

GOLOMT BANK OF MONGOLIA

Audited Financial Statements

31 December 2002

## **AUDITORS' REPORT**

### **To Golomt Bank of Mongolia**

We have audited the financial statements of Golomt Bank of Mongolia on pages 3 to 34.

### **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 Golomt Bank of Mongolia have been prepared to comply with International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, which have been prepared on the basis set out in the financial statements, present fairly the state of affairs of the Bank as at 31 December 2002 and of the profit or loss for the year to that date.

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 note 3 and note 4 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 3 and note 4.

## **Opinion**

In our opinion, the financial statements on pages 3 to 34 present fairly, in all material respects, the financial position of Golomt 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.

*Sent + Yang Mongol Amair G.*

A circular stamp of Golomt Bank of Mongolia. The outer ring contains the text "GOLMOT BANK OF MONGOLIA" at the top and "Ulaanbaatar" at the bottom. In the center, there is a stylized logo consisting of three horizontal bars of varying lengths, with the letters "GB" below it.

4 March 2003  
Ulaan Baatar

**GOLOMT BANK OF MONGOLIA**

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

	Note	2002 MNT '000	2001 MNT '000
Interest and similar income	5	6,820,549	4,613,055
Interest expense and similar charges	6	<u>(3,807,522)</u>	<u>(2,289,708)</u>
<b>Net interest income</b>		3,013,027	2,323,347
Fees and commissions	7	1,478,576	1,056,536
Foreign exchange and translation gains, net of losses	8	378,207	314,753
Other operating income	9	116,476	67,783
<b>Non interest income</b>		<u>1,973,259</u>	<u>1,439,072</u>
<b>Operating profit</b>		4,986,286	3,762,419
Operating expense	10	<u>(2,306,321)</u>	<u>(2,060,221)</u>
<b>Profit before provisions</b>		2,679,965	1,702,198
Provision for loan losses	11	<u>(1,255,440)</u>	<u>(1,050,078)</u>
<b>Profit before taxation</b>		1,424,525	652,120
Taxation	12	<u>(604,549)</u>	<u>(267,002)</u>
<b>Profit after taxation</b>		819,976	385,118
<b>Retained profits brought forward</b>		<u>798,404</u>	<u>413,286</u>
<b>Profit available for distribution</b>		1,618,380	798,404
Dividends	13	-	-
<b>Retained profits carried forward</b>		<u><u>1,618,380</u></u>	<u><u>798,404</u></u>

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

**GOLOMT BANK OF MONGOLIA****BALANCE SHEET AS AT 31 DECEMBER 2002**

		<b>2002</b>	<b>2001</b>
	<b>Note</b>	<b>MNT '000</b>	<b>MNT '000</b>
<b>ASSETS</b>			
Cash and short term funds	14	10,364,509	6,712,852
Deposits and placements			
with other financial institutions	15	22,650,267	8,300,189
Investment in securities	16	10,695,667	6,494,260
Loans and advances	17	32,337,372	22,910,564
Other assets	18	1,011,673	899,596
Property, plant and equipment	19	2,245,312	1,945,060
<b>TOTAL ASSETS</b>		<b>79,304,800</b>	<b>47,262,521</b>
<b>LIABILITIES AND CAPITAL FUNDS</b>			
Deposits from customers	20	64,192,497	37,943,745
Deposit and placements			
of other financial institutions	21	893,795	92,570
Government loan -	22	170,000	-
Loans from foreign financial institutions	23	6,745,374	4,242,036
Government deposits	24	880,897	1,612,209
Other liabilities	25	720,627	501,857
<b>TOTAL LIABILITIES</b>		<b>73,603,190</b>	<b>44,392,417</b>
<b>CAPITAL FUNDS</b>			
Statutory fund	26	4,083,230	2,071,700
Retained earnings		1,618,380	798,404
<b>TOTAL CAPITAL FUNDS</b>		<b>5,701,610</b>	<b>2,870,104</b>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<b>79,304,800</b>	<b>47,262,521</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	27	<b>951,335</b>	<b>346,195</b>

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

**GOLOMT BANK OF MONGOLIA**

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

	<b>Statutory Fund MNT '000</b>	<b>Retained earnings MNT '000</b>	<b>Total MNT '000</b>
At 1 January 2001	2,071,700	413,286	2,484,986
Profit for the year	-	385,118	385,118
At 31 December 2001	<u>2,071,700</u>	<u>798,404</u>	<u>2,870,104</u>
Issue of shares	2,011,530	-	2,011,530
Profit for the year	-	819,976	819,976
At 31 December 2002	<u><u>4,083,230</u></u>	<u><u>1,618,380</u></u>	<u><u>5,701,610</u></u>

