

LONG-TERM SWAP AGREEMENT REGULATIONS

1. General Provisions

1.1. The purpose of this regulation is to outline the principles, rights and responsibilities of the parties, and other relations for banks establishing long-term, externally funded swap agreements with the Bank of Mongolia (BOM) in order to increase foreign currency flow, decrease the growth of interest rates and the amount of foreign currency loans, and create a foreign currency exchange rate risk mitigation framework.

1.2. The BOM shall establish long-term swap agreements not only with commercial banks (hereinafter referred to as “Bank”), but also the Government of Mongolia and international financial institutions. Unless otherwise specified by the BOM, the terms and conditions and principles of agreements as Banks shall be applied to the latter.

1.3 The BOM shall accept the request of swap agreement that long-term foreign fund satisfies the following requirements:

1.3.1 The foreign funds based on low interest rate to support the real economy,

1.3.2 The banks assets shall not be collateralized,

1.3.3 The foreign funds should be included in the bank’s open position,

1.3.4 The foreign funds should be included in the international daily transaction’s report,

1.3.5 According to the registration of foreign loans of bank, corporations, and individual’s regulation the bank should register the loan within 15 days of the entrance of the loan.

1.4. This regulation shall be the condition of the swap agreement/contract between the BOM and the Bank. The bank shall deem to have accepted the terms of the swap agreement by submitting its proposal in accordance with attachment 4 of this regulation.

2. Definition of Terms

2.1. The following terms shall be interpreted as defined below.

2.1.1. “**Long-term USD swap agreement**” (hereinafter referred to as “swap agreement”) refers to agreements that are 360 days and more in duration consisting of monetary flows where the BOM will raise USD funds at the time of the agreement, supply tugrik, exchange interest payments during and at the end of the duration, and pay the difference in exchange rates of the funds.

2.1.2. “**Z-spread**” refers to the risk premium of Mongolian government securities in comparison to US government securities;

2.1.3. “**Foreign loan**” refers to debts issued by entities not registered in Mongolia or who are not permanent residents;

2.1.4. “**Bond**” refers to mid- and long-term securities issued on the market by the Bank.

3. Main Provisions for Swap Agreements

- 3.1. The conditions of the swap agreement shall be defined in accordance with Attachment 1 of this regulation.
- 3.2. The Z-spread shall be calculated in accordance with Attachment 2 of this regulation.
- 3.3. The interest rate of the swap agreement shall be renewed every three (3) months from the establishment date of the swap agreement, and the BOM shall deliver the updated interest rate by post to the Bank in accordance with Attachment 3 of this regulation.
- 3.4. If the dates for interest rate calculation or payments fall on weekends or public holidays, the transaction shall take place on the next working day.
- 3.5. The Bank shall submit the swap agreement proposal to BOM within three (3) months from the date of entrance of foreign funds to Mongolia.
- 3.6. The tugrik funds of the swap agreement shall use the day count ACT/365 and the USD funds shall use ACT/360.
- 3.7. Amounts expressed in tugrik shall take the form of tugrik and mungu.
- 3.8. Funds of bonds, foreign loans and debt instruments other than USD shall be converted into USD and the proposal of swap agreement shall be submitted to the BOM.
- 3.9. The Bank may submit the proposal to extend the swap agreement within 3 months from the date of extension of the loan agreement and refinancing of the bond.
- 3.10. In case the bank fails to fulfill its obligations under the swap agreement, the measures in the section 7 of this regulation shall be taken.

4. Principles of Swap Agreements

- 4.1. The Bank shall deliver a completed version of Attachment 4 of this regulation to the BOM with certified signatures and stamps, and attach the following documents.
 - 4.1.1. Certified copy of foreign lending agreement
 - 4.1.2. Proof of bond trade
- 4.2. The following information shall be included in the document required in provision 4.1.1.
 - 4.2.1. Total amount of funds
 - 4.2.2. Duration of funds
 - 4.2.3. Interest rate
 - 4.2.4. Repayment schedule
 - 4.2.5. Other terms and conditions
- 4.3. The following information shall be included in the document required in provision 4.1.2.
 - 4.3.1. Total amount of bond trade
 - 4.3.2. Interest rate and discount rate
 - 4.3.3. Interest rate payment schedule
 - 4.3.4. Other terms and conditions
- 4.4. The Bank shall deliver a proposal for the swap agreement with certified signatures and stamps in accordance with Attachment 5 of this regulation to the BOM before 11:00 on a working day.

4.5. The Reserve Management and Financial Markets Department (hereinafter referred to as “RMFMD”) shall review swap agreement proposals and accompanying documents in accordance with Attachments 4 and 5 of this agreement, and deliver executed proposals to the Finance and Accounting Department (hereinafter referred to as “FAD”) before 15:00 of the same day.

