CAPITRON BANK

Audited Financial Statements
31 December 2004

CAPITRON BANK LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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CAPITRON BANK LLC

CORPORATE INFORMATION

REGISTERED OFFICE	:	Capitron Bank Building Peace Avenue Ulaanbaatar 21064
BOARD OF DIRECTORS	:	D. Oma G. Odontuul P. Byambasuren Ts. Erdene B. Altankhuyag N. Tsolmon
COMPANY SECRETARY	:	T. Aldarmaa
AUDITORS	:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY DIRECTORS AND EXECUTIVE

We, D. OMA and B. ALTANKHUYAG, being two of the directors of CAPITRON BANK LLC ("the Bank"), and D. OMA, being the director primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 3 to 32 are drawn up in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by the Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended.

**ACTING PRESIDENT & CEO,
VICE PRESIDENT** **D.OMA**

**DIRECTOR OF THE
ACCOUNTING DEPARTMENT** **B.ALTANKHUYAG**

REPORT OF THE AUDITORS

To the Board of Directors of Capitron Bank LLC

We have audited the accompanying financial statements of Capitron Bank LLC as at 31 December 2004 set out on pages 3 to 32. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements have been properly drawn up in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended.

Mongolia Audit Co.

Ulaanbaatar

29 MAR 2005

CAPITRON BANK LLC

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	4,743,656	4,346,729
Interest expense	5	(2,815,083)	(2,598,784)
Net interest income		1,928,573	1,747,945
Non-interest income	6	831,324	271,714
Operating profit		2,759,897	2,019,659
Operating expenses	7	(1,700,087)	(1,139,839)
Profit before allowances		1,059,810	879,820
Allowances	8	(709,160)	(884,095)
Profit/(loss) before taxation		350,650	(4,275)
Taxation	9	(123,749)	-
Net profit/(loss) for the year		226,901	(4,275)

The accompanying notes form an integral part of the financial statements.

CAPITRON BANK LLC

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
ASSETS			
Cash and short term funds	12	4,415,153	1,771,658
Deposits and placements with other banks and financial institutions	13	5,216,653	4,563,056
Investment in securities	14	498,933	1,792,058
Loans and advances	15	23,255,283	17,201,620
Other assets	16	326,510	296,039
Tax recoverable	17	-	35,000
Property, plant and equipment	18	1,013,666	747,563
TOTAL ASSETS		34,726,198	26,406,994
LIABILITIES			
Deposits from customers	19	28,556,745	22,341,185
Loan from a foreign financial institution	20	1,713,097	-
Other liabilities	21	174,973	69,876
Tax payable		58,749	-
TOTAL LIABILITIES		30,503,564	22,411,061
EQUITY			
Statutory fund	22	4,000,000	4,000,000
Retained earnings/(Accumulated loss)		222,626	(4,275)
Social development fund	11	8	208
TOTAL EQUITY		4,222,634	3,995,933
TOTAL EQUITY AND LIABILITIES		34,726,198	26,406,994
OFF BALANCE SHEET ITEMS	26	299,950	372,217

The accompanying notes form an integral part of the financial statements.

CAPITRON BANK LLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Statutory fund MNT'000	Social development fund MNT'000	Retained earnings/ (accumulated loss) MNT'000	Total MNT'000
At 1 January 2003		3,500,000	3	305,941	3,805,944
Net loss for the year		-	-	(4,275)	(4,275)
Dividend	10	-	-	(285,941)	(285,941)
Transfer during the year			20,000	(20,000)	-
Utilised during the year		-	(19,795)	-	(19,795)
Issue of shares		500,000	-	-	500,000
At 31 December 2003		4,000,000	208	(4,275)	3,995,933
Net profit for the year		-	-	226,901	226,901
Utilised during the year		-	(200)	-	(200)
At 31 December 2004		4,000,000	8	222,626	4,222,634

The accompanying notes form an integral part of the financial statements.

CAPITRON BANK LLC

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 MNT '000	2003 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	350,650	(4,275)
Adjustments for :-		
Depreciation of property, plant and equipment	141,924	87,829
Allowance for impairment of other assets	133,478	2,583
Allowance for loan losses	575,682	881,512
Property, plant and equipment written off	6,306	-
Gain on disposal of property, plant and equipment	(9,744)	-
Operating profit before working capital changes	1,198,296	967,649
Increase in operating assets:-		
Loans and advances	(6,629,345)	(6,138,972)
Other assets	(163,949)	(253,623)
Increase/(decrease) in operating liabilities		
Deposits from customers	6,215,560	8,190,096
Deposits and placements of other banks and financial institutions	-	(500,000)
Other liabilities	105,097	40,498
Cash generated from operations	725,659	2,305,648
Tax paid	(30,000)	(35,000)
Net cash flow generated from operating activities	695,659	2,270,648
CASH FLOW FROM INVESTING ACTIVITIES		
Net decrease in investment securities	1,293,125	1,056,637
Proceeds on disposal of property , plant and equipment	31,812	-
Purchase of property, plant and equipment	(436,401)	(414,636)
Net cash flow generated from investing activities	888,536	642,001
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan from a foreign financial institution	1,713,097	-
Social Development Fund utilised	(200)	(19,795)
Increase in statutory fund	-	500,000
Dividends paid	-	(285,941)
Net cash flow generated from financing activities	1,712,897	194,264
Net increase in cash and cash equivalents	3,297,092	3,106,913
Cash and cash equivalents brought forward	6,334,714	3,227,801
Cash and cash equivalents carried forward	9,631,806	6,334,714
Cash and cash equivalents comprises:		
Cash and short term funds	4,415,153	1,771,658
Deposits and placement with other banks and financial institutions	5,216,653	4,563,056
	9,631,806	6,334,714

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 22 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is Capitron Bank Building, Peace Avenue, Ulaanbaatar-210648, Mongolia.

These financial statements of the Bank for the year ended 31 December 2004 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 29 March 2005.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by Bank of Mongolia.

The financial statements have been prepared under the historical cost convention except for the measurement of financial assets and liabilities at fair values, where applicable. 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.

The preparation of financial statements in conformity with International Financial Reporting Standard requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge on current events and actions, actual results ultimately may differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Interest Income and Expense (Contd.)

Interest income is suspended when interest or principal on credit facilities are overdue by more than 90 days. 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 and the loan is reclassified as performing.

(b) Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided. Fees and commission income derived by the Bank relate mainly to loan processing, guarantee, service charges for credit cards and money transfer commission.

(c) Foreign Currencies

Transactions in foreign currencies are initially recorded in Togrog at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Togrog at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange rate differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows:

	2004	2003
United States Dollar	1,209	1,168
Great Britain Pound	2,321	2,073
European Euro	1,647	1,460
Japanese Yen	12	11
Swiss Francs	1,068	936
Chinese Reminbi	146	141

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Loans and Advances and allowance for Loan Impairment

Loans originated by the Bank by providing money directly to the borrower at draw down are categorised as loans and advances. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

Originated loans are stated at amortised cost less allowance for impairment.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan impairment allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related allowance for impairment all recogised as an expense in income statement. Subsequent recoveries are credited to the allowance for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the allowance is credited as a reduction of the allowance for loan losses.

The maturity of the loan portfolio is presented in Note 15 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 where 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 loans at maturity.

(e) Taxation

The Bank provides for current income tax based on its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purpose, in accordance with the regulations of the Mongolian Government and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Taxation (Contd.)

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

(f) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term funds, deposits and placements with other banks and financial institutions.

(g) Investment Securities

All investments are initially recognised at cost (which includes transaction costs). Management determines the appropriate classification of its investments at the time of the purchase. Investment securities with fixed maturity where management has both the intent and the ability to hold for yield or capital growth to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any allowance for impairment. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed or deemed impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (k).

