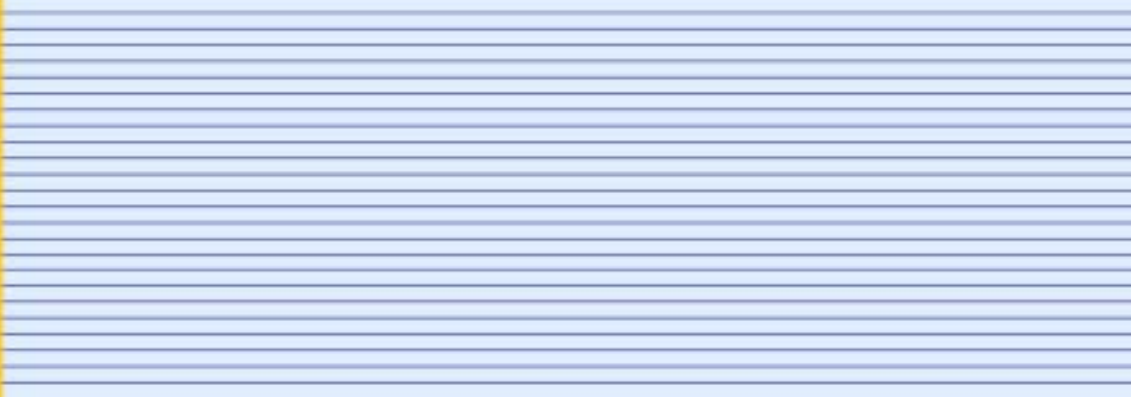


# ANNUAL REPORT 2003



**ANOD BANK**  
OF MONGOLIA



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## **MISSION AND GOALS**

### **Mission Statement**

Anod Bank believes that a commitment to courtesy and efficiency is essential for conducting successful business. Anod Bank aims to become the leading bank in Mongolia devoted to delivering the highest quality of financial services with the utmost integrity. Anod Bank strives to create value and satisfaction for its customers, shareholders, and the community.

### **Vision and Strategy**

We are building a strong, sound and profitable bank which provides high quality customer service and employee satisfaction. Anod Bank's business expansion is being conducted amidst a rapidly changing market with growing customer requirements.

As a commercial bank, Anod Bank is strengthening its involvement in the retail sector through the expansion of its branch network, internet banking, and consumer finance. We positioning ourselves in the corporate market with an emphasis on the mining sector. Mining is now poised to become a dominant sector in the Mongolian economy. Anod Bank is also a pioneering bank in the investment banking field. We aspire to become a public bank, fulfilling our motto Anod Bank – The People's Bank.

We envision ourselves as a highly competitive regional bank, delivering the highest quality financial services available to our customers in Central and East Asia. We strive to create a financial and information network where customers, employees, and managers will share information, knowledge and where they will deliver and receive services.

## **PROFILE**

Anod Bank originated as a small currency exchange business in 1992 and quickly expanded into a non-bank financial institution offering short term financing. In 1999, Anod bank, a full service commercial bank, was established. Over the past five years, the Bank's assets have grown at an average annual rate of 90% and its branch network now includes 23 locations in Ulaanbaatar and 7 Aimags.

Ever since its transformation into a commercial bank, Anod Bank has consistently outperformed its competitors. In 2003, Anod's total asset reached 94.1 billion MNT accounting for 11% of the national banking sector assets. The Bank continues to make improvements in risk management and human resources.

Anod Bank has won numerous awards, including the Trusted Customer Enterprise, Leading Social Security Payer, the Honored Title of the Construction Investment Year, the Mongolian Chamber of Commerce's Best Enterprise of the Year in 2001, 2002 and 2003.

Solidly established in Mongolia's banking industry, Anod Bank is focusing on retail banking operation and is launching investment banking services in 2004.



## STATEMENT FROM THE PRESIDENT & CEO

Anod Bank of Mongolia remained a leader in the financial service market by providing its customers with leading edge products, superior services, and trusted financial advice. We are proud to report that Anod Bank is now the 3rd largest bank in Mongolia. 2003 was another solid year of progress along with excellent financial stability at Anod Bank. We took a variety of steps to meet our customers' ever-growing financial needs. Our highlights for the year included:

The expansion of our branch network to include 7 new convenient locations.

We premiered Anod Forex, the first Mongolian E-currency exchange.

We introduced the Smart card Savings Card product.

Our benefit and compensation package continues to be upgraded to attract and retain competent, knowledgeable employees.

And in 2004, Anod Bank will offer comprehensive financial planning and investment services.

Our focus is to provide competitive, easy-to-access financial services for our customers. We will continue to invest in state-of-the-art technology to prepare us for the future.

On behalf of the Board of Directors, management team and employees of Anod Bank, thank you for your loyalty. We look forward to another year of progress in 2004. Our dedicated and talented staff will ensure that our customers achieve their financial goals.

Sincerely,



Mr. Dashdorj Enkhtur  
President and CEO

## CHAIRMAN, BOARD OF GOVERNORS



PRESIDENT & CEO  
**Mr. Enkhtur** Dashdorj



CHAIRMAN OF THE  
BOARD OF GOVERNORS  
**Mr. Davaa** Nyamaa



VICE PRESIDENT  
**Mr. Gur-Aranz** Erdene





## **MANAGEMENT TEAM**

(Back Row - From Left)

International Banking Unit

**Mr. Ulambayar.L**

Information & Technology Unit

**Mr. Batkhuyag.N**

Investment Banking Unit

**Mr. Achit-Erdene.D**

Marketing Unit

**Mr. Erdenebulgan.O**

Support Unit

**Mr. Ganbat.O**

Legal Unit

**Mr. Munkhbat.R**

(Front Row - From Left)

Top Customer Business Unit

**Ms. Oyunsuren.E**

Corporate Customer Business Unit

**Ms. Daribazar.D**

Credit Unit

**Ms. Ganbayar.B**

Financial Management Unit

**Ms. Ariunaa.B**

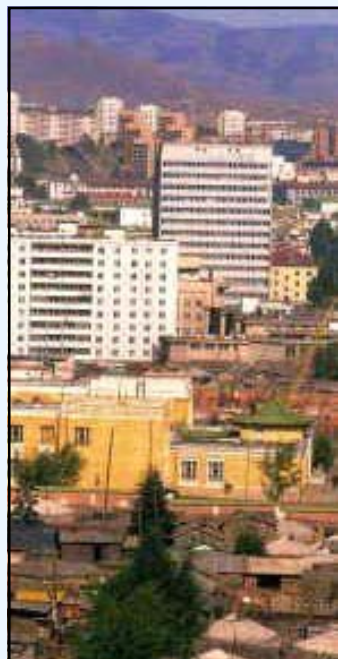
Internal Auditing Department

**Ms. Bolormaa.S**

Retail Customer Business Unit

**Ms. Tsetsegmaa.B**

## ECONOMIC REVIEW



The economic situation in 2003 was very favorable. According to the preliminary results of 2003, the country achieved a 5.5% GDP growth that was influenced primarily by strong performances in the areas of trade, construction, transportation, communication, and financial intermediation. Moreover, stable price levels and exchange rates have positively influenced the business environment. In 2003, inflation stood at 4.7% against 1.6% at the close of 2002. The main reason for the 2003 inflation dynamics was that food prices rose faster in 2002 (7.7% against -1.2%).

By end of 2003, the official exchange rate of the Tugrug against the USD depreciated by 3.8% compared to the previous year, reaching 1,168 MNT. The general trend of Tugrug exchange rate with USD demonstrates that the Tugrug temporarily depreciates at the beginning and the end of the year and during summer due to the impact of seasonal demands in the Mongolian and industrial and trade sectors.