4.6. The FAD shall register the swap agreement on the day of establishment and conduct payments.

4.7. The BOM shall conduct interest rate and principal payments irrespective of payment orders by the Bank.

4.8. The request to extend the swap agreement specified in 3.9 of this regulation shall meet the following requirement:

4.8.1 The exchange rate difference shall be exchanged and the swap agreement shall be renewed in accordance the conditions of the current regulation.

4.8.2. In case of additional extension of the principal amount, the increased fund shall meet the requirements specified in 1.3.3-1.3.5 of this regulation.

4.8.3. In case of renewing the agreement with reduced amount, the 1.3.3-1.3.5 provisions shall not apply.

4.9. Funds that fall into the green taxonomy category, 0.5% will be added to the USD interest funds rate.

5. Rights of the Parties

5.1. The BOM shall have the following rights:

5.1.1. Obtain reports, news, information, and documents related to the swap agreement from the Bank;

5.1.2. Consider monetary policy, current and expected circumstances of the currency market, bank liabilities, and other factors when establishing the swap agreement, refuse to execute the Bank’s proposal in whole or in part, and not be obliged to explain the refusal;

5.2. The Bank shall have the following rights:

5.2.1. Deliver the proposal for a swap agreement funded up to one hundred (100) percent from foreign markets to the BOM in accordance with provision 6.2.1.;

5.2.2. Submit a proposal to establish and extend a swap agreement that meets the requirements of this regulation to the BOM.

6. Responsibilities of the Parties

6.1. The BOM shall have the following responsibilities:

6.1.1. The BOM shall ensure the confidentiality of swap and forward agreements made with and the information provided in provision 5.1.1 by each Bank,

6.1.2. Notify the Bank of any amendments to this regulation within two (2) working days,

6.1.3. Execute swap agreement payments without delay.

6.2. The Bank shall have the following responsibilities:

6.2.1. Accumulate funds for the swap agreement from foreign markets through foreign loans and bonds;

6.2.2. At the time of agreement, the Bank will withdraw the required amount of USDs from its foreign correspondent bank and place sufficient funds in the BOM current account;

6.2.3. Place sufficient funds for interest rate and principal payments in the BOM tugrik account;

6.2.4. Deliver accurate financial reports, news, and information necessary for the BOM's decision in a timely manner to the MD;

6.2.5. Notify the BOM in writing about changes to Bank official's authorized signature within two (2) working days;

6.2.6. Has the right to retract or cancel the swap agreement proposal after 5 working days of the submission of the swap agreement proposal documents in full.

7. Penalties for Failing to Fulfill Legal Obligations

7.1. If the Bank violates provision 6.2.2, the BOM shall cancel the proposal and deliver a notice.

7.2. If the Bank does not have sufficient funds in its BOM tugrik account when executing the payments in provision 6.2.3, the BOM will recover the remainder of the payment through the following measures:

7.2.1. Exchange the corresponding amount from the Bank's BOM USD account in accordance to the BOM's official daily foreign exchange rate, and recover payment.

7.2.2. If the balance of the Bank's BOM USD account is not sufficient, the amount will be deducted and recovered from the Bank's other foreign currency accounts, tugrik or currency savings deposit, or Central Bank or Government bonds that are certified by promissory notes required to be submitted within 3 working days. Based on this promissory note, the BOM shall make the relevant payment.

7.2.2. If it is deemed that the USD current account balance with the Bank of Mongolia is not sufficient for the amount to be paid by the bank, the ordinary foreign currency current account balance, MNT, foreign currency deposit balance, and promissory notes certified to be deducted from the CBBs and government securities

required to be submitted within 3 working days. Based on this promissory note, the Bank of Mongolia shall make the relevant payment.

7.2.3. If the payment is not settled after enforcing the measures outlined in 7.2.1 and 7.2.2, the BOM shall impose a penalty through calculating an increase of two (2) percentage points to the overnight repo rate until the Bank places sufficient funds in its tugrik current account.

7.3. If the Bank settles payments using Central Bank or Government bonds, the market price shall be discounted using relevant BOM legal documents.

7.4. If the Bank has not settled payments within five (5) working days of the imposed penalty in provision 7.2.3, the BOM shall cancel the agreement's forward transactions and return all funds except penalties indicated in 7.2 to the Bank's tugrik current account, with a 0.5 percent monetary fine of the total amount of the agreement in tugrik.

7.5. If the notice in provision 7.1 and the measures in provisions 7.2 and 7.4 reoccur, the BOM shall annul the Bank's swap agreement authorization.

7.6. If the Bank is declared bankrupt in court before the end of the swap agreement, the interest rate payment and final transaction shall be cancelled.