Assets under construction are not depreciated. Depreciation of these assets begins when the related assets are ready for intended use. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful lives as follows:

Buildings	40 years
Furniture, fixtures and vehicles	10 years
Computers	5 years

Upon disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(i) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as availale-for-sale or held-to-maturity securities and the counterparty liability is included in amounts due to other financial instituitions or as appropriate. Securities purchased under agreement to resell ('reverse repos') are recorded as amount due from other financial institutions or as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

(j) Customer Deposits

Deposits from customers are stated at cost which is the fair value of the consideration to be paid in the future for deposits received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) 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.

An impairment loss is charged to the income statement immediately except where relating to revalued assets. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

(l) Employee Benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Fund. Such contributions are recognised as an expense in the income statement as incurred.

(m) Financial Instruments

Financial instruments are recognised in the balance sheet when the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Financial Instruments (Contd.)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Equity Instruments

Statutory fund is classified as equity and dividends are recognised in equity in the period in which they are declared.

4. INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Loans and advances	4,413,872	4,049,511
Deposits and placements with other banks and financial institutions	103,194	58,055
Bank of Mongolia treasury bills	217,971	181,262
Corporate bonds	8,619	57,901
	4,743,656	4,346,729

5. INTEREST EXPENSE

	2004 MNT '000	2003 MNT '000
Deposits from customers	2,793,754	2,567,284
Deposits and placements of other banks and financial institutions	19,864	31,500
Loans from financial institutions	1,465	-
	2,815,083	2,598,784

6. NON-INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Fee and commission income:		
Money transfer service charges	70,242	38,820
Credit cards service charges	33,017	17,340
Loan processing fees and charges	122,994	126,576
Commission on letters of credit and guarantee	2,717	2,593
Other fees income	22,607	17,294
	251,577	202,623
Other income:		
Precious metal gain	21,066	-
Recoveries from loans written off	411,780	-
Realised foreign currencies gain	65,725	39,487
Unrealised foreign currencies gain	41,160	20,773
Gain on disposal of property, plant and equipment	9,744	-
Other operating income	30,272	8,831
	579,747	69,091
Total non-interest income	831,324	271,714

7. OPERATING EXPENSES

	2004 MNT '000	2003 MNT '000
Advertising	70,800	69,566
Business trips	38,097	46,438
Cash collection service	12,545	6,554
Communications	65,870	45,195
Depreciation of property, plant and equipment	141,924	87,829
Entertainment	23,505	7,142
Finance charges	20,699	12,281
Foreign correspondent bank's service charges	20,056	1,034
Loan and collection expenses	56,598	10,972
Maintenance of property, plant and equipment	33,840	82,720
Membership and auditing fees	86,568	82,616
Other operating expenses	14,754	14,576
Property, plant and equipment written off	6,306	-
Rental of premises	340,038	250,820
Security and safety expenses	58,043	29,996
Staff costs - Salaries and wages	407,453	224,886
- Social and health insurance	76,675	45,216
Staff uniform and refreshment	13,957	5,656
Stationery	112,172	58,479
Tender costs	19,542	28,032
Training	22,273	5,123
Transportation and fuel supplies	58,372	24,708
	1,700,087	1,139,839

7. OPERATING EXPENSES (CONTD.)

The total number of persons employed by the Bank at the financial year end was made up as follows:

	2004 Number	2003 Number
Directors and head of departments	12	15
Branch managers	9	7
Officers and clerks	129	85
	150	107
Of which:		
- Head office	92	75
- Branches	58	32
	150	107

8. ALLOWANCES

	2004 MNT '000	2003 MNT '000
Allowance for loan losses	575,682	881,512
Allowance for impairment of other assets	133,478	2,583
	709,160	884,095

9. TAXATION

	2004 MNT '000	2003 MNT '000
Current income tax based on results for the year	123,749	-

9. TAXATION (CONTD.)

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. The income tax rate for profits of banks is 15% for the first MNT100 million of taxable income, and 30% (2004: 40%) on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. The allowance for loan losses is deductible for income tax purposes.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December is as follows:

	2004 **MNT '000**	**2003** **MNT '000**
Profit /(loss) before taxation	350,650	(4,275)
Tax at statutory income tax rate of 30% (2003: 40%)	105,195	(1,710)
Effect of income subject to lower income tax rate	(15,000)	-
Effect of income not subject to tax	-	(1,967)
Effect of expenses not allowable for tax purposes	33,554	3,677
Tax expense for the year	123,749	-

Deferred tax is not provided for in the current and previous financial years as there are no temporary differences.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations.

10. DIVIDENDS

Equity dividends on ordinary shares

	2004 **MNT '000**	**2003** **MNT '000**
Declared and paid in the year	-	285,941
Dividends per share (MNT)	-	82

11. SOCIAL DEVELOPMENT FUND

Social development fund represents funds allocated for the purposes of employees' social and welfare expenses. There is no distribution approved during the year.

12. CASH AND SHORT TERM FUNDS

	2004 MNT '000	2003 MNT '000
Cash and bank balances in local currencies	1,756,120	593,510
Cash and bank balances in foreign currencies	2,659,033	1,178,148
	4,415,153	1,771,658

13. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Balances with Bank of Mongolia	2,867,762	2,763,249
Placements with other banks and financial institutions	2,348,891	1,799,807
	5,216,653	4,563,056

Balances with Bank of Mongolia are maintained in accordance with Bank of Mongolia's requirements and bear no interest. The balances maintained with Bank of Mongolia are determined at set percentages based on 15 days average cash balances.

Placements with other banks and financial institutions represent foreign currencies current accounts maintained with foreign financial institutions, which are generally denominated in United States Dollar ("USD") and bear interest at 3.6% to 15.60% per annum (2003 : 3.6% to 8.25% per annum).

14. INVESTMENT IN SECURITIES

	2004 MNT '000	2003 MNT '000
Securities held-to-maturity:		
Bank of Mongolia treasury bills	496,950	1,203,154
Corporate bonds	-	545,611
	496,950	1,748,765
Accretion of discounts	1,983	43,293
Net securities held-to-maturity	498,933	1,792,058

Bank of Mongolia treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. The effective annual interest rates of these bills range from 3.00% to 15.80% per annum (2003 : 3.95% to 14.46% per annum).

15. LOANS AND ADVANCES

	2004 MNT '000	2003 MNT '000
Term loans	24,645,919	18,111,342
Staff loans	121,257	26,489
Gross loans and advances	24,767,176	18,137,831
Allowance for loan losses		
- specific	(1,288,888)	(773,800)
- general	(223,005)	(162,411)
Net loans and advances	23,255,283	17,201,620
Maturity structure		
Maturing within one year	19,971,520	16,875,400
One to five years	3,283,763	326,220
	23,255,283	17,201,620

Included in loans and advances is accrued interest totalling MNT 219 million (2003: MNT101 million).

Gross loans and advances analysed by their economic purposes are as follows:

	2004 MNT '000	2003 MNT '000
Trading	8,269,012	6,026,732
Processing related industries	4,464,211	4,501,154
Construction	2,386,373	2,199,237
Mining related	1,107,624	1,662,335
Services	1,133,306	1,394,338
Tourism	902,973	51,100
Utilities	8,692	1,238
Financial services	3,821,955	-
Others	2,673,030	2,301,697
	24,767,176	18,137,831

Others include individuals and companies in industries such as agriculture, health, education and consumption.

15. LOANS AND ADVANCES (CONTD.)

Movements in the non-performing loans ("NPLs") are as follows:

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	1,782,771	510,000
NPLs during the year - gross	1,992,183	2,808,420
Recoveries/regularised during the year	(975,398)	(1,234,994)
Amount written off	-	(151,500)
Transferred to other assets	(641,564)	(158,000)
Exchange differences	22,804	8,845
Gross balance at end of year	2,180,796	1,782,771
Less: Specific allowance	(1,288,888)	(773,800)
Net balance at end of year	891,908	1,008,971
Gross NPLs ratio as a percentage of gross total loans	8.8%	9.8%
Net NPLs ratio as a percentage of net total loans	3.8%	5.9%

Movements in the allowance for loan losses are as follows:

	2004 MNT '000	2003 MNT '000
Specific Allowance		
Balance at beginning of year	773,800	73,000
Allowance made during the year	1,127,003	983,719
Amount written back in respect of recoveries	(440,440)	(159,926)
Transferred from general allowance	19,922	28,054
Amount written off	-	(151,500)
Transferred to other assets	(203,555)	-
Exchange difference	12,158	453
Balance at end of year	1,288,888	773,800

	2004 MNT '000	2003 MNT '000
General Allowance		
Balance at beginning of year	162,411	114,380
Allowance made during the year	412,475	304,726
Amount written back in respect of recoveries	(337,114)	(247,007)
Transfer to specific allowance	(19,922)	(28,054)
Exchange difference	5,155	18,366
Balance at end of year	223,005	162,411

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for USD loans amounting to MNT11,896 million (2003: MNT8,280 million). Interest rate ranges from 10.80% to 38.40% (2003 : 18.00% to 38.40%) per annum.

15. LOANS AND ADVANCES (CONTD.)

Loans and advances amounting to approximately MNT22,586 million at 31 December 2004 (2003 : MNT16,355 million) were classified as performing and provided with a 1% loss reserve. Further, loans amounting to MNT2,181 million (2003 : MNT1,783 million) were classified as NPLs for the year and provisions of MNT1,289 million (2003 : MNT1,038 million) have been allocated against these NPLs.

The allowance for loan losses is considered adequate by the management based upon their formal reviews and analyses of existing credits using their knowledge of prevailing and anticipated economic conditions.

16. OTHER ASSETS

	2004 MNT '000	2003 MNT '000
Foreclosed properties	90,520	128,254
Allowance for impairment of foreclosed properties	(55,125)	(1,300)
	35,395	126,954
Other assets	99,020	13,292
Allowance for impairment of other assets	(80,935)	(1,283)
	18,085	12,009
Consumables and other inventories	161,550	91,930
Prepaid expenses	111,480	65,146
	326,510	296,039

The carrying values of the foreclosed properties are based on directors' valuations, taking into consideration estimates of recovery rates and feature of these properties in current conditions.

17. TAX RECOVERABLE

	2004 MNT '000	2003 MNT '000
Tax recoverable	-	35,000

Tax recoverable in prior year represents the excess of tax paid compared to the taxation payable and is subject to the approval from the Mongolian Tax Authority (MTA).

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings MNT '000	Office Equipment & Vehicles MNT '000	Computers MNT '000	Total MNT '000
At cost				
Balance at beginning of year	67,130	469,471	332,251	868,852
Additions	105,000	100,712	230,689	436,401
Disposals	-	(504)	(30,950)	(31,454)
Write-offs	-	(5,222)	(3,766)	(8,988)
Balance at end of year	172,130	564,457	528,224	1,264,811
Accumulated depreciation				
Balance at beginning of year	1,419	51,728	68,142	121,289
Charge for the year	1,803	53,036	87,085	141,924
Disposals	-	(119)	(9,267)	(9,386)
Write-offs	-	(1,387)	(1,295)	(2,682)
Balance at end of year	3,222	103,258	144,665	251,145
Net Book Value				
At 31 December 2004	168,908	461,199	383,559	1,013,666
At 31 December 2003	65,711	417,743	264,109	747,563
Depreciation charge for 2003	1,125	35,215	51,489	87,829

19. DEPOSITS FROM CUSTOMERS

	2004 MNT '000	2003 MNT '000
Current account deposits	4,346,238	2,206,784
Demand deposits	4,288,325	1,989,620
Time deposits	19,877,109	18,143,730
Other deposits	45,073	1,051
	28,556,745	22,341,185

(i) The maturity structure of time deposits is as follows:

	2004 MNT '000	2003 MNT '000
Due within three months	2,487,608	5,715,884
Three months to six months	651,843	5,122,767
Six months to one year	16,737,658	5,363,868
One year to five years	-	1,941,211
	19,877,109	18,143,730

(ii) The deposits are sourced from the following customers:

	2004 MNT '000	2003 MNT '000
Individuals	24,260,062	20,014,844
Business enterprises	4,296,683	2,326,341
	28,556,745	22,341,185

Current account deposits and other deposits generally bear no interest. However, for depositors maintaining current account balances above a prescribed limit, interest is provided at rates of approximately 3.60% to 7.20% (2003: 3.60% to 7.20%) per annum and 1.20% to 3.00% (2003 : 1.20% to 3.00%) per annum for local and foreign currencies account respectively.

Demand deposits are interest bearing and may be withdrawn upon demand. Demand deposits in local currency and foreign currencies bear annual interest rate of 6.00% to 7.20% (2003: 6.00% to 7.20%) per annum and 2.40% to 4.80% (2003 : 4.80%) per annum, respectively.

Time deposits in local currency and foreign currencies bear an annual interest rate ranging from 8.40% to 24.00% (2003: 8.40% to 24.00%) per annum and 4.20% to 18.00% (2003 : 4.20% to 18.00%) per annum, respectively.

20. LOAN FROM A FOREIGN FINANCIAL INSTITUTION

	2004 MNT '000	2003 MNT '000
Loan from Kreditanstalt fuer Wiederaufbau ("KfW")	1,713,097	-

Loan from "KfW"

The loan was obtained via Bank of Mongolia for the purpose of providing financing to various customers at preferential interest rates. The loan is denominated in EURO and the interest rate is fixed at an annual rate of 1.75%, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. The principal repayments on this loan will commence in June 2005 and will be fully repaid by December 2008, on a semi-annual basis in accordance with the repayment schedule for each disbursement made to final borrower.

21. OTHER LIABILITIES

	2004 MNT '000	2003 MNT '000
Payables	39,599	39,219
Interest received in advance	32,140	23,500
Delay on clearing settlement	6,813	5,940
Other payables	96,421	1,217
	174,973	69,876

22. STATUTORY FUND

	Number of Ordinary Shares of MNT 1,000 each		Amount	
	2004	2003	2004 MNT '000	2003 MNT '000
At 1 January	4,000	3,500	4,000,000	3,500,000
Issued during the year	-	500	-	500,000
At 31 December	4,000	4,000	4,000,000	4,000,000

As required by Bank of Mongolia, the Bank would need to raise the minimum statutory fund to MNT 8 billion by the first quarter of 2006. Currently, the Bank is taking active actions to meet with this requirement.

23. FINANCIAL 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 risks 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 collaterals.

Apart from deposits and placements with other banks and financial institutions amounting to MNT 2 billion (2003: MNT 763 million), all the banking assets and liabilities are geographically concentrated in Mongolia.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

23. FINANCIAL 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) and in total.

The Bank's concentration of assets and liabilities are as follows:

As at 31 December 2004	Local Currency MNT'000	Foreign Currencies USD MNT'000	EURO MNT'000	Others MNT'000	Total MNT'000
Assets					
Cash and short term funds	1,756,120	1,729,974	724,011	205,048	4,415,153
Deposits and placements with					-
other banks and financial institutions	972,546	3,415,322	797,328	31,457	5,216,653
Investment in securities	498,933	-	-	-	498,933
Loans and advances	9,660,850	11,891,636	1,696,623	6,174	23,255,283
Other assets	326,510	-	-	-	326,510
	13,214,959	17,036,932	3,217,962	242,679	33,712,532
Liabilities					
Deposits from customers	9,810,663	17,090,071	1,604,475	51,536	28,556,745
Loan from foreign financial institutions	-	-	1,713,097	-	1,713,097
Other liabilities	105,942	43,323	25,708	-	174,973
Tax payable	58,749	-	-	-	58,749
	9,975,354	17,133,394	3,343,280	51,536	30,503,564
Net position	3,239,605	(96,462)	(125,318)	191,143	3,208,968
Other off balance sheet items	230,500	69,090	-	-	299,590

23. RISK MANAGEMENT POLICIES (CONTD.)

As at 31 December 2003	Local Currency MNT'000	◄ Foreign Currencies USD MNT'000	EURO MNT'000	Others MNT'000 ►	Total MNT'000
Assets					
Cash and short term funds	593,510	523,376	278,412	376,360	1,771,658
Deposits and placements with other banks and financial institutions	1,359,389	2,367,379	543,834	292,454	4,563,056
Investment in securities	1,216,662	575,396	-	-	1,792,058
Loans and advances	8,920,678	8,280,942	-	-	17,201,620
Other assets	265,920	30,119	-	-	296,039
Tax recoverable	35,000	-	-	-	35,000
	12,391,159	11,777,212	822,246	668,814	25,659,431
Liabilities					
Deposits from customers	8,994,199	11,096,351	239,044	2,011,591	22,341,185
Other liabilities	6,429	58,212	567	4,668	69,876
	9,000,628	11,154,563	239,611	2,016,259	22,411,061
Net position	3,390,531	622,649	582,635	(1,347,445)	3,248,370
Other off balance sheet items	372,217	-	-	-	372,217

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. The following table analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

23. RISK MANAGEMENT POLICIES (CONTD.)

Liquidity Risk (Contd.)

The contractual maturities of assets and liabilities for the year ended 31 December 2004 are as follows (MNT'000):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and short term funds	4,415,153	-	-	-	-	4,415,153
Deposits and placements with other banks and financial institutions	5,216,653	-	-	-	-	5,216,653
Investment in securities	498,933	-	-	-	-	498,933
Loans and advances	9,484,223	3,311,541	7,014,286	3,445,233	-	23,255,283
Other assets	326,510	-	-	-	-	326,510
	19,941,472	3,311,541	7,014,286	3,445,233	-	33,712,532
Liabilities						
Deposits from customers	11,167,244	651,843	16,737,658	-	-	28,556,745
Deposits and placements of other banks and financial institutions	-	-	-	1,713,097	-	1,713,097
Other liabilities	174,973	-	-	-	-	174,973
Tax payables	58,749	-	-	-	-	58,749
	11,400,966	651,843	16,737,658	1,713,097	-	30,503,564
Net liquidity gap	8,540,506	2,659,698	(9,723,372)	1,732,136	-	3,208,968
Accumulated gap	8,540,506	11,200,204	1,476,832	3,208,968	3,208,968	

23. RISK MANAGEMENT POLICIES (CONTD.)

Liquidity Risk (Contd.)

The contractual maturities of assets and liabilities for the year ended 31 December 2003 are as follows (MNT'000):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and short term funds	1,771,658	-	-	-	-	1,771,658
Deposits and placements with other banks and financial institutions	4,563,056	-	-	-	-	4,563,056
Investment in securities	1,792,058	-	-	-	-	1,792,058
Loans and advances	4,161,865	7,311,416	5,402,119	326,220	-	17,201,620
Other assets	296,039	-	-	-	-	296,039
Tax recoverable	35,000	-	-	-	-	35,000
	12,619,676	7,311,416	5,402,119	326,220	-	25,659,431
Liabilities						
Deposits from customers	9,913,339	5,122,767	5,363,868	1,941,211	-	22,341,185
Other liabilities	69,876	-	-	-	-	69,876
	9,983,215	5,122,767	5,363,868	1,941,211	-	22,411,061
Net liquidity gap	2,636,461	2,188,649	38,251	(1,614,991)	-	3,248,370
Accumulated gap	2,636,461	4,825,110	4,863,361	3,248,370	3,248,370	