The Mongolian economy remains very open. Preliminary data indicates that the total foreign trade turnover equalled 1,387.5 million USD. In 2003, exports expanded 14.5% due to the rise in 600.2 million USD against 524.0 million USD in 2002. Exports increased significantly the contract prices of major export commodities and the expansion of export volumes. Imports grew 14.0% and their value amounted to 787.3 million USD against 690.8 million USD in 2002.

Growth in imports was mostly due to an increase in the imports of machinery, equipment, and transport vehicles. There was also a rise in the imports of mineral products, chemicals, base metals, and foodstuffs.

The favourable macroeconomic situation encouraged expectations of further growth in attraction of investors. In 2003, the value of investment rose 1.7% to 334.9 billion MNT.

Deposits by economic entities and individuals grew by 73.3% from 2002, reaching 290.5 billion MNT. The growth of bank deposits and the increase in financial intermediation led in turn to an increase in lending. Loans increased by 91.0% to 442.0 billion MNT.

### Main Economic Indicators

	2000	2001	2002	2003
GDP growth(%)	1.1	1.0	4.0	5.5*
Inflation	8.1	8.0	1.6	4.7
Unemployment rate	5.0	4.6	3.6	3.4
Money M2, bln.tug	258.8	331.1	470.1	627.5
Export, mln.USD	535.8	521.5	524.0	600.2*
Import, mln.USD	614.5	637.7	690.8	787.3*
External trade deficit	-78.7	-116.2	-166.8	-187.1*

Source: National Statistical Office of Mongolia and Bank of Mongolia

Note: \*Preliminary estimate

## RETAIL BANK

Anod Bank achieved a robust and rapid increase in its retail banking business operations in 2003. The Bank achieved success through an aggressive marketing campaign and diversification of its delivery channels in the retail market. The Retail Banking Unit's delivery channels include Telephone Banking, Internet Banking, the Smart Card Center, and 22 branches.

At the end of 2003, the Retail Banking Unit posted total deposits of 73.5 billion MNT (62.9 million USD), up from 28.3 billion MNT (25.1 million USD) in 2002. The retail loan portfolio has increased to 23.9 billion MNT (20.5 million USD), up from 9.7 billion MNT (8.6 million USD) in 2002.

The increase in retail business operations was attributed to Anod Bank's strategy of focusing on services to individuals and increasing the share of small loans in the Bank's loan portfolio. The Bank was able to provide funding in areas where it was needed the most and at the same time increase the Bank's profits.

Anod Bank launched an aggressive marketing campaign entitled Anod Bank – The People's Bank which targeted the middle class. The Bank identified specific areas with a large population base and economic activities. Consequently, the Bank opened seven new branches in those areas. Five of the branches are in Ulaanbaatar and one each is in Darkhan and Erdenet. All of the branches are attracting large deposits and meeting the credit demand in the respective areas.

In 2004, the Retail Banking Unit intends to focus on customer relationship management. In order to centralize the current customer database and to facilitate operating activities at the branch level, the Unit will customize products and services to meet the various needs of the Bank's customers.

## CARD SERVICE UNIT

The Card Service Unit is an essential part of Anod Bank. In 2001, Anod introduced Mongolia's first bank card, the E-Tugrug. The smart card product is welcomed at over 150 businesses throughout Ulaanbaatar and accepted at most of the other banks. At the end of 2003, the number of E-Tugrug card holders reached 5,800. This number reflects an increase of 62.5% from the previous year. The E-Tugrug is successfully competing with the Visa and MasterCard issued by six other banks in Mongolia.

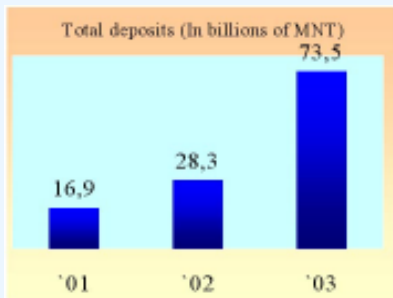
In 2003, Anod Bank launched a checking card entitled the Saving Card which earns interest. The Saving Card has proved highly successful and has attracted almost 5 billion MNT deposits in its first year.

