as unsatisfactory * |
|---|---|---|---|---|
| **1.** | **Asset profile** | | **Yes/No** | **Does criteria have negative material effect**** |
| 1.1. | Whether decision made by authorized person in accordance with bank's internal regulation has provided? Whether bank's assessment of obligor has provided? | | | |
| 1.2. | Asset application | | | |
| 1.3. | Asset agreement, and amendments to the agreement | | | |
| 1.4. | Memorandum and Articles of Association, Registration certificate | | | |
| 1.5. | Financial statement | | | |
| 1.6. | Collateral | | | |
| | 1.6.1. | Collateral reference[4] | | |
| | 1.6.2. | Collateral assessment documents | | |
| | 1.6.3. | State registration certificate if collateral is real estate | | |
| | 1.6.4. | Examined documents | | |
| 1.7. | Guarantee and collateral contracts | | | |
| 1.8. | Project financed by the asset | | | |
| | 1.8.1. | Whether project has been approved by authority if necessary | | |
| | 1.8.2. | Documents related to project operations | | |
| | 1.8.3. | Financial arrangement of the project | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 1.8.4. | Project's accounting documents | | | | |
| | 1.8.5. | Project planning and execution | | | | |
| | 1.8.6. | Related contacts | | | | |
| 1.9. | Asset disbursement monitoring report/material | | | | | |
| 1.10. | Statement from Credit Information Bureau and other authorities | | | | | |
| **2.** | **Financial criteria of obligor** | | **Criteria/comparison**** | | | **Does criteria have negative material effect**** |
| | | | Value[1] | Δ%[2] | Group average value[3] | **Explanation of each criteria** |
| 2.1. | Obligor's solvency | | | | | |
| | 2.1.1. | **Current asset /Short term liability**, its change and trend | | | | |
| | 2.1.2. | **(Cash assets+Short term investment +Receivables)/Short term liability**, its change and trend | | | | |
| | 2.1.3. | **Operating income /short term liability**, its change and trend | | | | |
| 2.2. | Profitability | | | | | |
| | 2.2.1. | **Total profit / Total income**, last 1-year trend (quarterly and monthly) | | | | |
| | 2.2.2. | **Total expense/Total income,** last 1-year trend (quarterly and monthly) | | | | |
| | 2.2.3. | **ROA**, last 3-year trend (quarterly and monthly basis) | | | | |
| | 2.2.4. | **ROE**, last three year's trend (quarterly and monthly basis) | | | | |
| 2.3. | Asset management | | | | | |
| | 2.3.1. | **Receivables turnover** /last 12-month average/ | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 2.3.2. | **Receivables turnover** /at the end of the period/ | | | | |
| | 2.3.3. | **Inventory turnover** / last 12-month average / | | | | |
| | 2.3.4. | **Inventory turnover** /at the end of the period/ | | | | |
| | 2.3.5. | **Capital goods turnover** /at the end of the period/ | | | | |
| | 2.3.6. | **Total asset turnover** /at the end of the period/ | | | | |
| 2.4. | Liability management | | | | | |
| | 2.4.1. | **Earnings before interest and tax /Interest expense** last 1-year trend (quarterly and monthly) | | | | |
| | 2.4.2. | **Liabilty/ Earnings before interest and tax**, last 1-year trend (quarterly and monthly) | | | | |
| | 2.4.3. | **Equity/Capital (leverage)**, change, last 1-year trend (quarterly and monthly) | | | | |
| **3.** | **Other** | | **Yes/No** | | | **Does criteria have negative material effect**** |
| 3.1. | Collateral and guarantee | | | | | **Explanation of each criteria** |
| | 3.1.1. | Can market value of collateral cover asset principal and interest payments? | | | | |
| | 3.1.2. | Has control of the collateral been transferred to bank? | | | | |
| | 3.1.3. | Collateral value change, last 3-month trend | | | | |
| | 3.1.4. | Has obligor been guaranteed by third party? | | | | |

| | | | | |
|---|---|---|---|---|
| | 3.1.5. | Is guarantor solvent if asset is guaranteed? | | |
| 3.2. | Credit Information Bureau information | | | |
| | 3.2.1. | Obligor's credit history | | |
| | 3.2.2. | Has obligor had non-performing Asset or overdue obligation? | | |
| | 3.2.3. | Has any asset issued to the obligor been downgraded in current month? | | |
| 3.3. | Other information | | | |
| | 3.3.1. | Have warnings and negative watch regarding shares issued by obligor been recorded in current and previous credit rating reports? | | |
| | 3.3.2. | Has qualified audit opinion ever been issued? Do issues mentioned in the management letter have material effect on obligor? | | |
| | 3.3.3. | Do statements received from other state authorities, enforcement agencies, and non-government organizations have negative record on obligor? | | |
| | 3.3.4. | How economic condition, obligor's business sector can affect obligor's financial condition? And if future trend has positive effect on obligor? | | |
| | 3.3.5. | Has any information ever been published that can negatively affect obligor's reputation, financial condition and solvency ? | | |
| | 3.3.6. | Does obligor have insurance that can reduce asset related risk? | | |
| | 3.3.7. | Is information used for obligor's assessment sufficient? Have significant difficulties been observed during the assessment process? | | |

| | | | | |
|---|---|---|---|---|
| | 3.3.8. | Can internal data on obligor gathered by a bank negatively affect asset repayment? | | |

***Explanatory note:***

***-** Explanation shall be provided only to criteria assessed as 'unsatisfactory'.

****-** In case if assessment grade was 'unsatisfactory' and as a result decision has not been made or assessment has been excluded from overall assessment, evidence of materiality and other related documents shall be attached

***- Obligor's financial indicators on monthly, quarterly and annual basis for 1-2 year period for longer period if such information is available shall be attached to this table and shall be updated on regular basis.

**1**-Financial indicators for the reporting period shall be recorded.

**2-Financial indicator value of last reporting period shall be compared to the** value of previous reporting period. Increase /I or ↑/ shall be marked If there is positive change, Decrease /D or ↓/ shall be marked if there is negative change, or Stable /S or ~/ shall be marked if there is no change.

**3- Financial indicator value of last reporting period shall be compared to similar obligor group average or similar business sector average.** Increase /I or ↑/ shall be marked If there is positive change, Decrease /D or ↓/ shall be marked if there is negative change, or Stable /S or ~/ shall be marked if there is no change. Internal data or external data obtained from authorities can be used for group and business sector average calculation. Source for the data shall be provided and data used for group and business sector average shall be attached to this table.

4-References stated in the Articles 23.2.3, 23.4 of DLBT

**Asset classification guideline:** Bank shall provide explanation and conclusion if criteria have potential negative effect on asset quality assessment. Such explanation and conclusion shall be provided for criteria assessed as 'unsatisfactory' or criteria having material effect. Evidence, explanation, and other related documents shall be attached to this table if necessary.