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

**GOLOMT BANK OF MONGOLIA**

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

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	1,424,525	652,120
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	282,008	306,749
Provisions for loan losses less write back	1,255,440	1,050,078
Property, plant and equipment written off	18,523	-
Gain on disposal of property, plant and equipment	(21,351)	(1,039)
Interest accrued on government securities	(6,825)	(1,323)
Accretion on discount	-	(115,270)
<b>Operating profit before working capital changes</b>	<u>2,952,320</u>	<u>1,891,315</u>
<i>(Increase) / Decrease in operating assets:-</i>		
Loans and advances	(10,682,248)	(11,457,583)
Other assets	(119,163)	(555)
<i>Increase / (Decrease) in operating liabilities</i>		
Deposits from customers	26,248,752	11,476,857
Deposits and placements of other financial institutions	801,225	86,175
Government deposits	(731,312)	(109,630)
Other liabilities	260,126	328,866
<b>Cash generated from /(used in) operation</b>	<u>18,729,700</u>	<u>2,215,445</u>
Income tax paid	(645,906)	(216,168)
<b>Net cash flow from operating activities</b>	<u>18,083,794</u>	<u>1,999,277</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net (Increase) / Decrease in investment securities	(4,194,582)	(5,353,497)
Proceeds on disposal of property, plant and equipment	59,196	62,180
Purchase of property, plant and equipment	(631,541)	(381,208)
<b>Net cash flow from investing activities</b>	<u>(4,766,927)</u>	<u>(5,672,525)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Increase / (Decrease) in loans from government and foreign financial institutions	2,673,338	3,254,631
Increase in statutory fund	2,011,530	-
<b>Net cash flow from financing activities</b>	<u>4,684,868</u>	<u>3,254,631</u>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>	18,001,735	(418,617)
<b>Cash and cash equivalents brought forward</b>	15,013,041	15,431,658
<b>Cash and cash equivalents carried forward</b>	<u>33,014,776</u>	<u>15,013,041</u>

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

**GOLOMT BANK OF MONGOLIA**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)**

	<b>Note</b>	<b>2002 MNT '000</b>	<b>2001 MNT '000</b>
Cash and cash equivalents are represented by the following items in the balance sheet:			
Cash and short term funds	14	10,364,509	6,712,852
Deposits and placement with other financial institutions	15	22,650,267	8,300,189
		<u>33,014,776</u>	<u>15,013,041</u>

Included in the cash and cash equivalents are cash cover accounts amounting to MNT140 million deposited for the purpose of securing an irrevocable letter of credit on behalf of the customer.



# **GOLOMT BANK OF MONGOLIA**

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

### **1. CORPORATE INFORMATION**

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 3 March 2003.

Golomt Bank of Mongolia commenced operations in 1995. The registered address of the Bank is Sukhbaatar Square 3, Ulaanbaatar 210620A, Mongolia.

### **2. PRINCIPAL ACTIVITIES**

The principal activity of the Bank is the provision of banking and finance services, pursuant to License No. 8 issued by the Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

### **3. BASIS OF PREPARATION**

The Bank's financial statements have been prepared so as to present fairly the state of affairs of the Bank, and its profits or loss, cash flows and total recognized 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.

In 2002, the Bank adopted IAS 39 "Financial Instrument: Recognition and Measurement". Further information is disclosed in the accounting policies and related notes.

Golomt 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.

#### 4. 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 any case, interest is suspended when repayments are in arrears for 3 months. On commencement of suspension, previously accrued interest not received is claw-backed. 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

Fee income and commissions are accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

##### (c) 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 liability, or on the date 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 profit and loss account.

The principal exchange rates used are:-

	2002	2001
US Dollar ("USD")	1,125.00	1,102.00
Deutsche Mark ("DEM")	-	497.80
Pound Sterling ("GBP")	1,804.00	1,598.60
EURO	1,169.40	973.60
Japanese Yen ("JPY")	9.38	8.39
Swiss Francs ("CHF")	804.00	657.30

**(d) Provision for Loan Loss**

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 recovered) during the year is charged against the profit and loss account.

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

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

**(e) 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.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and bank balances and short term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**(g) Investment Securities**

Bank of Mongolia bills are stated at cost face value adjusted for amortisation of discount to maturity date on a straight line basis. Other investment securities such as Government securities, bills of exchange and shares in companies are stated at cost and provision is made when the Directors consider that there is a permanent diminution in value of such investments.

**(h) Maturity of Loans and Advances**

The maturity of the loan portfolio is presented in Note 17 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 Mongolia 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.

**(i) Deposits of Customers and Other Financial Institutions**

Deposits of customers are initially recognised at cost. Subsequently, for time deposits with terms over one month, amounts due are stated at amortised cost and any differences between net proceeds and the redemption value is recognised in the profit and loss account over the term of the deposits using the effective yield method.

**(j) 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.

**(k) Property, Plant and Equipment**

The Bank's property, plant and equipment are stated at cost, or at revalued amount, less depreciation calculated on the straight line basis, to write off the assets over their estimated useful lives.

The estimate useful lives used by the Bank are as follows :-

	<b>2002</b>	<b>2001</b>
Building	40 years	40 years
Furniture & fixtures, office equipment and vehicles	2 - 10 years	2 - 10 years
Computers	4 - 10 years	4 - 10 years

Capital work in progress are not depreciated. Depreciation of these assets begins when the related assets are placed in service.

**(l) Assets Under Lease**

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms. Such leased assets are subject to depreciation consistent with that for depreciable assets which are owned.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to profit and loss account as incurred.

### **(m) 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 of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

### **(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) 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.

## **5. INTEREST AND SIMILAR INCOME**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Loans and advances	6,067,837	3,753,680
Deposits and placements with foreign financial institutions	196,774	296,153
Treasury bills	477,622	514,333
Placement with Bank of Mongolia	20,765	42,555
Government bonds and securities	32,814	5,829
Interbank market loans	24,119	505
Others	618	-
	<hr/>	<hr/>
	<b>6,820,549</b>	<b>4,613,055</b>

## 6. INTEREST EXPENSE AND SIMILAR CHARGES

	2002 MNT '000	2001 MNT '000
Current account deposits	163,072	118,661
Time and saving account deposits	3,188,408	1,983,659
Loans from foreign banks	455,269	167,237
Others	773	20,151
	<u>3,807,522</u>	<u>2,289,708</u>

## 7. FEES AND COMMISSIONS

	2002 MNT '000	2001 MNT '000
Current account withdrawals	378,462	441,112
Bank drafts	81,380	76,024
Corporate credit cards	500,792	186,277
Money transfers	203,215	61,183
Others	314,727	291,940
	<u>1,478,576</u>	<u>1,056,536</u>

Others include fees and commissions earned from loan processing and issuance of guarantees.

## 8. FOREIGN EXCHANGE AND TRANSLATION GAINS, NET OF LOSSES

	2002 MNT '000	2001 MNT '000
Net foreign currency transaction gains	162,227	409,460
Net foreign currency translation gains / (losses)	215,980	(94,707)
	<u>378,207</u>	<u>314,753</u>

## 9. OTHER OPERATING INCOME

	2002 MNT '000	2001 MNT '000
Rental income	50,183	33,304
Other income	66,293	34,479
	<u>116,476</u>	<u>67,783</u>

## 10. OPERATING EXPENSE

	2002 MNT '000	2001 MNT '000
Salaries and retirement benefits, and provision for staff welfare and bonus	550,998	650,859
Depreciation	282,008	306,749
Travelling	178,722	157,862
Rental of premises	227,024	226,078
Entertainment	12,982	16,538
Advertising	64,829	51,516
Communication	172,218	145,560
Safety expenses	24,466	15,554
Service charges	350,724	227,323
Stationery	79,661	59,863
Other operating expenses	362,689	202,319
	<u>2,306,321</u>	<u>2,060,221</u>

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

	2002	2001
Directors and heads of departments	22	13
Officers	164	102
Clerks etc.	27	75
	<u>213</u>	<u>190</u>
Of which:		
- Head office	110	81
- Branches	103	109
	<u>213</u>	<u>190</u>

## 11. PROVISIONS

	2002 MNT '000	2001 MNT '000
Provision for loan losses	<u>1,255,440</u>	<u>1,050,078</u>

## 12. TAXATION

	2002 MNT '000	2001 MNT '000
Current income tax	<u>604,549</u>	<u>267,002</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.

## 13. DIVIDENDS

No dividend was declared for the year.

## 14. CASH AND SHORT TERM FUNDS

	2002 MNT '000	2001 MNT '000
Balances with Bank of Mongolia	6,549,949	3,148,002
Cash and bank balances	3,814,560	3,564,850
	<u>10,364,509</u>	<u>6,712,852</u>

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



**15. DEPOSITS AND PLACEMENTS WITH  
OTHER FINANCIAL INSTITUTIONS**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Foreign financial institutions	20,961,450	7,369,476
Local financial institutions	1,688,817	930,713
	<u>22,650,267</u>	<u>8,300,189</u>

These represent foreign currency current accounts and savings accounts maintained with foreign and local financial institutions. Current accounts with foreign financial institutions are generally denominated in US Dollars and EURO and bear interest at annual rates ranging from 0.25% to 1.25% (2001 : 1.2% to 3.2%), while that with local financial institutions bear no interest. Savings accounts with foreign financial institutions are generally denominated in US Dollars and EURO and bear interest at annual rates ranging from 1.0% to 2.15% (2001 : 1% to 6.4%).

**16. INVESTMENT IN SECURITIES**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Bank of Mongolia bills	10,538,842	6,127,668
Corporate Bonds	156,825	251,322
	<u>10,695,667</u>	<u>6,378,990</u>
Accretion of discounts	-	115,270
	<u>10,695,667</u>	<u>6,494,260</u>

Bank of Mongolia bills are short term bills with maturities of less than one month, and are issued at a discount to the fair value of the bills upon maturity. The discount rates are in the range of 7.99% to 11.98% (2001 : 6.6% to 13.5%).

Included in the Corporate Bonds are interest receivable amounting to MNT6.8 million (2001 : MNT1.3 million).

## 17. LOANS AND ADVANCES

	2002 MNT '000	2001 MNT '000
Short term loans	29,873,407	22,627,411
Term loans	4,830,210	2,602,496
Credit cards	834,111	503,457
Staff loans	215,541	59,370
	<hr/>	<hr/>
Accrued interest	499,431	168,573
	<hr/>	<hr/>
Gross loans and advances	36,252,700	25,961,307
Provisions		
- specific provision	(3,624,774)	(2,857,463)
- general provision	(290,554)	(193,280)
	<hr/>	<hr/>
	(3,915,328)	(3,050,743)
	<hr/>	<hr/>
Net loans and advances	<u>32,337,372</u>	<u>22,910,564</u>
<b>Maturity structure</b>		
Maturing within 1 year	31,221,424	23,137,691
One year to five years	1,791,461	1,750,641
over 5 years	3,239,815	1,072,975
	<hr/>	<hr/>
	<u>36,252,700</u>	<u>25,961,307</u>

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

	2002 MNT '000	2001 MNT '000
Trade	13,589,088	8,396,872
Manufacturing	15,865,531	14,668,025
Mining related	4,838,150	2,316,055
Purchasing	1,187,527	575,161
Financing	133,150	-
Others	639,254	5,194
	<hr/>	<hr/>
	<u>36,252,700</u>	<u>25,961,307</u>

Others are mainly consisting of staff loans and personal loans.

## 17. LOANS AND ADVANCES (CONT'D)

Non-performing loans are as follows:-

	2002 MNT '000	2001 MNT '000
Gross non performing loans as at 31 December	6,099,950	5,054,748
As a percentage of gross loans and advances	17%	19%
Total net non-performing loans	2,475,175	2,205,759
As a percentage of total net loans	8%	10%

Movements in the provision for bad and doubtful debts accounts are as follows:-

	2002 MNT '000	2001 MNT '000
<b>Specific Provisions</b>		
Balance as at 1 January	2,857,463	1,302,485
Charge for the year less write backs (Written off)/Written back	1,162,240 (395,519)	1,534,379 19,647
Exchange difference	590	952
	<hr/>	<hr/>
Balance as at 31 December	<u>3,624,774</u>	<u>2,857,463</u>
<b>General Provisions</b>		
Balance as at 1 January	193,280	677,514
Charge/(Writeback) for the year	93,200	(484,300)
Exchange difference	4,074	66
	<hr/>	<hr/>
Balance as at 31 December	<u>290,554</u>	<u>193,280</u>
<b>Total Provisions</b>		
Balance as at 1 January	3,050,743	1,979,999
Charge for the year less write backs (Written off)/Written back	1,255,440 (395,519)	1,050,079 19,647
Exchange difference	4,664	1,018
	<hr/>	<hr/>
Balance as at 31 December	<u>3,915,328</u>	<u>3,050,743</u>

## 17. LOANS AND ADVANCES (CONT'D)

Specific and general provisions of MNT3.9 billion (2001 : MNT3 billion) have been allocated against the NPLs, which represents a coverage ratio of approximately 64% (2001 : 60%) of the total NPL amount.

The current practice of the Bank is to base the level of specific provisions on an evaluation of each customer's present situation and the level of general provision on an evaluation of the present situation of the Bank's entire performing loans and advances portfolio. 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 Directors based upon their formal review and analysis of existing credits using their knowledge of prevailing economic conditions.

## 18. OTHER ASSETS

	2002 MNT '000	2001 MNT '000
Prepaid expenses	479,918	478,272
Consumables and other inventory	124,037	147,103
Receivables	156,357	10,234
Land held for sale	239,797	238,374
Other receivables	11,564	25,613
	<hr/>	<hr/>
	<u>1,011,673</u>	<u>899,596</u>

**19. PROPERTY, PLANT AND EQUIPMENT**

In MNT'000	Buildings		Leasehold improvements		Office equipment and vehicles		Capital work in progress		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Balance at beginning of year, net of accumulated depreciation	926,120	1,030,389	23,752	27,145	931,600	875,066	63,588	244,838	1,945,060	2,177,438
Additions	-	-	-	-	374,521	274,192	257,020	57,124	631,541	331,316
Disposals	-	(10,000)	-	-	(37,845)	(51,141)	-	-	(37,845)	(61,141)
Transfer	-	(37,887)	-	-	42,173	87,779	(31,128)	-	11,045	49,892
Depreciation	(15,544)	(56,382)	(3,054)	(3,393)	(263,410)	(246,974)	-	-	(282,008)	(306,749)
Expensed off	-	-	-	-	(2,752)	-	(15,771)	-	(18,523)	-
Transfer to other assets	-	-	-	-	-	(7,322)	(3,958)	(238,374)	(3,958)	(245,696)
Balance at end of year, net of accumulated depreciation	910,576	926,120	20,698	23,752	1,044,287	931,600	269,751	63,588	2,245,312	1,945,060
Property, plant and equipment										
At cost	1,007,494	1,007,494	30,538	30,538	1,638,021	1,459,161	269,751	63,588	2,945,804	2,560,781
Accumulated depreciation	(96,918)	(81,374)	(9,840)	(6,786)	(593,734)	(527,561)	-	-	(700,492)	(615,721)
Net carrying amount	910,576	926,120	20,698	23,752	1,044,287	931,600	269,751	63,588	2,245,312	1,945,060

## 20. DEPOSITS FROM CUSTOMERS

	2002 MNT '000	2001 MNT '000
Current accounts	20,980,163	8,988,078
Savings deposits	14,285,001	9,485,132
Time deposits	28,245,878	19,097,517
Other deposits	681,455	373,018
	<u>64,192,497</u>	<u>37,943,745</u>

Current account generally bears no interest, however for depositors maintaining a balance above a prescribed limit, interest is provided at annual rates of approximately 1.2% and between 3% to 3.6% for foreign currency and local currency current accounts respectively.

Foreign currency saving deposits bear interest at an annual rate of approximately 3.6%, while local currency saving deposits at approximately 7.2%.

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate of approximately 7.2%, while for local currency time deposits, at a range of approximately 12% to 14.4%.

## 21. DEPOSIT AND PLACEMENTS OF OTHER FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Foreign currency current deposits	153,383	92,570
Local currency current deposits	40,412	-
Repurchase agreement	700,000	-
	<u>893,795</u>	<u>92,570</u>

Foreign currency demand deposits are placed by local commercial banks, and generally bear no interest.

The repurchase agreement represents an agreement entered into by the Bank with Savings Bank to repurchase Bank of Mongolia Treasury Bills sold to Savings Bank at a specified date.

## 22. GOVERNMENT LOAN

	2002 MNT '000	2001 MNT '000
Loan from government	<u>170,000</u>	<u>-</u>

The government loan was granted to the Bank to promote the creation of employment. The interest rate of the loan is fixed at 0.5% per month or 6% per annum with each drawdown is repayable within one year.

## 23. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Loans from international organisations	<u>6,745,374</u>	<u>4,242,036</u>

Included here are borrowings from Berliner Bank and World Bank, with the latter obtained via the Ministry of Finance and Economy. As at 31 December 2002, the Berliner Bank loan balance amounts to EUR339 thousand or MNT395 million (2001 : DEM674 thousand or MNT335 million), while the World Bank USD and MNT loan balance stands at USD3.02 million or MNT3.4 billion (2001 : USD2.2 million or MNT2.4 billion) and MNT1.8 billion (2001 : MNT668 million) respectively.

Also included here is borrowing from Asian Development Bank (ADB), which was obtained via Bank of Mongolia. As at 31 December 2002, the loan balance amounts to MNT1.02 billion (2001 : MNT786 million).

The Berliner Bank loan is used to finance the purchase of a building in Germany in prior years. The interest rate of the loan is 7.45% per annum. The Bank has commenced principal repayments in June 1996 and the final repayment is due in September 2025.

A portion of the World Bank loan is used to provide financing to various customers at preferential interest rates. As at 31 December 2002, the loan balance of these ultimate borrowers amounted to USD2.8 million or MNT3.1 billion (2001 : USD2 million or MNT2.2 billion) and MNT1.9 billion (2001 : MNT669 million).

The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan is variable and calculated on the LIBOR 6 months USD rate + 3% p.a. on commercial bank's risk. The interest level is fixed on 3 month base, set on LIBOR rate of the first date of June, December, September and March of each following year. These fixed rates are determined by the Counterpart Working Group at the Ministry of Finance and Economy and the commercial banks participating in the implementation of the credit programme. Principal payments on this loan commenced in February 2002, and the final repayment will be due in July 2009.

### 23. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS (CONT'D)

The balance of the World Bank loan is utilised to finance technical assistance and consultancy on the Bank's operations. The interest rate of the loan is fixed at 2% per year with principal repayment commencing on November 2004 and final repayment due in May 2019.

The ADB loan is used to provide financing to various customers under the Employment Generation Scheme. The interest rate of the loan is fixed at 10% per annum with principal repayment commencing on February 2002. The loan principal repayment has been extended until August 2003.

### 24. GOVERNMENT DEPOSITS

	<b>2002</b> <b>MNT '000</b>	<b>2001</b> <b>MNT '000</b>
Government deposits	<u>880,897</u>	<u>1,612,209</u>

The Government deposits bear interest at annual rates ranging from 3% to 3.6% (2001 : 3% to 14.4%).

### 25. OTHER LIABILITIES

	<b>2002</b> <b>MNT '000</b>	<b>2001</b> <b>MNT '000</b>
Foreign remittance under request	59,205	62,593
Delay on clearing settlement	435,898	253,123
Other payable	188,276	107,536
Provision for tax	37,248	78,605
	<u>720,627</u>	<u>501,857</u>

### 26. STATUTORY FUND

	<b>2002</b> <b>MNT '000</b>	<b>2001</b> <b>MNT '000</b>
At beginning of the year	2,071,700	2,071,700
Issued during the year	2,011,530	-
	<u>4,083,230</u>	<u>2,071,700</u>



## 26. STATUTORY FUND (CONT'D)

According to banking regulations existing as at 31 December 2001, all commercial banks are required to maintain a minimum statutory fund of MNT4 billion by March 2004. The Bank has maintained a statutory fund of approximately MNT4 billion as of 31 December 2002.

The increase in statutory fund was made via cash consideration of MNT2.01 billion from Bodi International Co. Ltd.

As at 31 December 2002, the statutory fund is wholly owned by Bodi International Co. Ltd.

## 27. COMMITMENTS AND CONTINGENCIES

### a) Financial 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
Outstanding letter of credits	206,099	27,339
Lease commitments	738,458	250,396
Other commitments	6,778	68,460
	<u>951,335</u>	<u>346,195</u>

As at 31 December 2002, the Bank has three outstanding letters of credit, which is not fully collateralised.

Other contingencies include interest receivable on non performing loan as well as others.

### b) Lease commitments

The Bank has lease commitments in respect of various office premises, all of which are classified as operating leases, and payable in the next twelve months. A summary of these leases is as follows:-

	2002 MNT '000	2001 MNT '000
Expiring in the first year	<u>108,594</u>	<u>144,070</u>
Expiring in the second to fifth year	<u>308,382</u>	<u>61,056</u>
Expiring after fifth year	<u>321,482</u>	<u>45,270</u>

## 27. COMMITMENTS AND CONTINGENCIES (CONT'D)

### c) Foreign exchange commitments and derivatives

In the normal course of business, the Bank enters into foreign currency exchange contracts with third parties. As at 31 December 2002, the Bank has two open positions on foreign currency exchange forward contracts worth approximately MNT4.69 billion (2001 : MNT6.24 billion).

The first foreign currency exchange forward contract has been closed off with the same counterpart at maturity date at no loss to the Bank. The Bank has long open position on the second forward contract and has not made any provision for losses as at balance sheet date.

### d) Capital Commitments

As at the 31 December 2002 and 2001, the Directors have not authorised any capital commitments of significance.