## ELECTRONIC BANKING

Today's financial institutions are required to promptly meet the increasingly diversified needs of their customers by focusing on information technology and expanding their internet services.

Accordingly, Anod Bank is expanding into the e-business sector. During 2003, Anod successfully introduced the integrated system RS-Bank 5.1 in order to provide automated banking and credit services geared for businesses, organizations, and individuals. Client Banking, Telephone Banking and Internet Banking service projects have been successfully implemented.

Anod Bank strives to develop relevant products and systems in line with heightening corporate productivity, improving business processes, and expediting proliferation of e-commerce.





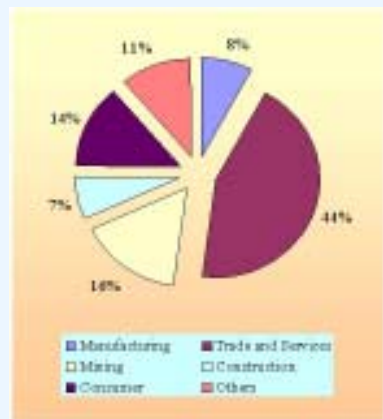
## CORPORATE BANK



The Corporate Banking Unit has provided solutions to fit the diverse needs of its corporate customers. Anod Bank's clientele was divided into small and medium sized enterprises (SMEs) and strategic corporate customers. The Unit was able to provide a host of new banking products and service incentives tailored to SMEs and the strategic corporate customers.

Loans to customers increased from 18.8 billion MNT at the end of 2002 to 45.1 billion MNT at the end of 2003. However, this increase in the amount does not indicate the proportional increment of large corporate loans in total loans portfolio.

In terms of their dynamics, creativity and employment effect, SMEs are emerging as a major force in the economy. In a strategy designed to minimize risk and improve its profit base, Anod Bank has earmarked an increasing share of loan portfolio of small and medium sized corporate borrowers. Thus 22.7% of the loan portfolio is allocated to the SMEs.



### Trade Retail Companies

Due to Anod Bank's origins as a currency exchange business, many of the Bank's customers are involved in the trade sector. Over the years, Anod's customers have grown from small businesses and cash flow, they remain the best customers for our loan, deposit, and card services.

In 2003, Anod Bank developed the Web site <http://www.anodforex.mn> to serve its customers who want to exchange currency free of risk and commissions. Anod Bank also supports business through documentary credit. The Bank signed a relending Facility Agreement with the Export Import Bank of the Republic of China to re-lend funds to companies importing goods from Taiwan.

### Mining Companies

A number of mining companies were also Anod Bank's original customers. The Bank values the strategic importance of the country's growing mining sector. In the last decade, the annual gold production in Mongolia has increased from 700 kilos to 14,000 kilos. Due to the rise in the gold price in 2003, many international companies are entering into gold mining business.

Many of the larger mines, Zolotoi Vostok, Mongol Gazar, and Gatsuurt, have been banking with Anod Bank for seven years. The mines borrow short term loans in spring and repay the loans in gold in the fall. Mongol Gazar has developed a hard rock deposit mine and now mines year-around. Their combined production was approximately 5 tons which represented 60 million USD in sales. Anod Bank also lends to smaller gold mining companies.

In 2003, Anod Bank strived to expand and diversify its corporate customer base. Anod Bank organized meetings with the Association of Construction Companies and the Association of Food Industry companies. Addressing the pressing needs for banking services, the parties signed a Memorandum of Understanding for future cooperation. The Bank's loans to construction and manufacturing companies comprise 7% and 8% of the total loan portfolio.

## INVESTMENT BANK



Pioneering project finance in 2001, Anod bank remains the clear leader among Mongolian banks as a corporate project adviser. Anod Bank successfully finances large scale projects in commerce, light mining industry, construction, transportation, and communications.

Anod Bank organized the import financing of oil from Kazakhstan for Tas Petroleum, a Mongolian company. The project was a success for both the Mongolian economy and the country's consumers. It was the first time that fuel was imported from a country other than Russia. Anod Bank arranged credit for the buyers who were primarily large gold mining companies.

Anod bank supported Mongol Gazar with the establishment of the first Mongolian hard rock underground gold mine. As one of the Bank's long term clients, Mongol Gazar became the first company to produce gold year around. Since October 2003, Mongol Gazar sold approximately 100 kilos of gold to the Bank. Anod Bank is also assisting Mongol Gazar in locating a new investment partner to develop and expand the mine.

The Investment Banking Unit advised and assisted investors in the privatisation of state-owned companies. Anod Bank and a U.S. private investor along with a technical partner, US Forte Cashmere Company, participated in the tender bid to acquire 76% of Gobi Cashmere Company, one of the world's largest cashmere processing factories.

The Investment Banking Unit was strengthened by recruiting new staff with experience and education in capital market operations and is preparing to issue and underwrite securities in 2004.



## CORRESPONDENT BANKS

**1. DRESDNER BANK AG FFM, GERMANY**  
 Jurgen-Ponto-Platz 1, D-60329, Frankfurt am Main, Germany,  
 BLZ 500 800 00 Tel: +49 69 2630; Fax: +49 69 2634004,  
 69 2634831 USD ACC. 499/0810452900/400  
 EUR ACC. 499/0810452900/888 SWIFT: DRES DE FF

**2. UNION BANK OF CALIFORNIA INTERNATIONAL,**  
 NY USA 23rd Floor, 40 Wall Street, New York, NY 10005-  
 1339, USA Tel: +1 212 9388978; Fax: +1 212 3239599  
 USD ACC. 91-277483-1121 SWIFT: BOFC US 33 NYK

**3. RAIFFEISEN CENTROBANK AG** PO box 272,  
 Tegetthoffstrasse 1, A-1015, Vienna, Wien, Austria Tel: +43  
 1 515200; Fax: +43 1 5134396 USD ACC. 6108169000  
 SWIFT: CENB AT WW

**4. HONG KONG SHANGHAI BANKING CORPORATION LIMITED HONGKONG, CHINA** 1 Queen's Road Central, Hong Kong, Hong Kong Tel: +852 28221111; Fax: +852 28101112 USD ACC. 500830369230 SWIFT: HSBC HK HHH KH

**5. HSBC BANK USA, NEW-YORK, NY USA** One HSBC Center, Buffalo, NY 14203, USA Tel: +1 716 8412424; Fax: +1 716 8415391 USD ACC. 000-129887 SWIFT: MRMD US 33

**6. COMMERZBANK AG** D-60261 Frankfurt am Main, Germany, BLZ 500 400 00 Tel: +49 69 136-20; Fax: +49 69 285389 USD ACC. 400878516400 SWIFT: COBA DE FF

**7. KOREA EXCHANGE BANK, SEOUL, KOREA** 181 Ulchi-Ro 2-Ka, Chung-gu, Seoul 100-793, Korea (South) Tel: +82 2 7290114 (60 lines); Fax: +82 2 7759819, 2 7549817 USD ACC. 963-THR-297-01-7 SWIFT: KOEX KR SE

**8. BANK FOR FOREIGN TRADE (VNESHTORGBANK) MOSCOW, RUSSIA** 16 Kuznetsky most, Moscow 107996, Russian Federation Tel: +7 095 1011880; Fax: +7 095 2584781 USD ACC. 30112840455550000052 RUB ACC 30122810655550000047 (K type) RUB ACC 30123810955550000047 (N type) SWIFT: VTBR RU MM

**9. SUMITOMO MITSUI BANKING CORPORATION, TOKYO, JAPAN** 1-2 Yurakucho, 1-chome, Chiyoda-ku, Tokyo 100-0006, Tokyo, Japan Tel: +81 3 35011111 JPY ACC. 4223 SWIFT: SMBC JP JT

**10. BAYERISCHE HYPO-UND VEREINSBANK AG (HypoVereinsbank)** Postfach 100101, Am Tucherpark 16, 80538 Munich, Germany. BLZ 700 202 70 Tel: +49 89 378-0; Fax: +49 89 378-46064 EUR ACC. 69107150 S WIFT: HYVE DE MM

## INTERNATIONAL BANK

On June 23, 2000, Anod Bank was granted the right to conduct foreign settlement activities by the Mongol Bank. Since that time, Anod Bank has added new international banking services to its service portfolio. In 2000, Anod joined the S.W.I.F.T. network which ensures prompt and secure financial transaction processing. In July of 2002, the Bank began offering Money Gram money transfers services.