23. 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 Liabilites Management Committee. The Bank's interest rates in 2004 and 2003 for monetary financial instruments are as follows:

	2004		**2003**	
	MNT %	**Foreign Curency %**	**MNT %**	**Foreign Currency %**
Interest earning assets				
Deposits and placements with other banks and financial institutions	12.00 - 14.40	3.60 - 15.60	12.00 - 13.20	3.60 - 8.25
Bank of Mongolia treasury bills	3.00 - 15.80	-	3.95 - 14.46	-
Corporate bonds	-	-	20.40 - 21.60	-
Loans and advances	13.00 - 38.40	10.80 - 34.80	22.80 - 38.40	18.00 - 34.80
Interest bearing liabilities				
Current account deposits	3.60 - 7.20	1.20 - 3.00	3.60 - 7.20	1.20 - 3.00
Demand deposits from customers	6.00 - 7.20	2.40 - 4.80	6.00 - 7.20	4.80
Time deposits from customers	8.40 - 24.00	4.20 - 18.00	8.40 - 24.00	4.20 - 18.00
Deposits and placements of other banks and financial institutions	14.00 - 16.00	8.00	-	-

24. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at at the year end, and relating expense for the year are listed below.

As at 31 December, balances and transactions with related parties was with a shareholder, Petrovis LLC , as follows:

	2004 MNT '000	2003 MNT '000
a) Loans and advances	193,440	175,200
b) Deposits from customers	447,387	32,620
c) Rental of premises	265,598	227,520

Directors' Remuneration

The executive directors received remuneration totalling MNT40.1 million (2003 : MNT42.4 million). The non-executive directors received fees totalling MNT30.4 million (2003 : MNT21.6 million).

25. CAPITAL ADEQUACY

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.

25. CAPITAL ADEQUACY (CONTD.)

The capital adequacy ratios of the Bank as at 31 December are as follows:

	2004	2003
Core capital ratio	16.66%	20.67%
Risk weighted capital ratio	16.66%	20.67%

	2004 MNT '000	2003 MNT '000
Tier I capital		
Statutory fund	4,000,000	4,000,000
Retained earnings/(accumulated losses)	222,626	(4,275)
Total Tier I Capital	4,222,626	3,995,725
Tier II Capital		
Social Development Fund	8	208
Total capital base	4,222,634	3,995,933

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

	2004 MNT '000		2003 MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	7,781,849	-	5,786,570	-
10	-	-	-	-
20	2,348,890	469,778	1,799,806	359,961
50	-	-	-	-
100	24,873,736	24,873,736	18,968,619	18,968,619
Total	35,004,475	25,343,514	26,554,995	19,328,580

26. COMMITMENTS AND OFF BALANCE SHEET ITEMS

	2004 MNT '000	2003 MNT '000
Off balance sheet items	299,950	372,217

The off balance sheet items comprise non-performing loans written off and the interest suspended.

27. CONTINGENT LIABILITY

On 27 December 2004, a local Bank filed an action for reference to the court against the Bank for failing to transfer USD30,000 (approximately MNT 36.27 million) earlier in the year. Based on internal legal advice sought, the directors are of the opinion that no liability has become enforceable or is likely to become enforceable on the Bank in connection with the claim.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2004 and 2003 are short term in nature with maturities of less than one year. Based on fair value assessment as indicated above, the estimated fair values of those financial assets and financial liabilities, both short and long term as at the balance sheet date, approximate their carrying amounts as shown in the balance sheet.

29. CURRENCY

All amounts are in Mongolian Togrog unless otherwise stated.

30. 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.