TERMS AND CONDITIONS OF THE SWAP AGREEMENT

№	Indicator	Condition
1	Interest rate for tugrik funds	Repo auctioning rate
2	Interest rate for USD funds	Swap agreement: $R_{\text{usd}} = \text{LIBOR 3M} + \text{Z-spread}^1$
3	Principal payment exchange	<ul style="list-style-type: none"> • For non-deliverable: Principal payment shall not be made. Only the difference between the BOM official daily foreign exchange rate and the exchange rate of the initial transaction multiplied by the USD fund shall be paid.
4	Interest rate payment method	Interest rate payments shall be converted using the BOM official daily foreign exchange rate and the difference paid.
5	Interest rate payment date and frequency	Every three (3) months
6	Initial transaction exchange rate	BOM official daily foreign exchange rate
7	Final transaction exchange rate	Exchange rate equal to the initial transaction rate

¹ The z-spread is calculated by two digits after the comma.

Z-SPREAD CALCULATION METHOD

The Government of Mongolia will calculate the Z-spread through the following formula, based on the market price of the latest USD bonds on the international market.

$$P = \frac{R}{\left(1 + \frac{y_N + ZS}{freq}\right)^{\left(N-1 + \frac{DSC}{E}\right)}} + \sum_{k=1}^N \frac{C/freq}{\left(1 + \frac{y_k + ZS}{freq}\right)^{\left(k-1 + \frac{DSC}{E}\right)}}$$

On the date of the agreement, the variables in the formula for the current price of the bond will use values from the previous day, with the exception of the Z-spread which can be calculated on Excel Solver. The Z-spread shall be updated with each interest rate update.

Variable	Definition
<i>P</i>	Last price of the latest USD bonds issued by the Government of Mongolia on the international market
<i>Y_k, Y_N</i>	US Government securities’ yield for the corresponding period, as of the previous day
<i>ZS</i>	Z-spread
<i>C</i>	Government of Mongolia bond coupon
<i>R</i>	Bond principal payment
<i>k</i>	Coupon payment date
<i>E</i>	Period between coupon payments (in days)
<i>DSC</i>	Period between bond price determination date and next coupon payment (in days)
<i>freq</i>	Number of reoccurring coupon payments per year
<i>N</i>	Number of coupons

Source: Bloomberg

**INTEREST RATE CONDITIONS OF
THE LONG-TERM SWAP AGREEMENT**

We hereby submit the interest rate payment conditions for the long-term swap agreement of (amount) established with the bank on (date).

1. Agreement number
2. Name of the Bank
3. Date of interest rate payment
4. Interest rate calculation day count
5. Interest rate of USD funds*
6. Interest rate of tugrik funds

*Shall be calculated based on the Bloomberg terminal in accordance with Attachments 1 and 2 of the Long-term Swap Agreement Regulation.

ESTABLISHING AND EXTENDING A LONG-TERM SWAP AGREEMENT

NAME OF BANK: _____ DATE: _____

№	Indicators	Description	Name of supporting document	Page number of contract
1	Type of funding:			
2	Borrower:			
3	Lender:			
4	Purpose of the loan:			
5	Effective date of loan agreement:			
6	Date to receive funding:			
7	Loan repayment date:			
8	Loan amount:			
9	Accumulated funds in reporting period:			
10	Interest rate:			
11	Frequency of interest calculation:			
12	Frequency of principal payments:			

LONG-TERM SWAP AGREEMENT PROPOSAL

Indicators		
13	Agreement amount:	
14	End date of agreement:	

REQUEST TO EXTEND LONG-TERM SWAP AGREEMENT

Indicators		
15	Date of agreement renewal:	
16	Agreement amount:	
17	End date of agreement:	
18	Type of funding:	
19	Borrower:	
20	Lender:	
21	Purpose of the loan:	
22	Effective date of loan agreement:	
23	Date to receive funding:	
24	Loan repayment date:	
25	Loan amount:	
26	Accumulated funds in reporting period:	
27	Interest rate:	
28	Frequency of interest calculation:	

- It Hereby the bank agrees to the conditions set forth in the Bank of Mongolia's long-term swap agreement and acknowledges the performance of its duty.

AUTHORIZED BY:(Title, Name and Last Name)

(Signature)

(STAMP) Drafted by: (Name, last name, and title of the official drafting the agreement)

Phone: (Contact information for official in charge of drafting the agreement)

LONG-TERM SWAP AGREEMENT

Date of agreement: (yyyy) ... (mm) ... (dd)

1. Name of Bank:

2. Duration: days

3. First transaction:

3.1 Selling currency USD

3.2 Amount in numbers (in words)

3.3 BOM official exchange rate

4. Interest rate payment:

4.1. Interest rate of tugrik funds (In accordance with the Attachment 1)

4.2. Interest rate of USD funds (In accordance with Attachment 1)

4.3 Frequency of interest calculation Every three (3) months

4.4 Interest rate exchange rate BOM official daily foreign exchange rate

4.5 Interest payment method Netting transaction

5. Reverse transaction

5.1 Date (yyyy) ... (mm) ... (dd)

ON BEHALF OF THE BANK OF MONGOLIA: ON BEHALF OF BANK:

DIRECTOR OF THE
RESERVE MANAGEMENT AND

AUTHORIZED DIRECTOR

FINANCIAL MARKETS DEPARTMENT

E-MAIL ADDRESS: