

**GOLOMT BANK OF MONGOLIA LLC**

Audited Financial Statements  
31 December 2003

**GOLOMT BANK OF MONGOLIA LLC**

**CORPORATE INFORMATION**

**REGISTERED OFFICE** : Sukhbaatar Square 3  
Ulaanbaatar 210620A  
Mongolia

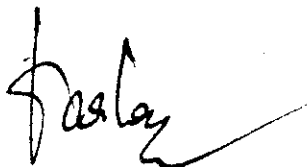
**BOARD OF DIRECTORS** : Danzandorj Bayasgalan  
Luvsanvandan Bold

**COMPANY SECRETARY** : Vandan Bat-od

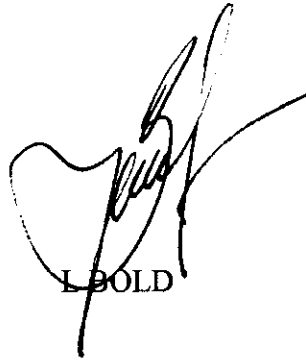
**AUDITORS** : Ernst & Young Mongolia Audit LLC  
Certified Public Accountants

## STATEMENT BY DIRECTORS AND EXECUTIVE

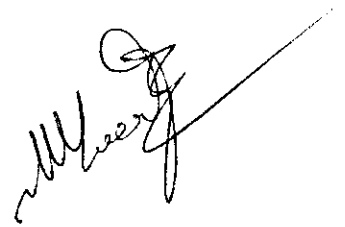
We, DANZANDORJ BAYASGALAN and LUVSANVANDAN BOLD, being the two directors of GOLOMT BANK OF MONGOLIA LLC ("the Bank"), and MUNKHUU CHIMEGMUNKH, being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 3 to 36 are drawn up in accordance with applicable International Financial Reporting Standards and the 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 2003 and of the results and the cash flows of the Bank for the year then ended.



D BAYASGALAN



L BOLD



M CHIMEGMUNKH

Ulaanbaatar  
18 March 2004

## REPORT OF THE AUDITORS

### To the Board of Directors of Golomt Bank of Mongolia LLC

We have audited the accompanying financial statements of Golomt Bank of Mongolia LLC as at 31 December 2003 set out on pages 3 to 36. 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 conducted our audit in accordance with applicable 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 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 2003 and of the results and the cash flows for the year then ended.

*Ernst + Young Mongol Audit Co.*

Ulaanbaatar  
18 March 2004

# GOLOMT BANK OF MONGOLIA LLC

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 MNT '000	2002 MNT '000
Interest income	4	10,156,803	6,820,549
Interest expense	5	<u>(5,466,216)</u>	<u>(3,807,522)</u>
<b>Net interest income</b>		4,690,587	3,013,027
Non-interest income	6	<u>2,249,632</u>	<u>1,973,259</u>
<b>Operating profit</b>		6,940,219	4,986,286
Operating expenses	7	<u>(3,703,999)</u>	<u>(2,306,321)</u>
<b>Profit before provisions</b>		3,236,220	2,679,965
Provisions	8	<u>(1,399,917)</u>	<u>(1,255,440)</u>
<b>Profit before taxation</b>		1,836,303	1,424,525
Taxation	9	<u>(746,922)</u>	<u>(604,549)</u>
<b>Profit after taxation</b>		<u>1,089,381</u>	<u>819,976</u>

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

**GOLOMT BANK OF MONGOLIA LLC**

**BALANCE SHEET AS AT 31 DECEMBER 2003**

	Note	2003 MNT '000	2002 MNT '000
<b>ASSETS</b>			
Cash and short term funds	10	5,252,245	3,814,560
Deposits and placements with other banks and financial institutions	11	46,668,373	29,200,216
Investment in securities	12	9,276,445	10,695,667
Loans and advances	13	46,788,774	32,337,372
Other assets	14	3,662,109	1,011,673
Tax recoverable	15	20,261	-
Property, plant and equipment	16	2,390,869	2,245,312
<b>TOTAL ASSETS</b>		<u>114,059,076</u>	<u>79,304,800</u>
<b>LIABILITIES</b>			
Deposits from customers	17	93,220,499	65,073,394
Deposits and placements of other banks and financial institutions	18	1,683,465	893,795
Loans from Bank of Mongolia	19	1,074,000	1,024,000
Government loan	20	320,000	170,000
Loans from foreign financial institutions	21	6,498,162	5,721,374
Other liabilities	22	1,470,199	683,379
Provision for taxation		-	37,248
<b>TOTAL LIABILITIES</b>		<u>104,266,325</u>	<u>73,603,190</u>
<b>EQUITY</b>			
Statutory fund	23	7,084,990	4,083,230
Retained earnings		2,707,761	1,618,380
<b>TOTAL EQUITY</b>		<u>9,792,751</u>	<u>5,701,610</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>114,059,076</u>	<u>79,304,800</u>
<b>COMMITMENTS AND OFF BALANCE SHEET ITEMS</b>			
	27	<u>14,522,277</u>	<u>5,632,157</u>

