

**AGRICULTURAL BANK OF MONGOLIA**

Audited Financial Statements

31 December 2002

## **AUDITORS' REPORT**

### **To Agricultural Bank of Mongolia**

We have audited the financial statements of Agricultural Bank of Mongolia on pages 3 to 36.

### **Respective responsibilities of Directors and Auditors**

The Bank's Board of Directors is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

Specifically, the financial statements of Agricultural Bank of Mongolia have been prepared to comply with International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, on the basis set out in the financial statements, present fairly the financial position of the Bank as at 31 December 2002 and of the results for the year then ended.

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Board to ensure that the financial statements comply with the requirements set out in notes 2 and 3 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Bank. Applicable accounting standards have been followed in preparing the financial statements of the Bank insofar as they are appropriate to the basis of accounting set out in the notes to the financial statements.

## **Basis of opinion**

We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, other irregularities or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 2 and note 3.

## **Opinion**

In our opinion, the financial statements on pages 3 to 36 present fairly, in all material respects, the financial position of Agricultural Bank of Mongolia as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

The comparative figures had been audited by another firm of auditors as we were appointed as auditors only for the current year's results. Accordingly, we do not express any opinion on the comparative figures.

*Emu + Yang*  *Mongol Audit Co.*

4 March 2003  
Ulaanbaatar

**AGRICULTURAL BANK OF MONGOLIA**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	2002 MNT '000	2001 MNT '000
Interest and similar income	4	8,575,161	2,969,858
Interest expense and similar charges	5	(2,970,347)	(528,628)
<b>Net interest income</b>		<u>5,604,814</u>	<u>2,441,230</u>
Fees and commissions	6	2,263,571	898,952
Foreign exchange and translation (loss)/gain	7	(187,577)	36,624
Other operating income	8	139,009	90,516
<b>Non interest income</b>		<u>2,215,003</u>	<u>1,026,092</u>
<b>Operating profit</b>		<u>7,819,817</u>	<u>3,467,322</u>
Operating expenses	9	(4,409,106)	(2,283,665)
<b>Profit before provisions</b>		<u>3,410,711</u>	<u>1,183,657</u>
Provisions	10	(156,081)	259,763
<b>Profit before taxation</b>		<u>3,254,630</u>	<u>1,443,420</u>
Taxation	11	1,374,678	559,981
<b>Profit after taxation</b>		<u><u>1,879,952</u></u>	<u><u>883,439</u></u>

The annexed notes form an integral part of these financial statements.

**AGRICULTURAL BANK OF MONGOLIA**

**BALANCE SHEET AS AT 31 DECEMBER 2002**

	Note	2002 MNT '000	2001 MNT '000
<b>ASSETS</b>			
Cash and short term funds		3,033,934	1,937,465
Deposits and placements with other banks and financial institutions	12	3,105,804	960,677
Investment in securities	13	13,741,533	10,597,752
Loans and advances	14	25,209,420	10,056,954
Other assets	15	627,721	292,950
Property, plant and equipment	16	4,162,032	2,791,075
<b>TOTAL ASSETS</b>		<u>49,880,444</u>	<u>26,636,873</u>
<b>LIABILITIES AND CAPITAL FUNDS</b>			
Deposits from customers	17	37,825,656	16,840,006
Government deposits	18	7,258,576	7,527,702
Loans from Bank of Mongolia	19	318,493	-
Other liabilities	20	870,784	363,316
Taxes payable		12,330	191,196
<b>TOTAL LIABILITIES</b>		<u>46,285,839</u>	<u>24,922,220</u>
<b>CAPITAL FUNDS</b>			
Statutory fund	21	4,574,130	4,574,130
Reserves		881,113	965,623
Accumulated loss		(1,860,638)	(3,825,100)
<b>TOTAL CAPITAL FUNDS</b>		<u>3,594,605</u>	<u>1,714,653</u>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<u>49,880,444</u>	<u>26,636,873</u>
<b>COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ITEMS</b>	24	<u>9,420,436</u>	<u>9,922,757</u>

The annexed notes form an integral part of these financial statements.

**AGRICULTURAL BANK OF MONGOLIA**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	<b>Statutory fund MNT '000</b>	<b>Additional paid in capital MNT '000</b>	<b>Revaluation surplus MNT '000</b>	<b>Accumulated loss MNT '000</b>	<b>Total MNT '000</b>
At 1 January 2001	2,000,000	2,200,000	-	(4,708,539)	(508,539)
Issue of shares	374,130	-	-	-	374,130
Conversion of Ministry of Finance and Economy bonds into capital	2,200,000	(2,200,000)	-	-	-
Revaluation surplus	-	-	965,623	-	965,623
Profit for the year	-	-	-	883,439	883,439
At 31 December 2001	4,574,130	-	965,623	(3,825,100)	1,714,653
Profit for the year	-	-	-	1,879,952	1,879,952
Realisation of revaluation surplus	-	-	(84,510)	84,510	-
At 31 December 2002	4,574,130	-	881,113	(1,860,638)	3,594,605

The annexed notes form an integral part of these financial statements.