In April of 2003, Anod Bank, in collaboration with Korea Exchange Bank in Seoul, launched the Hand-to-Hand money transfer service for Mongolian workers in South Korea. Previously, the workers have been giving cash to airline passengers traveling from Seoul to Ulaanbaatar. There is a high demand for this type of service. Since April, a total of 4,2 million USD has been transmitted through Korea Exchange Bank and Anod Bank.

In June of 2003, Anod Bank acquired a license to sell and buy precious metals and gems. The Bank has since purchased 153031.25 grams of gold and silver, sold 150713.35 grams of gold and silver, and earned total of 66.7 million MNT (57.1 thousand USD).

Anod Bank has correspondent relations with 44 banks abroad and maintains nostro accounts in 11 first-class foreign banks in 8 countries. The banks are as follows: Union Bank of California of USA, HSBC, USA, Dresdner Bank AG, Commerzbank AG, HypoVereins Bank, HSBC Hong Kong, Korean Exchange Bank, Raiffeisen ZentralBank of Austria, Turan Alern Bank of Kazakhstan, Vneshtorg Bank of Russia, and Sumitomo Mitsui Banking Corporation. Transactions amounting to 253 billion MNT were settled through these banks in 2003.

The net profit from the International Banking Unit reached 131.6 million MNT in 2003 which was a 71% increase from the previous year.

In 2004, the Unit will concentrate on developing a customer relations management system, objective planning and performance, introducing new products and services, and decreasing losses from the foreign currency rate fluctuation. These planned improvements in Anod's international banking services will enable the Bank to cope with today's changing financial environments at home and abroad and increase the profitability.



## INFORMATION TECHNOLOGY

In 2003, Anod Bank advanced its information technology capabilities to ensure the highest competitiveness in services. The goal is to maintain a leading position in the rapidly changing financial markets and provide optimal services to meet the diverse needs of our customers. Anod Bank remains in the forefront of introducing high-end technology products to Mongolia.

In April of 2003, the Bank began to utilize the fully automated banking system, RS-Bank 5.1. This new system offers superior business support in the central management, back, middle, and front offices, and throughout the branch network.

RS-Bank 5.1 is capable of:

- Maintaining a centralized end-to-end mechanism to handle transactions and data storage.
- Operating on-line direct basis.
- Diversifying client service delivery channels (E-Banking, Telephone Banking, and Internet Banking).
- Integrating and structuring the Bank's information flows.
- Supporting alternative accounting records and reporting.
- Implementing an integrated MIS, deposit, and credit and risk management information system.

RS-Bank 5.1 will maintain Anod Bank's competitive edge among the key players in the Mongolian financial market. The Bank is successfully implementing Client Banking, Telephone Banking, and Internet Banking services in the reported year. As a result, 11 out of 17 Bank's branches are now available online. Our customers are now able to make payments at any time and from anywhere in the world.

The development of an internal communications network has enabled Anod's Headquarters and branches to maintain around the clock communications. The staff has access to the Electronic Information System in order to exchange documents and other information.

The Bank's employees use the most advanced office technologies and equipment from LG IBM. They have also participated in special training programs offered by the IT Unit. Anod Bank firmly believes that technology will transform the business of the future.

## HUMAN RESOURCES



Anod Bank's employees are its most important asset. At the close of 2003, the number of employees grew by 61% from the previous year and reached 314. Members of the management team have earned advanced degrees from universities in France, Italy, the Philippines, Russia, Thailand, the United Kingdom, and the USA.