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

**GOLOMT BANK OF MONGOLIA LLC**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>Statutory fund MNT '000</b>	<b>Retained earnings MNT '000</b>	<b>Total MNT '000</b>
At 1 January 2002	2,071,700	798,404	2,870,104
Profit for the year	-	819,976	819,976
Issue of shares	2,011,530	-	2,011,530
At 31 December 2002	<u>4,083,230</u>	<u>1,618,380</u>	<u>5,701,610</u>
Profit for the year	-	1,089,381	1,089,381
Issue of shares	3,001,760	-	3,001,760
At 31 December 2003	<u>7,084,990</u>	<u>2,707,761</u>	<u>9,792,751</u>

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

# GOLOMT BANK OF MONGOLIA LLC

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 MNT '000	2002 MNT '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,836,303	1,424,525
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	409,775	282,008
Property, plant and equipment written off	2,010	18,523
Net provisions for loan losses	1,374,489	1,255,440
Provision for other assets	19,588	-
Provision for investment securities	5,840	-
Gain on disposal of property, plant equipment	(2,652)	(21,351)
Interest accrued on government securities	-	(6,825)
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	3,645,353	2,952,320
<i>Increase in operating assets:-</i>		
Loans and advances	(15,825,891)	(10,682,248)
Other assets	(2,651,925)	(119,163)
<i>Increase in operating liabilities</i>		
Deposits from customers	28,147,105	25,517,440
Deposits and placements of other banks and financial institutions	789,670	801,225
Other liabilities	786,820	260,126
	<hr/>	<hr/>
<b>Cash generated from operations</b>	14,891,132	18,729,700
Income tax paid	(804,431)	(645,906)
	<hr/>	<hr/>
<b>Net cash flow from operating activities</b>	14,086,701	18,083,794
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net decrease / (increase) in investment securities	1,413,382	(4,194,582)
Proceeds on disposal of property, plant and equipment	5,304	59,196
Purchase of property, plant and equipment	(578,093)	(631,541)
	<hr/>	<hr/>
<b>Net cash flow from investing activities</b>	840,593	(4,766,927)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in statutory fund	3,001,760	2,011,530
Increase in Loan from Bank of Mongolia	50,000	238,200
Net increase in loans from government and foreign financial institutions	926,788	2,435,138
	<hr/>	<hr/>
<b>Net cash flow from financing activities</b>	3,978,548	4,684,868

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



**CASH FLOW STATEMENT (CONTD.)  
FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Net increase in cash and cash equivalents</b>	18,905,842	18,001,735
<b>Cash and cash equivalents brought forward</b>	33,014,776	15,013,041
<b>Cash and cash equivalents carried forward</b>	<u>51,920,618</u>	<u>33,014,776</u>
<b>Cash and cash equivalents comprises:</b>		
Cash and short term funds	5,252,245	3,814,560
Deposits and placement with other banks and financial institutions	46,668,373	29,200,216
	<u>51,920,618</u>	<u>33,014,776</u>

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

# **GOLOMT BANK OF MONGOLIA LLC**

## **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003**

### **1. CORPORATE INFORMATION**

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 8 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 Sukhbaatar Square 3, Ulaanbaatar 210620A, Mongolia.

The holding company of the Bank is Bodi International Limited, a company incorporated in Mongolia.

These financial statements of the Bank for the year ended 31 December 2003 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 March 2004.

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

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

The financial statements have been prepared under the historical cost convention. 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.

### **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 based on the actual purchase price. The recognition of interest income is suspended when loans are outstanding for more than ninety days, in accordance with the requirements of Bank of Mongolia. 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.

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

#### (b) Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided. Types of fees and commission income derived by the Bank relate mainly to deposit box fees, loan processing fees, current account withdrawal fees, and money transfer commissions.

#### (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, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. 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 used are as follows:

	2003	2002
United States Dollar	1,168.00	1,125.00
Great Britain Pound	2,073.40	1,804.00
European Euro	1,460.20	1,169.40
Japanese Yen	10.92	9.38
Swiss Francs	935.70	804.00

#### (d) Loans and Advances and Provision for Loan Loss

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.

All loans and advances are recognised when cash is advanced to borrowers.

Provisions for loan loss are 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. Provisions made during the year are charged against the income statement.

The maturity of the loan portfolio is presented in Note 13 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing the loans at maturity.

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

#### (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 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.

#### (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 that are readily convertible to cash with insignificant risk of changes in value.

#### (g) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth and are usually held to maturity.

Government bonds and Securities and Bank of Mongolia Treasury Bills are stated at cost adjusted for amortisation of premiums or accretion of discounts, where applicable, to maturity dates.

Quoted investments are stated at the lower of cost and market value.

Unquoted investments are stated at cost and where applicable, adjusted for amortisation of premiums or accretion of discounts to maturity dates. Provision is made for diminution in value which is other than temporary.

On disposal of the investment securities, the differences between the net disposal proceeds and their carrying amounts are charged or credited to the income statement.

#### (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 (j).

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

	2003	2002
Buildings	40 years	40 years
Office equipment and vehicles	10 years	2 - 10 years
Computers	5 years	4 - 10 years

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

#### **(h) Property, Plant and Equipment (contd.)**

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

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.