**AGRICULTURAL BANK OF MONGOLIA**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	2002 MNT '000	2001 MNT '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before tax</b>	3,254,630	1,443,420
<i>Adjustments for:-</i>		
Depreciation of property, plant and equipment	329,331	130,460
Provisions	156,081	(259,763)
Loss on disposal of property, plant and equipment	16,608	32,600
<b>Operating profit before working capital changes</b>	<b>3,756,650</b>	<b>1,346,717</b>
<i>(Increase) / Decrease in operating assets:-</i>		
Loans to Bank of Mongolia	-	974,128
Loans and advances	(15,247,167)	(9,668,520)
Receivable from Ministry of Finance and Economy	-	300,000
Investment in securities	(3,168,228)	(3,204,843)
Other assets	(375,141)	128,501
<i>Increase (decrease) in operating liabilities:-</i>		
Deposits from customers	20,985,650	8,350,991
Government deposits	(269,126)	3,120,576
Loans from Bank of Mongolia	318,493	-
Other liabilities	507,468	91,004
<b>Cash generated from operations</b>	<b>6,508,599</b>	<b>1,438,554</b>
Income tax paid	(1,550,107)	(372,222)
<b>Net cash flows from operating activities</b>	<b>4,958,492</b>	<b>1,066,332</b>

**AGRICULTURAL BANK OF MONGOLIA**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTD.)**

	<b>2002 MNT '000</b>	<b>2001 MNT '000</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,738,466)	(695,796)
Proceeds from disposal of property, plant and equipment	21,570	12,281
<b>Net cash flows used in investing activities</b>	<b>(1,716,896)</b>	<b>(683,515)</b>
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Statutory fund contribution	-	374,130
<b>Net increase in cash and cash equivalents</b>	<b>3,241,596</b>	<b>756,947</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,898,142</b>	<b>2,141,195</b>
<b>Cash and cash equivalents at end of year</b>	<b>6,139,738</b>	<b>2,898,142</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and short term funds	3,033,934	1,937,465
Deposits and placements with other banks and financial institutions	3,105,804	960,677
	<b>6,139,738</b>	<b>2,898,142</b>

The annexed notes form an integral part of these financial statements.



# **AGRICULTURAL BANK OF MONGOLIA**

## **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002**

### **1. CORPORATE INFORMATION**

The Agricultural Bank of Mongolia (the "Bank") was organised by several agricultural cooperatives, herdsmen and agricultural farmers as a privately owned commercial bank that would provide banking services to the agricultural community. It was established on 31 January 1991 and started operations on 13 February 1991. The principal activities of the Bank are that of the provision of banking and financial services, pursuant to License No. 6 issued by the Bank of Mongolia. There has been no significant changes in the nature of these activities during the year.

On 23 June 2000, pursuant to the restructuring of the Bank in accordance with the "Memorandum of Mutual Understanding on the Restructuring of the Agricultural Bank" the Government (represented by the State Property Committee) became the sole owner of the Bank.

The financial statements of the Bank for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the Directors on 4 March 2003.

### **2. BASIS OF PREPARATION**

The Bank's financial statements have been prepared so as to present fairly the financial position of the Bank, and its income statement, cash flows and total recognised gains or losses, and in accordance with applicable International Accounting Standards ("IAS"). These financial statements have also complied with the Commercial Banks Financial Statement Reporting Rules and the Unified Accounting Principles issued by the Central Bank - the Bank of Mongolia.

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets. The reporting currency used in the financial statements is the Mongolian Togrog, which is denoted by the symbol MNT, shown rounded to the nearest thousand.

Agricultural Bank of Mongolia constitutes a single business, all conducted in Mongolia. The Bank has no branches or operations abroad. Accordingly, no further analysis into business or geographical segments is appropriate in the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Interest income and expense

Interest income and expense are recognised on an accruals basis.

The recognition of interest income is suspended when the probability of recoverability of either the principal or interest is ascertained as doubtful. In accordance with the requirements of Bank of Mongolia, interest is suspended when repayments are in arrears for 3 months. On commencement of suspension, previously accrued interest not received is clawed-back. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accruals basis when the uncertainties surrounding the recoverability are removed.

#### (b) Fee income and commissions

Fees and commission are recorded when earned.

#### (c) Taxation

The Bank provides for income tax based on its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the Mongolian Government.

#### (d) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Togrog at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are stated at cost or revalued amount, being the Togrog equivalent of the foreign currency at the date of acquisition of the assets or incidence of the liabilities, or on the date of the asset or liability was revalued. Income and expenditure are translated into Togrog at the exchange rates ruling at the date of transactions.

The resulting exchange gain or loss arising from monetary assets and liabilities, and foreign currency transactions are recognised in the income statement.

The official exchange rates used at the end of the year are:-

	2002	2001
US Dollar ("USD")	1,125.00	1,102.00
Deutsche Mark ("DEM")	-	505.60
Euro ("Euro")	1,169.40	988.90
Japanese Yen ("JPY")	9.38	8.50
Chinese Yuan ("CNY")	135.90	133.10
Russian Ruble ("RUB")	35.40	36.20

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

#### **(e) Investment in securities**

All investments in securities are initially recognised at cost, being the fair value of the consideration given and acquisition charges associated with the investment.