## 28. CAPITAL ADEQUACY

The Bank of Mongolia requires commercial banks to maintain a capital adequacy ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. As at 31 December 2002, the Bank has a core capital ratio of 13.82% (2001 : 10.37%) and risk weighted capital ratio of 14.53% (2001 : 11.07%), as computed below:

	<b>2002</b> <b>MNT '000</b>
<u>Tier I capital</u>	
Statutory fund	4,083,230
Profit and loss account	1,618,380
	<hr/>
Total Tier I Capital	5,701,610
<u>Tier II capital</u>	
General reserve for bad and doubtful debts	290,554
	<hr/>
Total capital/capital base	<u><u>5,992,164</u></u>

## 28. CAPITAL ADEQUACY (CONT'D)

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

	<b>2002</b> <b>MNT '000</b>
%	
0	20,716,714
10	-
20	23,029,857
50	13,146
100	36,638,362
<b>Total</b>	<b>80,398,079</b>
<b>2002</b>	
Core capital ratio	<b>13.82%</b>
Risk weighted capital ratio	<b>14.53%</b>
<b>2001</b>	
Core capital ratio	10.37%
Risk weighted capital ratio	11.07%

## 29. TRANSACTIONS WITH RELATED PARTIES

The bank has the following related parties:-

<u>Name</u>	<u>Industry</u>	<u>Relationship with the Bank</u>
Bodi International Co. Ltd.	Investment holding	Holds 100% interest in the Bank
Bodi Insurance Co. Ltd.	Financing	100% owned by Bodi International

As at 31 December, balances with related parties included:

	<b>2002</b> <b>MNT '000</b>
a) Deposits of:	
Bodi Insurance Co. Ltd.	238,030
Bodi International Co. Ltd.	147
	<b>238,177</b>

Interest on related party deposits are charged according to commercial rates.

## 29. TRANSACTIONS WITH RELATED PARTIES (CONT'D)

	2002 MNT '000
b) Purchase of computers from:	
Bodicom Co. Ltd.	8,481
Smartcard Co. Ltd.	42,696
Bodi Computer Co. Ltd.	45,549
MPC Co. Ltd.	123,883
	<hr/>
	<u>220,609</u>

	2002 MNT '000
c) Purchase of motor vehicle from:	
Bodi Automotive Co. Ltd.	15,456
	<hr/>
	<u>15,456</u>

	2002 MNT '000
d) Rental of garage to:	
Bodicom Co. Ltd.	607
Smartcard Co. Ltd.	607
MPC Co. Ltd.	607
Bodi Insurance Co. Ltd.	607
EBG Properties Co. Ltd.	607
	<hr/>
	<u>3,035</u>

- e) Lease agreement with Bodi International Co. Ltd.

The Bank has moved its Head Office to a new building located at Sukhbaatar Square 3, Ulaanbaatar Mongolia. The building is owned by the ultimate holding company, Bodi International Co. Ltd.. The Board of Directors has principally agreed with the ultimate holding company to offset the rental of the Head Office with the land costs amounting to MNT240 million included in Other Assets.

- f) Loans to directors and staff

During the year, the Bank had granted loans to its directors and staff for the purchase of apartments and the usage of credit cards which amounted to approximately MNT216 million (2001: MNT 59.4 million).

### **30. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit risk, 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 level 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 risk 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 the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral on and corporate and personal guarantees.

**30. RISK MANAGEMENT POLICIES (CONT'D)**

**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 flows obligations as they become due.

The contractual maturities of monetary assets and liabilities as at 31 December 2002 are as follows:

<b>Assets</b>	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and short term funds	10,364,509	-	-	-	-	10,364,509
Deposits and placements with other financial institutions	11,639,101	575,151	8,075,068	2,360,947	-	22,650,267
Investment in securities	10,545,667	150,000	-	-	-	10,695,667
Loans and advances	6,151,180	5,911,078	11,677,674	8,488,761	108,679	32,337,372
Other assets	1,011,673	-	-	-	-	1,011,673
Property, plant and equipment	370	2,207	28,654	622,367	1,591,714	2,245,312
<b>Liabilities</b>						
Deposits from customers	32,096,248	19,257,750	12,838,499	-	-	64,192,497
Deposit and placements of other financial institutions	893,795	-	-	-	-	893,795
Government loan	-	170,000	-	-	-	170,000
Loans from foreign financial institutions	315,210	635,147	367,882	4,122,653	1,304,482	6,745,374
Government deposits	281,887	599,010	-	-	-	880,897
Other liabilities	720,627	-	-	-	-	720,627
<b>Net position</b>	<b>5,404,733</b>	<b>(14,023,471)</b>	<b>6,575,015</b>	<b>7,349,422</b>	<b>395,911</b>	<b>5,701,610</b>
<b>Accumulated gap</b>	<b>5,404,733</b>	<b>(8,618,738)</b>	<b>(2,043,723)</b>	<b>5,305,699</b>	<b>5,701,610</b>	<b>5,701,610</b>