With effect from the current year, the Bank changed the annual depreciation rate for furniture, fixtures and vehicles from 2 - 10 years to 10 years and computers from 4 - 10 years to 5 years to better reflect their useful lives. The effect on the financial statements of this change in accounting estimate is not material.

#### **(i) Deposits From Customers**

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

#### **(j) 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, 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. 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.

#### **(k) Sale and Repurchase Agreements**

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as trading or investments securities and the counterparty liability is included in amounts due to other financial institutions 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 sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

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

#### **(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) Operating Leases**

Lease payments for operating leases, where substantially all risk and benefits remain with the lessor, are charged as an expense in the income statement on a straight-line basis over the term of the relevant lease.

#### **(n) 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.

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.

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

#### (n) Financial Instruments (contd.)

##### (i) Equity Instruments

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

##### (ii) Derivative Financial Instruments

Derivative financial instruments are not recognised in the financial statements on inception.

##### Forward Foreign Exchange Contracts

The underlying foreign currency assets or liabilities are translated at their respective hedged exchange rate and all exchange gains or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transaction.

### 4. INTEREST INCOME

	2003 MNT '000	2002 MNT '000
Loans and advances	9,326,074	6,091,956
Deposits and placements with other banks and financial institutions	247,726	218,157
Bank of Mongolia Treasury Bills	520,546	477,622
Government bonds and Securities	62,457	32,814
	<u>10,156,803</u>	<u>6,820,549</u>

### 5. INTEREST EXPENSE

	2003 MNT '000	2002 MNT '000
Current account deposits	365,292	163,072
Time and demand account deposits	4,641,602	3,305,140
Loans from foreign financial institution	416,297	338,612
Placements by other financial institutions	43,025	698
	<u>5,466,216</u>	<u>3,807,522</u>

## 6. NON-INTEREST INCOME

	2003 MNT '000	2002 MNT '000
<b>Fees and commission income:</b>		
Service charges and fees	603,972	663,057
Credit cards advance fees	543,296	500,792
Other fee income	642,901	314,727
	<u>1,790,169</u>	<u>1,478,576</u>
<b>Other income:</b>		
Realised foreign currency gain	141,008	162,227
Unrealised foreign currency gain	212,734	215,980
Gain on disposal of property, plant and equipment	2,652	21,351
Other operating income	103,069	95,125
	<u>459,463</u>	<u>494,683</u>
<b>Total non-interest income</b>	<u>2,249,632</u>	<u>1,973,259</u>

## 7. OPERATING EXPENSES

	2003 MNT '000	2002 MNT '000
Personnel costs		
- Salaries and related expenses	667,183	550,998
Depreciation of property, plant and equipment	409,775	282,008
Travelling	193,682	178,722
Rental of premises	688,669	227,024
Entertainment	10,671	12,982
Advertisement	133,132	64,829
Communications	254,459	172,218
Safety expenses	49,805	24,466
Service charges	692,983	350,724
Stationery	117,101	79,661
Other operating expenses	484,529	344,166
Write-off of property, plant & equipments	2,010	18,523
	<u>3,703,999</u>	<u>2,306,321</u>



## 7. OPERATING EXPENSES (CONTD.)

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

	2003 Number	2002 Number
Directors and head of departments	22	22
Officers	218	164
Clerks	31	27
	<u>271</u>	<u>213</u>
Of which:		
- Head office	130	110
- Branches	141	103
	<u>271</u>	<u>213</u>

## 8. PROVISIONS

	2003 MNT '000	2002 MNT '000
Provision for loan losses less writebacks	1,374,489	1,255,440
Provision for investment securities	5,840	-
Provision for other assets	19,588	-
	<u>1,399,917</u>	<u>1,255,440</u>

## 9. TAXATION

	2003 MNT '000	2002 MNT '000
Mongolian taxation based on results for the year		
- Current	747,186	583,579
- (Over)/underprovision in prior years	(264)	20,970
	<u>746,922</u>	<u>604,549</u>

Mongolian legal entities must individually report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for banks profits is 15% for the first MNT100 million of taxable income, and 40% on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. The provision for probable loan losses is deductible for income tax purposes.

## 9. TAXATION (CONTD.)

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 is as follows:

	2003 MNT '000	2002 MNT '000
Income tax at statutory rates based on profit before taxation	709,521	544,810
Tax exempt income	(24,982)	(13,126)
Non-deductible expenses	62,647	51,895
(Over)/underprovision in prior year	(264)	20,970
Tax expense for the year	<u>746,922</u>	<u>604,549</u>

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

## 10. CASH AND SHORT TERM FUNDS

	2003 MNT '000	2002 MNT '000
Cash and bank balances denominated in local currencies	2,379,209	1,890,379
Cash and bank balances denominated in foreign currencies	2,873,036	1,924,181
	<u>5,252,245</u>	<u>3,814,560</u>

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

	2003 MNT '000	2002 MNT '000
Current accounts with Bank of Mongolia	9,658,508	6,549,949
Placements with other banks and financial institutions	37,009,865	22,650,267
	<u>46,668,373</u>	<u>29,200,216</u>

Balances with Bank of Mongolia are maintained in accordance with Bank of Mongolia 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 currency current accounts maintained with foreign and local financial institutions, which are generally denominated in United States Dollar ("USD") and EURO and bear interest at annual rates ranging from 0.53% to 1.02% (2002: 0.25% to 6.40%) per annum.