After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gain or loss on available-for-sale investments is recognised in the income statement.

Other long-term investments that are intended to be held-to-maturity, such as government bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains or losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

All regular way purchases of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the assets. All regular way sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation

#### **(f) Loans and advances**

Provision for loan loss is made as considered necessary having regard to both specific and general factors. In determining the need for provisions, management considers, among other things, the financial position of the borrowers, the value of any collateral and guarantees received, industry performance, current economic conditions and past experiences. Provision made (less amounts released) during the year is charged against the income statement.

Based on the revised guidelines on provisions issued by Bank of Mongolia in September 2002 pertaining to provision of loan loss, there has been a change in the provision estimate for the overdue classification. Based on the new guidelines the required provision on overdue accounts is 5% (2001: 1%).

The provision for loan loss has complied with the requirements of the Bank of Mongolia.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (g) Maturity of loans and advances

The maturity of the loan portfolio is presented in Note 22 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by a classification based on contractual terms.

#### (h) Property, plant and equipment

Property, plant and equipment are stated at cost or at revalued amount less depreciation calculated on a straight line basis over the estimated useful lives of the asset and impairment in value, if any. The costs of property, plant and equipment comprise their purchase cost and any incidental costs of acquisition.

The revaluation of the Bank's buildings in 2001 had been carried out by independent appraisers. The net appraisal increase resulting from the appraisal was credited to the revaluation surplus account.

The estimated useful lives used are as follows:

Buildings	30 - 40 years
Furniture and Fixtures	10 years
Computers	5 years

Assets under construction is not depreciated. Depreciation of these assets begins when the related assets are placed in service.

During the year, the Bank changed its estimate on the estimated useful life of computers from 6 years to 5 years.

#### (i) Impairment of assets

The Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss off a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same assets.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (j) Deposits from customers

Deposits of customers and other financial institutions are initially recognised at cost. Subsequently, for time deposits with terms over one month, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the term of the deposit using the effective yield method.

#### (k) Collateral obtained from loan customers

Collateral obtained from loan customers in lieu of loans receivable are stated at the lower of the agreed value between the Bank and the customers, and the net realisable value. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to disposal.

#### (l) Interest bearing borrowings

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

#### (m) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

#### (n) Statement of cash flows

The statement of cash flows classifies changes in cash and cash equivalents according to operating, investing and financing activities. The Bank does not consider any of the assets other than non-fiduciary cash and bank balances and short term deposits to meet the definition of cash and cash equivalents. The statement of cash flows is prepared using the indirect method.

#### (o) Repurchase agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and corresponding obligations to purchase the securities are reflected as a liability on the balance sheet.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (p) Use of estimates

The preparation of financial statements in conformity with IAS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

### 4. INTEREST AND SIMILAR INCOME

	2002 MNT '000	2001 MNT '000
Loans and advances	7,041,655	1,943,651
Deposits and placements with other financial institutions	12,400	56,960
Bank of Mongolia treasury bills	1,057,253	495,667
Government bonds and securities	463,853	473,580
	<u>8,575,161</u>	<u>2,969,858</u>

### 5. INTEREST EXPENSE AND SIMILAR CHARGES

Current account deposits	112,048	24,322
Time and demand deposits	2,858,299	503,401
Others	-	905
	<u>2,970,347</u>	<u>528,628</u>

### 6. FEES AND COMMISSIONS

Pension loan fees	1,123,962	77,722
Acceptance fees	562,178	208,751
Pension payment charge	200,801	216,608
Application fees	151,335	102,593
Others	225,295	293,278
	<u>2,263,571</u>	<u>898,952</u>

Others include fees and commission earned from transaction fees and money transfer fees.

**7. FOREIGN EXCHANGE AND TRANSLATION GAINS, NET OF LOSSES**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Net foreign currency transaction (loss)/gain	(186,168)	45,217
Net foreign currency translation loss	(1,409)	(8,593)
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	<u>(187,577)</u>	<u>36,624</u>

**8. OTHER OPERATING INCOME**

Rental income	25,472	45,849
Income from penalties	41,086	14,012
Recovery of collateral previously written off	37,817	-
Other income	34,634	30,655
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	<u>139,009</u>	<u>90,516</u>

**9. OPERATING EXPENSES**

Salaries and related expenses	1,385,681	713,321
Bonuses and allowances	635,587	327,564
Communications	339,654	162,029
Advertising	255,330	88,769
Depreciation	329,331	134,531
Employee training	232,813	83,977
Stationery	216,578	63,850
Business trip	176,279	114,563
Transportation and fuel supply	169,028	100,890
Utilities	149,161	122,090
Maintenance of property, plant and equipment	118,646	66,437
Rental expenses	83,780	30,780
Other operating expenses	317,238	274,864
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	<u>4,409,106</u>	<u>2,283,665</u>

## 9. OPERATING EXPENSE (CONTD.)

The average number of persons employed by the Bank during the year was made up as follows:

	<b>2002</b>	<b>2001</b>
	<b>Number</b>	<b>Number</b>
Directors and head of departments	10	9
Branch managers	22	22
Sub-branch managers	342	310
Others	1,058	658
	<u>1,432</u>	<u>999</u>
Of which:		
- Head office	110	102
- Branches	1,322	897
	<u>1,432</u>	<u>999</u>

## 10. PROVISIONS

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Provision/(Recovery of provision) for loan losses	94,701	(184,116)
Provision for securities	24,447	-
Provision/(Recovery of provision) for other receivables	36,933	(75,647)
	<u>156,081</u>	<u>(259,763)</u>

## 11. TAXATION

Mongolian taxation based on results for the year		
- Current	1,292,370	559,981
- Underprovision in prior year	82,308	-
	<u>1,374,678</u>	<u>559,981</u>

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the tax authorities. The tax rate is 15% for taxable profits up to MNT100 million and 40% for taxable profits in excess of MNT100 million.



## 11. TAXATION (CONTD.)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years ended 31 December was as follows:

	2002 MNT '000	2001 MNT '000
Income tax at statutory rates based on profit before taxation	1,310,656	552,368
Tax exempt income	(200,668)	(189,432)
Non deductible expenses	182,382	197,045
Underprovision in prior year	82,308	-
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Provision for income tax	<u>1,374,678</u>	<u>559,981</u>

## 12. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

Balances with Bank of Mongolia	2,793,492	771,720
Balances with other banks and financial institutions	312,312	188,957
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	<u>3,105,804</u>	<u>960,677</u>

Balances with Bank of Mongolia are maintained in accordance with Bank of Mongolia requirements and bear no interest. Foreign currency deposit accounts with Bank of Mongolia bear interest ranging from 1.0% to 1.9% (2001: 1.1% to 4.6%). The balances maintained with Bank of Mongolia are determined at set percentages based on 15 days average cash balances.

Balances with other banks and financial institutions represent foreign currency current accounts maintained with foreign financial institutions, which are generally denominated in US Dollars and bear no interest (2001: Nil).

On 26 November 1999 the Ministry of Finance and Economy (MOFE) and Bank of Mongolia entered into a "Special Agreement" with the Deutsche Gesellschaft Fur Technische Zusammenarbeit GmbH (GTZ) for "creation of a Rural Finance System" project (the Project). The objective of the Project is to assist in the development of the rural financial sector of Mongolia through a rural lending program to be implemented by the Bank. The Bank is responsible for the issuance and collection of loans extended under the Project.

**12. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS (CONTD.)**

As of 31 December 2002, GTZ has disbursed DM1 million through the MOFE for the establishment of the loan fund, and the Bank has lent out approximately MNT566 million (2001: MNT365.1 million). Balances with the Bank of Mongolia includes a deposit of USD Nil (MNT Nil) (2001: USD182,336 (MNT200.9 million)) representing that part of the funds received by the Bank which have not yet been loaned to the rural financial sector. The related liability (i.e. the total amount of funds received by the Bank under the Project) is recorded as part of Government deposits (see Note 18)

**13. INVESTMENT IN SECURITIES**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Bank of Mongolia bills	10,837,299	10,604,000
Government bonds	3,005,939	-
	<hr/>	<hr/>
	13,843,238	10,604,000
Accretion of discounts	(77,258)	(6,248)
Provision for diminution in value of government bonds	(24,447)	-
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	<u>13,741,533</u>	<u>10,597,752</u>

Bank of Mongolia bills are non interest bearing short term bills with maturities of less than three months, and are issued at a discount to the fair value of the bills upon maturity. The effective annual interest rates of these bills range from 4.4% to 14.5% per annum (2001: 7.5% to 14.3% per annum).

Government bonds are issued by the Ministry of Finance and Economy with maturities ranging from 90 days to 720 days. Annual interest rates are in the range of 4.5% to 15.8% (2001 : 8.4% to 14.4%).

#### 14. LOANS AND ADVANCES

	2002 MNT '000	2001 MNT '000
Small business loans	14,080,079	7,013,197
Pensioner's loan	2,803,546	577,068
Herder's loans	2,874,357	946,410
Payroll loans	4,160,358	1,154,239
Staff loans	442,050	156,595
Accrued interest receivable	563,556	220,062
Others	632,309	112,237
	<hr/>	<hr/>
Gross loans and advances	25,556,255	10,179,808
Provision for loan losses	(346,835)	(122,854)
	<hr/>	<hr/>
Net loans and advances	<u>25,209,420</u>	<u>10,056,954</u>

Others include agriculture loan, investment loan and loans secured by deposit.

Loans and advances analysed by their economic purpose are as follows:-

Trade	14,541,879	7,115,030
Agriculture	22,615	6,640
Others	10,644,926	2,935,284
	<hr/>	<hr/>
	<u>25,209,420</u>	<u>10,056,954</u>

Others include pension loans, payroll loans and staff loans.

Movements in the non-performing loans are as follows:-

Gross non performing loans at 31 December	196,645	41,945
As a percentage of gross loans and advances	0.8%	0.4%
Total net non-performing loans	97,771	18,300
As a percentage of total net loans	0.4%	0.2%

Movements in the provision for specific loan loss accounts are as follows:-

Balance at 1 January	122,854	3,004,549
Charge for the year	223,981	120,950
Recoveries	-	(305,066)
Written off	-	(2,697,579)
	<hr/>	<hr/>
Balance at 31 December	<u>346,835</u>	<u>122,854</u>

#### 14. LOANS AND ADVANCES (CONTD.)

At 31 December 2002, all loans and advances to borrowers are denominated in Togrog and interest rate ranges from 5% to 72% per annum (2001: 48% to 60% per annum).

Loans and advances amounting to approximately MNT25 billion at 31 December 2002 (2001: MNT9.9 billion) were classified as normal and provided with a 1% loss reserve. Further, loans amounting to MNT197 million (2001: MNT42 million) were classified as non-performing loans ("NPL") at 31 December 2002 and specific provisions of MNT98 million (2001: MNT24 million) have been allocated against the NPLs.

At 31 December 2002, included in loans and advances balances are loans and advances amounting to MNT140 million (2001: MNT39 million) for which interest income has been suspended and previously accrued interest receivable is clawed back, in accordance with Bank of Mongolia guidelines.

Included in the income statement is recovery of loans and advances previously written off amounting to MNT129 million (2001: Nil).

The current practice of the Bank is to base the level of specific provisions on an evaluation of each customer's present situation. As such, the provisions are based on conditions prevailing and information available at the date of these financial statements. The provisions do not incorporate an assessment of the potential for future deterioration in the asset quality of the Bank.

The provision for possible loan losses is considered adequate by the management based upon their formal review and analysis of existing credits using their knowledge of prevailing and anticipated economic conditions.

#### 15. OTHER ASSETS

	2002 MNT '000	2001 MNT '000
Consumables and inventories	527,591	204,335
Receivables	154,648	68,849
Other	95,638	46,851
	<hr/>	<hr/>
	777,877	320,035
Provision for probable losses	(150,156)	(27,085)
	<hr/>	<hr/>
	<u>627,721</u>	<u>292,950</u>

## 15. OTHER ASSETS (CONTD.)

	2002 MNT '000	2001 MNT '000
Movements in provision for probable losses are as follows:		
Balance at 1 January	27,085	1,480,464
Charge for the year	137,595	37,641
Recoveries	(14,524)	(113,288)
Written off	-	(1,377,732)
	<hr/>	<hr/>
	<u>150,156</u>	<u>27,085</u>

**16. PROPERTY, PLANT AND EQUIPMENT**

	Buildings MNT '000	Furniture, fixtures and vehicles MNT '000	Computers MNT '000	Total MNT '000
<b>At cost/valuation</b>				
At 1 January 2002	4,566,380	595,220	477,117	5,638,717
Additions	261,544	554,968	921,954	1,738,466
Disposals/write off	(16,946)	(72,818)	(6,397)	(96,161)
At 31 December 2002	4,810,978	1,077,370	1,392,674	7,281,022
<b>Accumulated depreciation;</b>				
At 1 January 2002	2,535,233	183,575	128,834	2,847,642
Depreciation charge for the year	166,310	34,143	128,878	329,331
Disposals/write off	(15,615)	(32,275)	(10,093)	(57,983)
At 31 December 2002	2,685,928	185,443	247,619	3,118,990
Net Book Value, 31 December 2002	2,125,050	891,927	1,145,055	4,162,032
Net Book Value, 31 December 2001	2,031,147	411,645	348,283	2,791,075

The cost of buildings is shown at cost and valuation. Included in the cost of buildings is an amount of MNT3,389,609 thousand (2001: MNT3,389,609 thousand) carried at valuation which was done in year 2001 by a professional valuer.

## 17. DEPOSITS FROM CUSTOMERS

	2002 MNT '000	2001 MNT '000
Current accounts	9,501,368	5,315,216
Demand deposits	4,783,661	2,463,502
Time deposits	23,178,798	8,933,795
Other deposits	361,829	127,493
	<u>37,825,656</u>	<u>16,840,006</u>

Current accounts generally bear no interest. Demand deposits are interest bearing and may be withdrawn upon demand. Foreign currency demand deposits bear an annual interest rate ranging from 1.8% to 3.6% in 2002 (2001: 1.8% to 3.6%). MNT demand deposits bear an annual interest rate ranging from 2.4% to 9.6% in 2002 (2001: 2.4% to 4.8%)

Foreign currency time deposits bear an annual interest rate ranging from 3.6% to 7.2% (2001: 3.6% to 7.2%), while for local currency time deposits interest rates range from 4.8% to 18% (2001 : 9.6% to 18%).

## 18. GOVERNMENT DEPOSITS

	2002 MNT '000	2001 MNT '000
Government deposits	<u>7,258,576</u>	<u>7,527,702</u>

Government deposits consist of deposit accounts of state and local government units and generally bear no interest. However, for balances above a prescribed limit interest is provided at annual rates ranging from 2.4% to 3.6% (2001: 1.2% to 2.4%).

Also included in Government deposits at 31 December 2002 is MNT566 million (2001: MNT566 million) representing the funded loan extended by GTZ through the MOFE (see note 12).

## 19. LOANS FROM BANK OF MONGOLIA

	2002 MNT '000	2001 MNT '000
Term Loan I	112,500	-
Term Loan II	56,250	-
Term Loan III	149,743	-
	<hr/>	<hr/>
	318,493	-
	<hr/> <hr/>	<hr/> <hr/>

### Term Loan I

The loan is denominated in USD and bears service fee at 1% per annum, with principal sum repayable by 5 equal annual instalments commencing 1 December 2003. The loan was taken to purchase computer equipment.

### Term Loan II

The loan is denominated in USD and bears commission at 1% per annum, with principal sum repayable by 5 equal annual instalments commencing 1 December 2003. The loan was taken for additional work performed on the BANCS software implemented by the Bank.

### Term Loan III

The loan is denominated in USD and bears interest at 1% per annum, with interest payment commencing in 2007 and principal sum repayable by 30 equal instalments commencing 1 December 2002, in which the loan is interest free for the first five years. The loan was for the Bank's portion of the BANCS software purchased.

## 20. OTHER LIABILITIES

	2002 MNT '000	2001 MNT '000
Payables	205,695	81,618
Accrued interest	632,080	170,949
Other payables	33,009	110,749
	<hr/>	<hr/>
	870,784	363,316
	<hr/> <hr/>	<hr/> <hr/>



## 21. STATUTORY FUND

	2002 MNT '000	2001 MNT '000
At 1 January	4,574,130	2,000,000
Issued during the year	-	2,574,130
	<hr/>	<hr/>
At 31 December	<u>4,574,130</u>	<u>4,574,130</u>

At 31 December 2002 the statutory fund was wholly owned by the Mongolian Government.

## 22. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risk inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risk are as follows.

### Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved regularly by the Bank's management team.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank does not enter into other related commitments such as guarantees and standby letter of credit, and documentary and commercial letter of credit.

## 22. RISK MANAGEMENT POLICIES (CONTD.)

The geographical concentration of monetary assets and liabilities are as follows.

	2002 (MNT'000)		
	Mongolia	Foreign	Total
<b>Assets</b>			
Cash and short term funds	3,033,934	-	3,033,934
Deposits and placements with other banks and financial institutions	2,793,492	312,312	3,105,804
Investment in securities	13,741,533	-	13,741,533
Loans and advances, net	25,209,420	-	25,209,420
	<u>44,778,379</u>	<u>312,312</u>	<u>45,090,691</u>
<b>Liabilities</b>			
Deposits from customers	37,825,656	-	37,825,656
Government deposits	7,258,576	-	7,258,576
Loans from Bank of Mongolia	318,493	-	318,493
	<u>45,402,725</u>	<u>-</u>	<u>45,402,725</u>
Net position	<u>(624,346)</u>	<u>312,312</u>	<u>(312,034)</u>

	2001 (MNT'000)		
	Mongolia	OECD and Others	Total
<b>Assets</b>			
Cash and short term funds	1,937,465	-	1,937,465
Deposits and placements with other banks and financial institutions	771,720	188,957	960,677
Investment in securities	10,597,752	-	10,597,752
Loans and advances, net	10,056,954	-	10,056,954
	<u>23,363,891</u>	<u>188,957</u>	<u>23,552,848</u>
<b>Liabilities</b>			
Deposits from customers	16,840,006	-	16,840,006
Government deposits	7,527,702	-	7,527,702
	<u>24,367,708</u>	<u>-</u>	<u>24,367,708</u>
Net position	<u>(1,003,817)</u>	<u>188,957</u>	<u>(814,860)</u>

## 22. RISK MANAGEMENT POLICIES (CONTD.)

### Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD). These limits also comply with the minimum requirement of the Central Bank of Mongolia.

The Bank's exposure to foreign currency exchange rate risk is as follows:

	2002 (MNT'000)		
	MNT	Foreign currencies	Total
<b>Assets</b>			
Cash and short term funds	2,491,354	542,580	3,033,934
Deposits and placements with other banks and financial institutions	1,475,881	1,629,923	3,105,804
Investment in securities	13,741,533	-	13,741,533
Loans and advances, net	25,209,420	-	25,209,420
	<hr/>		
	42,918,188	2,172,503	45,090,691
<b>Liabilities</b>			
Deposits from customers	35,884,537	1,941,119	37,825,656
Government deposits	7,258,576	-	7,258,576
Loans from Bank of Mongolia	-	318,493	318,493
	<hr/>		
	43,143,113	2,259,612	45,402,725
	<hr/>		
Net position	(224,925)	(87,109)	(312,034)

	2001 (MNT'000)		
	MNT	Foreign currencies	Total
<b>Assets</b>			
Cash and short term funds	1,842,025	95,440	1,937,465
Deposits and placements with other banks and financial institutions	459,820	500,857	960,677
Investment in securities	10,597,752	-	10,597,752
Loans and advances, net	10,056,954	-	10,056,954
	<hr/>		
	22,956,551	596,297	23,552,848