Anod Bank strives to create an enhanced and satisfying corporate environment and provide employees with opportunities for career advancement and personal growth. The Bank maintains agreements with the Institute of Finance and Economy, Mongol Bank's Training Center, the University of Banking and Finance, the Academy of Management and Development, and Human Fortis Consulting Company. Through these agreements, more than 200 staff members have participated in different professional training programs in Mongolia.

As part of an ongoing project to improve Anod Bank's organizational structure, a flat organization scheme has recently been implemented. The basic philosophy is that every employee, including the CEO, is sharing information and making collective decisions via the same platform in the IT network system. The new structure is distinguished by shortened decision-making mechanisms, decentralization of power, and the ability to quickly form teams.



## CORPORATE SPONSORSHIP PROGRAMS

As a corporate citizen, Anod Bank promotes and supports charitable, cultural, educational, and athletic events throughout Mongolia. Following the disastrous flood in July 2003, the Bank provided financial assistance to charitable organizations in order to assist Ulaanbaatar residents affected by the flood.

Also in 2003, Anod Bank participated in the Mongolian National Sports Festival Naadam and sponsored cultural events such as Goyol 2003 Fashion Show and the Golden Microphone Music Awards. Anod is an ongoing general sponsor of The Best Researcher of the Year and The Best Academic Book of the Year programs.



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## REPORT OF THE AUDITORS TO THE MEMBERS OF ANOD BANK

We have audited the financial statements of Anod Bank on pages 3 to 25. The preparation of the financial statements is the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 3 to 25 present fairly, in all material respects, the state of affairs of Anod Bank as at 31 December 2003 and the results and cash flows for the year then ended on that date in accordance with International Accounting Standards.

The comparative figures were audited by another firm of auditors as we were appointed as auditors only for the current year's financial statements. Accordingly, we do not express any opinion on the comparative figures. The prior year auditors' report dated 20 January 2003 expressed an unmodified opinion.

KPMG  
Kuala Lumpur, Malaysia  
23 March 2004



KPMG, a partnership established under the Malaysian law, is the Malaysian member firm of KPMG International, a Swiss cooperative.

Financial Statement of Anod Bank as end of December 31, 2003

## BALANCE SHEET

(MNT in Thousands)

<b>Assets</b>	<b>December 31, 2003</b>
Cash and cash equivalents	12 115 898
Placements with banks	1 500 000
Investment securities - available for sale	9 105 664
Loans and advances	66 781 004
Other assets	1 696 792
Property and equipment	2 945 692
<b>Total assets</b>	<b>94 145 050</b>
<b>Liabilities</b>	
Deposits from customers	81 527 437
Deposits from banks	735 223
Taxation	145 467
Other liabilities	4 177 264
Subordinated liabilities	937 468
<b>Total liabilities</b>	<b>87 522 869</b>
<b>Owners' equity</b>	
Share capital	6 000 075
Reserves	622 106
<b>Total owners' equity</b>	<b>6 622 181</b>
<b>Total liabilities and owners' equity</b>	<b>94 145 050</b>

Financial Statement of Anod Bank as end of December 31, 2003

## INCOME STATEMENT

(MNT in Thousands)

<b>December 31, 2003</b>	
Interest income	11 896 682
Interest expenses	(7 343 548)
<b>Net interest income</b>	
Net fees and commission income	188 840
Net trading income	202 015
Other operating income	53 955
<b>Non interest income</b>	
<b>444 810</b>	
<b>Operating income</b>	
<b>4 997 944</b>	
Operating expenses	(2 503 060)
Impairment losses	(1 633 538)
<b>Profit before taxation</b>	
<b>861 346</b>	
Taxation	(468 010)
<b>Profit after tax</b>	
<b>393 336</b>	
Contribution to social development fund	(39 166)
<b>Net profit for the year</b>	
<b>354 170</b>	





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E-mail: [anod@anodbank.com](mailto:anod@anodbank.com) SWIFT/BIC: ANOD MN UB Reuters: ANOD