## 12. INVESTMENT IN SECURITIES

	2003 MNT '000	2002 MNT '000
Bank of Mongolia treasury bills	8,568,085	10,538,842
Government bonds	-	156,825
Promissory notes	538,098	-
	<u>9,106,183</u>	<u>10,695,667</u>
Accretion of discounts	176,102	-
Provision for impairment losses	(5,840)	-
	<u>9,276,445</u>	<u>10,695,667</u>

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 0.97% to 17.00% (2002 : 7.99% to 11.98%) per annum.

Government bonds are issued by the Ministry of Finance and Economy with maturities ranging from 60 days to 720 days. Annual interest rates are in the range of 5.04% to 14.18% (2002: 4.55% to 11.95%) per annum.

Promissory notes are issued by a private corporation with a 150 days maturity period. The annual interest rate is 21.6% (2002: nil) per annum.

## 13. LOANS AND ADVANCES

	2003 MNT '000	2002 MNT '000
Short term loans	42,926,216	29,873,407
Term loans	7,877,251	4,830,210
Credit cards	281,504	855,137
Staff loans	288,311	194,515
Accrued interest	710,313	499,431
Gross loans and advances	<u>52,083,595</u>	<u>36,252,700</u>
Provision for loan losses		
- specific	(4,825,717)	(3,624,774)
- general	(469,104)	(290,554)
Net loans and advances	<u>46,788,774</u>	<u>32,337,372</u>

	2003 MNT '000	2002 MNT '000
<b>Maturity structure</b>		
Maturing within one year	38,256,068	23,739,932
One to five years	7,280,489	8,488,761
After five years	1,252,217	108,679
	<u>46,788,774</u>	<u>32,337,372</u>

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

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

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Trading	19,421,270	10,665,530
Processing related industries	16,699,633	11,592,740
Mining	3,798,901	4,838,150
Construction	2,860,658	3,099,570
Transportation	1,622,492	139,236
Power, gas and water supply	1,470,870	549,389
Hospitality	1,137,902	1,417,736
Small medium enterprises	607,365	1,320,677
Leasing	587,295	324,778
Health and Education	572,795	262,830
Agriculture	344,724	623,831
Others	2,959,690	1,418,233
	<u>52,083,595</u>	<u>36,252,700</u>

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

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Balance at beginning of year	6,099,950	5,054,748
NPL during the year - gross	4,016,439	8,017,423
Recoveries/regularised during the year	(5,073,776)	(6,582,056)
Amount written off	-	(395,519)
Exchange difference	117,374	5,354
Gross balance at end of year	<u>5,159,987</u>	<u>6,099,950</u>
Less: Specific provision	<u>(4,825,717)</u>	<u>(3,624,774)</u>
Net balance at year end	<u>334,270</u>	<u>2,475,176</u>
Gross NPL ratio as a percentage of gross total loans	9.9%	16.8%
Net NPL ratio as a percentage of net total loans	0.7%	7.7%

### 13 LOANS AND ADVANCES (CONTD.)

Movements in the provision for loan losses are as follows:

	2003 MNT '000	2002 MNT '000
<b>Specific Provision</b>		
Balance at beginning of year	3,624,774	2,857,463
Provision made during the year	1,395,974	1,162,240
Amount written back in respect of recoveries	(200,008)	-
Amount written off	-	(395,519)
Exchange difference	4,977	590
Balance at end of year	<u>4,825,717</u>	<u>3,624,774</u>
	2003 MNT '000	2002 MNT '000
<b>General Provision</b>		
Balance at beginning of year	290,554	193,280
Provision made during the year	178,523	93,200
Exchange difference	27	4,074
Balance at end of year	<u>469,104</u>	<u>290,554</u>

At 31 December 2003, all loans and advances to borrowers are denominated in Togrog except for USD loans amounting to MNT25,720 million. Interest rate ranges from 6% to 42% per annum (2002 : 6% to 42% per annum).

Loans and advances amounting to approximately MNT46,924 million at 31 December 2003 (2002 : MNT30,153 million) were classified as normal and provided with a 1% loss reserve. Further, loans amounting MNT5,160 million as at 31 December 2003 (2002 : MNT6,100 million) were classified as NPLs and provisions of MNT4,826 million (2002 : MNT3,625 million) have been allocated against these NPLs.

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

#### 14. OTHER ASSETS

	2003 MNT '000	2002 MNT '000
Prepaid expenses	3,217,942	479,918
Consumables and other inventory	232,911	124,037
Land held for sale		239,797
Other receivables	280,784	219,386
	<u>3,731,637</u>	<u>1,063,138</u>
Less: Provision for other assets	(69,528)	(51,465)
Net balance of other assets	<u>3,662,109</u>	<u>1,011,673</u>

#### 15. TAX RECOVERABLE

	2003 MNT '000	2002 MNT '000
Tax recoverable	<u>20,261</u>	<u>-</u>

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

**16. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings MNT '000</b>	<b>Leasehold improvements MNT '000</b>	<b>Office equipment and vehicles MNT '000</b>	<b>Construction in progress MNT '000</b>	<b>Total MNT '000</b>
<b>At cost</b>					
Balance at beginning of year	1,007,494	30,538	1,638,021	269,751	2,945,804
Additions	-	-	396,683	181,410	578,093
Disposals	-	-	(6,789)	-	(6,789)
Transfers	-	-	335,405	(335,405)	-
Adjustment	-	-	-	(18,099)	(18,099)
Write-offs	-	-	(16,232)	-	(16,232)
Balance at end of year	<u>1,007,494</u>	<u>30,538</u>	<u>2,347,088</u>	<u>97,657</u>	<u>3,482,777</u>
<b>Accumulated depreciation</b>					
Balance at beginning of year	96,918	9,840	593,734	-	700,492
Charge for the year	54,621	3,054	352,100	-	409,775
Disposals	-	-	(4,137)	-	(4,137)
Write-offs	-	-	(14,222)	-	(14,222)
Balance at end of year	<u>151,539</u>	<u>12,894</u>	<u>927,475</u>	<u>-</u>	<u>1,091,908</u>
<b>Net Book Value</b>					
At 31 December 2003	<u>855,955</u>	<u>17,644</u>	<u>1,419,613</u>	<u>97,657</u>	<u>2,390,869</u>
At 31 December 2002	<u>910,576</u>	<u>20,698</u>	<u>1,044,287</u>	<u>269,751</u>	<u>2,245,312</u>
<b>Depreciation charge for 2002</b>	<u>15,544</u>	<u>3,054</u>	<u>263,410</u>	<u>-</u>	<u>282,008</u>

## 17. DEPOSITS FROM CUSTOMERS

	2003 MNT '000	2002 MNT '000
Current account deposits	26,280,795	20,980,163
Demand account deposits	19,291,117	14,285,001
Time deposits	44,917,365	28,245,878
Government deposits	1,892,537	880,897
Other deposits	838,685	681,455
	<u>93,220,499</u>	<u>65,073,394</u>

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

	2003 MNT '000	2002 MNT '000
Due within six months	31,512,785	25,668,573
Six months to one year	6,734,583	865,917
One year to three years	6,669,997	1,711,388
	<u>44,917,365</u>	<u>28,245,878</u>

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

	2003 MNT '000	2002 MNT '000
Business enterprises	20,045,851	1,447,076
Individuals	71,282,111	62,745,421
Government	1,892,537	880,897
	<u>93,220,499</u>	<u>65,073,394</u>

Current account and other deposits generally bear no interest, however for depositors maintaining current account balance above a prescribed limit, interest is provided at annual rates of approximately 1.2% (2002: 1.2%) per annum and between 3.0% to 3.6% (2002: 3.0% to 3.6%) per annum for foreign currency and local currency accounts respectively.

Foreign currency demand deposits bear interest at an annual rate of approximately 3.6% (2002: 3.6%) per annum, while local currency demand deposits at approximately 7.2% (2002: 7.2%) per annum.

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate of approximately 0.7% to 7.2% (2002: 0.7% to 7.2%) per annum, while for local currency time deposits, at a range of approximately 1.3% to 14.4% (2002: 1.2% to 14.4%) per annum.

Foreign currency government deposits bear interest at an annual interest at 6.0% to 7.2% (2002: 6.0% to 7.2%) per annum, while local currency government deposits, at a range of 12.0% to 14.4% (2002: 12.0% to 14.4%) per annum.



**18. DEPOSITS AND PLACEMENTS OF OTHER BANKS  
AND FINANCIAL INSTITUTIONS**

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Foreign currency current account deposits	1,379,194	153,383
Local currency current account deposits	304,271	40,412
Obligation on securities sold under repurchase agreements	-	700,000
	<u>1,683,465</u>	<u>893,795</u>

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

**19. LOANS FROM BANK OF MONGOLIA**

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Loans from the bank	<u>1,074,000</u>	<u>1,024,000</u>

These borrowings bear an interest rate of 10% (2002: 10%) per annum. The final repayment of these borrowings is due in July 2005 in accordance to the repayment schedule.

**20. GOVERNMENT LOAN**

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Loan from government	<u>320,000</u>	<u>170,000</u>

The interest rate of the loan is fixed at 6% (2002: 6%) per annum. The loan is repayable within a year in accordance to the repayment schedule.

## 21 LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2003 MNT'000	2002 MNT'000
Foreign funded loans:		
World Bank Loan I	3,075,422	3,153,086
World Bank Loan II	2,177,796	1,913,221
World Bank Loan III	327,825	259,164
Berliner Bank Loan	488,446	395,903
Asian Development Bank	428,673	-
	6,498,162	5,721,374

### **World Bank Loan I**

The World Bank USD loan amounts to USD2.6 million or MNT3.0 billion (2002: USD2.7 million or MNT3.2 billion). 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% (2002: LIBOR 6 months USD rate +3%). The repayment of the loan is in accordance with the repayment schedule with the final payment due in March 2010.