## 22. RISK MANAGEMENT POLICIES (CONTD.)

	2001 (MNT'000)		
	MNT	Foreign currencies	Total
<b>Liabilities</b>			
Deposits from customers	16,418,664	421,342	16,840,006
Government deposits	7,527,702	-	7,527,702
	<hr/>		
	23,946,366	421,342	24,367,708
	<hr/>		
Net position	(989,815)	174,955	(814,860)

### Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

## 22. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2002 is as follows (MNT million):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Assets</b>						
Cash and short term funds	3,034	-	-	-	-	3,034
Deposits and placements with other banks and financial institutions	3,106	-	-	-	-	3,106
Investment in securities	11,301	345	700	1,396	-	13,742
Loans and advances	3,367	10,196	11,334	223	89	25,209
Other assets	628	-	-	-	-	628
Property, plant and equipment					4,162	4,162
	21,436	10,541	12,034	1,619	4,251	49,881
<b>Liabilities</b>						
Deposits from customers	27,874	5,772	4,180	-	-	37,826
Government deposits	7,259	-	-	-	-	7,259
Other liabilities	871	-	-	-	-	871
Loans from Bank of Mongolia	-	-	39	156	124	319
Taxes payable	12	-	-	-	-	12
	36,016	5,772	4,219	156	124	46,287
Net position	(14,580)	4,769	7,815	1,463	4,127	3,594
Accumulated gap	(14,580)	(9,811)	(1,996)	(533)	3,594	

## 22. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2001 is as follows (MNT million):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Assets</b>						
Cash and short term funds	1,937	-	-	-	-	1,937
Deposits and placements with other banks and financial institutions	961	-	-	-	-	961
Investment in securities	10,598	-	-	-	-	10,598
Loans and advances	2,537	5,474	1,886	67	93	10,057
Other assets	293	-	-	-	-	293
Property, plant and equipment	-	-	-	-	2,791	2,791
	16,326	5,474	1,886	67	2,884	26,637
<b>Liabilities</b>						
Deposits from customers	8,403	7,406	1,031	-	-	16,840
Government deposits	7,528	-	-	-	-	7,528
Other liabilities	363	-	-	-	-	363
Taxes payable	191	-	-	-	-	191
	16,485	7,406	1,031	-	-	24,922
Net position	(159)	(1,932)	855	67	2,884	1,715
Accumulated gap	(159)	(2,091)	(1,236)	(1,169)	1,715	

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

## 22. RISK MANAGEMENT POLICIES (CONTD.)

### Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as of the years ended 31 December 2002 and 2001 for monetary financial instruments are as follows:

	2002		2001	
	MNT	USD	MNT	USD
<b>Interest earning assets</b>				
Placement with other banks	-	1% - 1.9%	-	1.1% - 4.6%
Bank of Mongolia bills	4.4% - 14.5%	-	7.5% to 14.3%	-
Government bonds	4.5% - 15.8%	-	-	-
Loans to customers	21% - 72%	-	48% to 60%	-
<b>Interest bearing liabilities</b>				
Demand deposits from customers	2.4% - 9.6%	1.8% - 3.6%	2.4% to 4.8%	1.8% to 3.6%
Time deposits of customers	4.8% - 18%	3.6% - 7.2%	9.6% to 18%	3.6% to 7.2%
Government deposits	2.4% - 3.6%	-	1.2% to 2.4%	-
Loan from Bank of Mongolia	1%	-	-	-

### 23. TRANSACTIONS WITH RELATED PARTIES

The transactions with related parties of the Bank in 2002 and 2001 relate solely to loans to key management personnel were as follows:

		2002 MNT' 000	2001 MNT' 000
Zandanshatar G.	Vice Director	14,515	14,885
Delgermaa G.	Vice Director	7,700	-
Otgonjargal	Head of Branch	9,180	9,763
Tumen Ulzii	Head of Branch	9,038	9,759
Sukhbat S.	Chief accountant	8,958	9,423
Batsaikhan Ch.	Head of Internal Audit Department	8,875	9,315
Erdenechimeg M.	Head of Branch Supervision Department	8,234	8,655
Enkhbold D.	Head of IT Dept	2,097	-
Lkhagvasuren Ya.	Head of Branch	4,790	-
Nyamsuren B.	Head of Branch	6,851	-
Enkhbat D.	Head of Branch	6,714	-
Tuul T.	Head of Branch	5,983	-
Oyunchimeg Ts.	Head of Special Assets Dept	7,307	-
Batbayar S.	Head of Branch	327	-
Nyamaa Ya.	Head of Branch	75	-
Idertsog A.	Head of Branch	245	-
Erdenechimeg S.	Head of Branch	100	-
		<u>100,989</u>	<u>61,800</u>
Repayable			
- within 1 to 5 years		42,189	-
- over 5 years		58,800	61,800
		<u>100,989</u>	<u>61,800</u>
Provision for probable losses		(1,010)	(618)
		<u>99,979</u>	<u>61,182</u>

The loans to Bank's employees bear annual interest rates of 5% to 21% (2001: 5% to 24%)



## 24. CAPITAL ADEQUACY

The Bank of Mongolia requires commercial banks to maintain a core capital adequacy ratio of 5% and risk weighted capital ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. At 31 December 2002, the Bank has a core capital ratio of 9.05% (2001 : Exempted) and risk weighted capital ratio of 11.99% (2001 : Exempted), as computed below:

	<b>2002</b> <b>MNT '000</b>
<u>Tier I capital</u>	
Statutory fund	4,574,130
Accumulated loss	(1,860,638)
	<hr/>
Total Tier I Capital	2,713,492
<u>Tier II capital</u>	
Revaluation reserve	881,113
	<hr/>
Total capital/capital base	<u><u>3,594,605</u></u>

Breakdown of risk weighted assets in the various categories of risk weights are as follows:-

	<b>2002</b> <b>MNT '000</b>
%	
0	19,568,959
10	-
20	312,312
50	-
100	29,915,037
	<hr/>
Total	<u><u>49,796,308</u></u>
Core capital ratio	9.05%
Risk weighted capital ratio	11.99%

## 25. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	2002 MNT '000	2001 MNT '000
Ministry of Food and Agriculture Loans	1,660,864	1,743,805
Accrued interest on Loans by the Ministry of Food and Agriculture	307,222	105,081
Other off balance sheet items	7,452,350	7,905,694
Capital commitment	-	168,177
	<hr/> <hr/>	<hr/> <hr/>
	9,420,436	9,922,757

### a) Ministry of Food and Agriculture Loans

The Bank extended MNT1.7 billion of loans to agricultural companies under Banking Service Agreement with the Ministry of Food and Agriculture (MFA) dated 7 May 2001. Under this agreement, the Bank is responsible for the distribution of the loans to the borrowers selected by the MFA, for the monitoring of the borrowers' compliance with loan agreements, and providing the MFA with timely information on the status of these loans.

The Bank earns interest income of 0.2% per month on the interest paid by the borrowers and service charge at 0.25% on the amount of loans issued. No new loans were disbursed in year ended 31 December 2002. No interest income and service charge was earned for the year ended 31 December 2002 (2001: MNT4.6 million).

### b) Other off balance sheet items

At 31 December 2002, other off balance sheet items consisted mainly of loans of MNT4.1 billion (inclusive of interest), receivables of MNT837 million and collateral assets obtained from customers amounting to MNT125 million that were written off in prior years.

Also included as other off balance sheet items are "Inherited" and "Directed" loans amounting to MNT1.2 billion along with accrued interest of MNT1.1 billion (2001: MNT1.3 billion plus accrued interest of MNT1.1 billion).

### c) Capital commitments

At 31 December 2002, the Directors have not authorised any capital commitments of significance.

### 30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying values and fair values of financial assets and liabilities of the Bank.

	<b>Bank</b>	
	<b>Carrying amount MNT '000</b>	<b>Fair value MNT '000</b>
<b>Assets</b>		
Cash and short term funds	3,033,934	3,033,934
Deposits and placements with other banks and financial institutions	3,105,804	3,105,804
Investment in securities	13,741,533	13,741,533
Loans and advances	25,209,420	25,209,420
Other assets	627,721	627,721
Property, plant and equipment	4,162,032	4,162,032
	<hr/>	<hr/>
Total Assets	<u>49,880,444</u>	<u>49,880,444</u>
<b>Liabilities</b>		
Deposits from customers	37,825,656	37,825,656
Government deposits	7,258,576	7,258,576
Other liabilities	318,493	318,493
Loans from Bank of Mongolia	870,784	870,784
	<hr/>	<hr/>
Total Liabilities	<u>46,273,509</u>	<u>46,273,509</u>

As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

As of December 31, 2002, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### **Cash and short term funds**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

#### **Deposits and placements with other banks and financial institutions**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

### **30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)**

#### **Investment in securities**

As set out in Note 3, securities held by the Bank for investment purposes as of December 31, 2002 are carried at cost and fair value, adjusted for accretion and amortisation of discounts and premiums, respectively, less any provision for permanent diminution in value.

#### **Loans and advances**

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the borrower and collateral obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of the credit risk. The carrying amount of loans is a reasonable estimate of fair value.

#### **Other assets**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

#### **Deposits from customers**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

#### **Government deposits**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

#### **Other liabilities**

For these short term instruments, the carrying amount is a reasonable estimate of fair value.

#### **Loans from Bank of Mongolia**

The fair value of loans from Bank of Mongolia is stated at carrying amount due to the extensive period that their financial instruments are held.

## **26. SUBSEQUENT EVENT**

Pursuant to the "Privatisation Guidelines for 2001-2004" approved by the State Ikh Hural, the Government of Mongolia adopted the "Privatisation Program for 2002" in May 2002. Within the framework of this Program, the Government approved the sale of 100% of the Bank's total shares through a competitive tender. On 24 January 2003, the Government of Mongolia, through its agent, The State Property Company had entered into a sale and purchase agreement with H.S. Securities Co Ltd. for the sale of its entire stake in the Bank.

## **27. COMPARATIVE FIGURES**

The comparative figures are based on financial statements audited by another firm of auditors as Ernst & Young Mongolia Audit Co. was appointed only for the audit of the current year's results.

Certain comparative figures have been reclassified to conform with current year's presentation.

## **28. MONGOLIAN TRANSLATION**

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.