### 30. RISK MANAGEMENT POLICIES (CONT'D)

#### 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 interest income will increase or decrease as a result of movements in interest rates. The Bank's expected reprising 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 policies are reviewed on a regular interval basis. The Bank's average effective interest rates as of 31 December 2002 for monetary financial instruments are as

	2002	
	MNT	Foreign Currency
<b>Interest earning assets</b>		
Placements with other banks	-	0.25% - 6%
Bank of Mongolia bills	2.98% - 14.5%	-
Corporate bonds	18%	-
Loan to customers	30% - 42%	18% - 36%
<b>Interest bearing liabilities</b>		
Demand deposits of customers	7.2% - 9.6%	3.6%
Time deposits of customers	12% - 14.76%	6.6% - 7.92%
Government loan	6%	-
Loans from foreign financial institutions	7.5% - 12.25%	4.46% - 7.45%
Government deposits	12% - 14.4%	6% - 7.2%

### 30. RISK MANAGEMENT POLICIES (CONT'D)

#### 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 U.S Dollar). These limits also comply with the minimum requirements of the Central Bank of Mongolia. The Bank's exposure to foreign currency exchange rate risk are as follows:

	31 DECEMBER 2002 (MNT'000)		
	MNT	Foreign Currency	Total
<b>Assets</b>			
Cash and short term funds	3,974,144	6,390,365	10,364,509
Deposits and placements with other financial institutions	-	22,650,267	22,650,267
Investment in securities	10,695,667	-	10,695,667
Loans and advances	14,556,919	17,780,453	32,337,372
Other assets	912,295	99,378	1,011,673
Fixed asset	2,245,312	-	2,245,312
<b>Total assets</b>	<b>32,384,337</b>	<b>46,920,463</b>	<b>79,304,800</b>
<b>Liabilities</b>			
Deposits from customers	24,002,582	40,189,915	64,192,497
Deposit and placements of other financial institutions	740,412	153,383	893,795
Government loan	170,000	-	170,000
Loans from foreign financial institutions	3,838,719	2,906,655	6,745,374
Government deposits	825,075	55,822	880,897
Other liabilities	94,068	626,559	720,627
<b>Total liabilities</b>	<b>29,670,856</b>	<b>43,932,334</b>	<b>73,603,190</b>
Statutory fund	4,083,230	-	4,083,230
Retained earnings	1,618,380	-	1,618,380
<b>Total capital funds</b>	<b>5,701,610</b>	<b>-</b>	<b>5,701,610</b>
<b>Total liabilities and capital funds</b>	<b>35,372,466</b>	<b>43,932,334</b>	<b>79,304,800</b>



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

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

	<b>Bank</b>	
	Carrying MNT'000	Fair value MNT'000
<b>Assets</b>		
Cash and short term funds	10,364,509	10,364,509
Deposits and placements with other financial institutions	22,650,267	22,650,267
Investment in securities	10,695,667	10,695,667
Loans and advances	31,799,143	31,799,143
Other assets	3,795,214	3,795,214
<b>Total asstes</b>	<u>79,304,800</u>	<u>79,304,800</u>
Deposits from customers	64,192,497	64,192,497
Deposit and placements of other financial institutions	893,795	893,795
Government loan	170,000	170,000
Loans from foreign financial institutions	6,745,374	6,745,374
Government Deposits	880,897	880,897
Other liabilities	6,422,237	6,422,237
<b>Total liabilities</b>	<u>79,304,800</u>	<u>79,304,800</u>

As no readily available market exist 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 31 December 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 financial institution**

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

### **31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)**

#### **Investment in securities**

As set out in Note 4, securities held by the Bank for investment purposes as of December 31, 2002 are carried at cost, 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.

#### **Deposits and placements of other financial institution**

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

#### **Loans from foreign financial institutions**

The fair values of loans from financial institutions are stated at carrying amounts due to the extensive period before they are due for repayment.

#### **Other Liabilities**

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

#### **Other financial instruments**

The carrying amount of other financial instruments are a reasonable estimate of fair value.

**32. POST BALANCE SHEET EVENTS**

Subsequent to the year end, the rate of exchange of the Togrog to the US Dollar has changed to 1,131 Togrog to one US Dollar, as at 19 February 2003.

**33. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current year's presentation, based on information available for 2002.

**34. 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.