### **World Bank Loan II**

The World Bank MNT loan balance stands at MNT2.2 billion (2002: MNT1.9 billion) respectively. 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% (2002: LIBOR 6 months USD rate +3%). The final repayment of the loan is in accordance with the repayment schedule with the final repayment due in June 2009.

### **World Bank Loan III**

The loan is utilised for staff training purposes. The interest rate of the loan is fixed at 2% (2002 : 2%) per annum with principal repayment commencing on November 2004 and final repayment due in May 2019 in accordance with the repayment schedule.

### **Berliner Bank Loan**

The Berliner Bank loan is used to finance the purchase of a building in Germany. The interest rate of the loan is 7.45% (2002: 7.45%) per annum. The Bank commenced principal repayments in June 1996 and the final repayment is due in September 2025 in accordance with the repayment schedule.

### **Asian Development Bank**

The loan from the Asian Development Bank was obtained during the year. The loan were subsequently disbursed to housing loan borrowers. The interest rate on the loans is between 8% to 8.2% (2002: nil) per annum. Terms of repayment of the loan are in accordance with the respective repayment schedule.

## 22. OTHER LIABILITIES

	2003 MNT '000	2002 MNT '000
Payables	244,089	149,311
Foreign remittance under request	627,757	59,205
Delay on clearing settlement	230,390	435,898
Other payables	367,963	38,965
	<u>1,470,199</u>	<u>683,379</u>

## 23. STATUTORY FUND

	2003 MNT '000	2002 MNT '000
At the beginning of the year	4,083,230	2,071,700
Issued during the year	3,001,760	2,011,530
At the end of the year	<u>7,084,990</u>	<u>4,083,230</u>

At 31 December 2003 the statutory fund was wholly owned by Bodi International Limited.

## 24. 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 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 bank financial institutions amounting to MNT36.1 billion (2002: MNT21.0 billion) and property, plant and equipment amounting to MNT507 million (2002: MNT523 million), all banking assets and liabilities were geographically concentrated in Mongolia.

## 24. RISK MANAGEMENT POLICIES (CONTD.)

### 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 assurances 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.

### 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:

	2003 (MNT'000)		
	MNT	Foreign currencies	Total
<b>Assets</b>			
Cash and short term funds	2,379,209	2,873,036	5,252,245
Deposits and placements with other banks and financial institutions	1,727,290	44,941,083	46,668,373
Investment in securities	8,734,727	541,718	9,276,445
Loans and advances	18,919,482	27,869,292	46,788,774
Other assets	3,257,406	404,703	3,662,109
Tax recoverable	20,261	-	20,261
Property, plant and equipment	1,883,607	507,262	2,390,869
	<u>36,921,982</u>	<u>77,137,094</u>	<u>114,059,076</u>
<b>Liabilities</b>			
Deposits from customers	32,213,755	61,006,744	93,220,499
Deposits and placements of other banks and financial institutions	304,271	1,379,194	1,683,465
Loans from Bank of Mongolia	1,074,000	-	1,074,000
Government loan	320,000	-	320,000
Loans from foreign financial institutions	2,602,212	3,895,950	6,498,162
Other liabilities	5,926	1,464,273	1,470,199
Provision for taxation	-	-	-
	<u>36,520,164</u>	<u>67,746,161</u>	<u>104,266,325</u>
Net position	<u>401,818</u>	<u>9,390,933</u>	<u>9,792,751</u>
Commitments and other off balance sheet items	<u>558,576</u>	<u>12,160,267</u>	<u>12,718,843</u>

## 24. RISK MANAGEMENT POLICIES (CONTD.)

	2002 (MNT'000)		
	MNT	Foreign currencies	Total
<b>Assets</b>			
Cash and short term funds	1,890,379	1,924,181	3,814,560
Deposits and placements with other banks and financial institutions	2,083,765	27,116,451	29,200,216
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
Property, plant and equipment	1,722,561	522,751	2,245,312
	<u>31,861,586</u>	<u>47,443,214</u>	<u>79,304,800</u>
<b>Liabilities</b>			
Deposits from customers	24,827,657	40,245,737	65,073,394
Deposits and placements of other banks and financial institutions	740,412	153,383	893,795
Loans from Bank of Mongolia	-	1,024,000	1,024,000
Government loan	170,000	-	170,000
Loans from foreign financial institutions	3,838,719	1,882,655	5,721,374
Other liabilities	56,820	626,559	683,379
Provision for taxation	37,248	-	37,248
	<u>29,670,856</u>	<u>43,932,334</u>	<u>73,603,190</u>
Net position	<u>2,190,730</u>	<u>3,510,880</u>	<u>5,701,610</u>
Commitments and other off balance sheet items	<u>1,282,202</u>	<u>4,349,955</u>	<u>5,632,157</u>

### Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from demand 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 Reserve department 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.

## 24. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking 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
<b>Assets</b>						
Cash and short term funds	5,252,245	-	-	-	-	5,252,245
Deposits and placements with other banks and financial institutions	39,795,061	6,552,000	314,304	7,008	-	46,668,373
Investment in securities	8,734,727	541,718	-	-	-	9,276,445
Loans and advances	15,969,538	7,839,286	14,447,244	7,280,489	1,252,217	46,788,774
Other assets	3,662,109	-	-	-	-	3,662,109
Tax recoverable	-	-	20,261	-	-	20,261
Property, plant and equipment	240	85	21,238	902,256	1,467,050	2,390,869
	<u>73,413,920</u>	<u>14,933,089</u>	<u>14,803,047</u>	<u>8,189,753</u>	<u>2,719,267</u>	<u>114,059,076</u>
<b>Liabilities</b>						
Deposits from customers	49,457,021	30,358,898	6,734,583	6,669,997	-	93,220,499
Deposits and placements of other banks and financial institutions	1,099,465	-	-	584,000	-	1,683,465
Loan from Bank of Mongolia	-	-	772,800	301,200	-	1,074,000
Government loan	-	320,000	-	-	-	320,000
Loans from foreign financial institutions	317,110	335,220	386,312	4,047,687	1,411,833	6,498,162
Other liabilities	1,470,199	-	-	-	-	1,470,199
	<u>52,343,795</u>	<u>31,014,118</u>	<u>7,893,695</u>	<u>11,602,884</u>	<u>1,411,833</u>	<u>104,266,325</u>
Net liquidity gap	21,070,125	(16,081,029)	6,909,352	(3,413,131)	1,307,434	9,792,751
Accumulated gap	<u>21,070,125</u>	<u>4,989,096</u>	<u>11,898,448</u>	<u>8,485,317</u>	<u>9,792,751</u>	

## 24. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2002 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
<b>Assets</b>						
Cash and short term funds	3,814,560	-	-	-	-	3,814,560
Deposits and placements with other banks and financial institutions	18,189,050	575,151	8,075,068	2,360,947	-	29,200,216
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
	<u>39,712,500</u>	<u>6,638,436</u>	<u>19,781,396</u>	<u>11,472,075</u>	<u>1,700,393</u>	<u>79,304,800</u>
<b>Liabilities</b>						
Deposits from customers	32,378,135	19,856,760	12,838,499	-	-	65,073,394
Deposits and placements of other banks and financial institutions	893,795	-	-	-	-	893,795
Loan from the Bank of Mongolia	-	-	-	1,024,000	-	1,024,000
Government loan	-	170,000	-	-	-	170,000
Loans from foreign financial institutions	315,210	635,147	367,882	3,098,653	1,304,482	5,721,374
Other liabilities	683,379	-	-	-	-	683,379
Provision for taxation	37,248	-	-	-	-	37,248
	<u>34,307,767</u>	<u>20,661,907</u>	<u>13,206,381</u>	<u>4,122,653</u>	<u>1,304,482</u>	<u>73,603,190</u>
Net liquidity gap	5,404,733	(14,023,471)	6,575,015	7,349,422	395,911	5,701,610
Accumulated gap	<u>5,404,733</u>	<u>(8,618,738)</u>	<u>(2,043,723)</u>	<u>5,305,699</u>	<u>5,701,610</u>	

## 24. 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 Reserve department. The Bank's average effective interest rates per annum in 2003 and 2002 for monetary financial instruments are as follows:

	2003		2002	
	MNT	USD	MNT	USD
<b>Interest earning assets</b>				
Placement with other banks	-	0.53% - 1.02%	-	0.25% - 6.40%
Bank of Mongolia treasury bills	0.97% - 17.00%	-	7.99% - 11.98%	-
Government bonds	5.04% - 14.18%	-	4.55% - 11.95%	-
Promissory Notes	-	21.6%	-	-
Loans and advances	6% - 42%	18% - 30%	6% - 42%	18% - 36%
<b>Interest bearing liabilities</b>				
Demand deposits from customers				
from customers	7.2%	3.6%	7.2%	3.6%
Time deposits from customers	1.3% - 14.4%	0.7% - 7.2%	1.2% - 14.4%	0.7% - 7.2%
Current account deposits				
from customers	3.0% - 3.6%	1.2%	3.0% - 3.6%	1.2%
Government deposits	12.0% - 14.4%	6.0% - 7.2%	12.0% - 14.4%	6.0% - 7.2%
Government loan	6%	-	6%	-
Loans from Bank of Mongolia	-	10%	-	10%
Loans from foreign				
financial institutions	10.0% - 14.4%	2.00% - 7.45%	7.5% - 12.3%	2.00% - 7.45%



## 25. 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. The Bank is controlled by Bodi International Limited which owns 100% of the Bank.

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 as at the year end, and relating expense for the year are listed below.

As at 31 December, balances with related parties included:

	2003 MNT '000	2002 MNT '000
a) Deposits from customers:		
Bodi Insurance Co. Limited	61	238,030
Bodi International Co. Limited	305	147
Bodicom Co.Limited	1,790	-
Smartcard Co.Limited	20,266	-
Bodi Computer Co.Limited	23	-
EBG Properties Co.Limited	55,299	-
MPC Co.Limited	12,186	-
Bodi Automotive Co.Limited	44,403	-
SB Logistic Co.Limited	5,835	-
	<u>140,168</u>	<u>238,177</u>
	2003 MNT '000	2002 MNT '000
b) Purchase of computers and software from:		
Bodicom Co.Limited	-	8,481
Smartcard Co.Limited	67,427	42,696
Bodi Computer Co.Limited	-	45,549
MPC Co.Limited	75,808	123,883
	<u>143,235</u>	<u>220,609</u>
	2003 MNT '000	2002 MNT '000
c) Purchase of motor vehicles from:		
Bodi Automotive Co.Limited	-	15,456

## 25. RELATED PARTY DISCLOSURES (CONTD.)

	2003 MNT '000	2002 MNT '000
d) Rental of garage to:		
Bodicom Co.Limited	544	607
Smartcard Co.Limited.	544	607
MPC Co.Limited	544	607
Bodi Insurance Co.Limited	712	607
EBG Properties Co.Limited	544	607
	<u>2,888</u>	<u>3,035</u>

### e) Lease agreement with Bodi International Co. Limited

In November 2002, the Bank moved to its new Head Office located at Sukhbaatar Square 3, Ulaanbaatar, Mongolia. The building is owned by the holding company, Bodi International Co.Ltd. The bank entered into a lease agreement for 6 years until the year 2008. The bank has prepaid the lease payment amounting to MNT3.2 billion.

### f) Loans to key management personnel

Total outstanding balance as at 31 December 2003 of loans granted to key management personnel amounts to MNT82.5 million (2002: MNT63.9 million). The loans to Bank's employees bear interest rate of 6% (2002: 6%) per annum.

### Directors' Remuneration

The executive director received remuneration totalling MNT5.4 million (2002 : MNT3.6 million). The non-executive director received fees totalling MNT5.4 million (2002 : MNT3.6 million).

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

	2003	2002
Core capital ratio	15.36%	14.18%
Risk weighted capital ratio	15.36%	14.18%
<u>Tier I capital</u>		
Statutory fund	7,084,990	4,083,230
Retained earnings	2,707,761	1,618,380
Total Tier I Capital/ Capital Base	<u>9,792,751</u>	<u>5,701,610</u>

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

	2003		2002	
	MNT '000		MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	23,420,670	-	20,873,539	-
10	-	-	-	-
20	37,213,395	7,442,679	23,029,852	4,605,970
50	21,280	10,640	13,146	6,573
100	56,292,644	56,292,644	36,345,910	35,594,357
Total	<u>116,947,989</u>	<u>63,745,963</u>	<u>80,262,447</u>	<u>40,206,900</u>

## 27. COMMITMENTS AND OFF BALANCE SHEET ITEMS

### a) Financial Commitments and Off Balance Sheet Items

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

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Guarantees and letter of credits	456,781	206,099
Lease commitments	372,402	738,458
Foreign exchange commitments	11,409,051	4,687,600
Other off balance sheet items	2,284,043	-
	<u>14,522,277</u>	<u>5,632,157</u>

As at 31 December 2003, the bank has one guarantee which is fully collateralised. Total value of the guarantees amounts to approximately MNT47 million. The balance of MNT410 million relates to 3 letter of credits which matures subsequent to year end.

### b) Lease Commitments

The Bank has lease commitments in respect of various office premises, all of which are classified as operating leases. A summary of these commitments are as follows:-

	<b>2003</b>	<b>2002</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Within a year	103,578	108,594
More than 1 year and less than 5 years	190,856	308,382
5 years and more	77,968	321,482
	<u>372,402</u>	<u>738,458</u>

## **27. COMMITMENTS AND OFF BALANCE SHEET ITEMS (CONTD.)**

### **c) Foreign exchange commitments and derivatives.**

In the normal course of the business, the Bank enters into foreign currency exchange contracts with third parties. As at 31 December 2003, the Bank has 10 open positions (2002: 2 open positions) on foreign currency exchange forward contracts worth approximately MNT11.4 billion (2002: MNT4.7 billion).

### **d) Other off balance sheet items.**

At 31 December 2003, other off balance sheet items represents loans written off on non-performing loans and the interest suspended.

## **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.

Almost all of the financial instruments as at 31 December 2003 are short term in nature with maturities of less than one year. The estimated fair values of those financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets due to the relatively short term maturity of the financial instruments.

## 29. COMPARATIVE FIGURES

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

Assets	As Restated MNT'000	As Previously Stated MNT'000
Cash and short term funds	3,814,560	10,364,509
Deposits and placements with other banks and financial institutions	29,200,216	22,650,267
Liabilities		
Deposits from customers	65,073,394	64,192,497
Government deposits	-	880,897
Loans from Bank of Mongolia	1,024,000	-
Loans from foreign financial institutions	5,721,374	6,745,374
Other liabilities	683,379	720,627
Provision for taxation	37,248	-
Commitments and Off Balance Sheet Items	5,632,157	951,335

## 30. SUBSEQUENT EVENT

Two letter of credits issued in favour of a defaulted borrower amounting to MNT314 million crystallised subsequent to the year end. The amount has been recognised as a loan and a full provision has been provided on the amount as at 31 December 2003.

## 31. CURRENCY

All amounts are in Mongolian Togrog unless otherwise stated.

## 32. 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.