

GOLOMT BANK OF MONGOLIA

Audited Financial Statements

31 December 2004

GOLOMT BANK OF MONGOLIA LLC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS	PAGE
STATEMENT BY DIRECTORS AND EXECUTIVE	1
REPORT OF THE AUDITORS	2
INCOME STATEMENT	3
BALANCE SHEET	4
STATEMENT OF CHANGES IN EQUITY	5
CASH FLOW STATEMENT	6 - 7
NOTES TO THE FINANCIAL STATEMENTS	8 - 38

GOLOMT BANK OF MONGOLIA LLC

CORPORATE INFORMATION

REGISTERED OFFICE

: Sukhbaatar Square 3
Ulaanbaatar 210620A
Mongolia

BOARD OF DIRECTORS

: Danzandorj Bayasgalan
Luvsanvandan Boldkhuyag

COMPANY SECRETARY

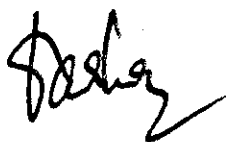
: Vandan Bat-od

AUDITORS


: Ernst & Young Mongolia Audit LLC
Certified Public Accountants

STATEMENT BY DIRECTORS AND EXECUTIVE

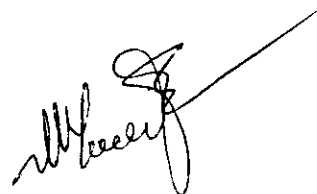
We, DANZANDORJ BAYASGALAN and LUVSANVANDAN BOLDKHUYAG, being the two directors of GOLOMT BANK OF MONGOLIA LLC ("the Bank"), and MUNKHUU CHIMEGMUNKH, being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 3 to 38 are drawn up in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by the Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended.



D BAYASGALAN



L BOLDKHUYAG



M CHIMEGMUNKH

Ulaanbaatar

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 2004 set out on pages 3 to 38. 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 International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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



Ernst & Young Mongolia Audit Co.

25 MAR 2005

GOLOMT BANK OF MONGOLIA LLC**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	14,110,776	10,156,803
Interest expense	5	<u>(8,373,680)</u>	<u>(5,466,216)</u>
Net interest income		5,737,096	4,690,587
Non-interest income	6	<u>3,749,232</u>	<u>2,249,632</u>
Operating profit		9,486,328	6,940,219
Operating expenses	7	<u>(4,263,486)</u>	<u>(3,703,999)</u>
Profit before allowances		5,222,842	3,236,220
Allowances	8	<u>(2,689,481)</u>	<u>(1,399,917)</u>
Profit before taxation		2,533,361	1,836,303
Taxation	9	<u>(781,501)</u>	<u>(746,922)</u>
Net profit for the year		<u>1,751,860</u>	<u>1,089,381</u>

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

GOLOMT BANK OF MONGOLIA LLC

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
ASSETS			
Cash and short term funds	10	9,117,883	5,252,245
Deposits and placements with other banks and financial institutions	11	72,925,545	46,668,373
Investment in securities	12	4,550,110	9,276,445
Loans and advances	13	90,943,063	46,788,774
Other assets	14	3,379,443	3,662,109
Tax recoverable	15	1,549	20,261
Property, plant and equipment	16	2,499,448	2,390,869
TOTAL ASSETS		<u>183,417,041</u>	<u>114,059,076</u>
LIABILITIES			
Deposits from customers	17	147,124,573	93,220,499
Deposits and placements of other banks and financial institutions	18	9,787,869	1,683,465
Loans from Bank of Mongolia	19	1,120,000	1,074,000
Government loan	20	500,000	320,000
Loans from foreign financial institutions	21	7,857,232	6,498,162
Other liabilities	22	2,437,020	1,470,199
TOTAL LIABILITIES		<u>168,826,694</u>	<u>104,266,325</u>
EQUITY			
Statutory fund	23	10,130,726	7,084,990
Retained earnings		4,459,621	2,707,761
TOTAL EQUITY		<u>14,590,347</u>	<u>9,792,751</u>
TOTAL EQUITY AND LIABILITIES		<u>183,417,041</u>	<u>114,059,076</u>
COMMITMENTS AND OFF BALANCE SHEET ITEMS	27	<u>15,429,199</u>	<u>14,522,277</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 2004**

	Statutory fund MNT '000	Retained earnings MNT '000	Total MNT '000
At 1 January 2003	4,083,230	1,618,380	5,701,610
Net 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>
Net profit for the year	-	1,751,860	1,751,860
Issue of shares	3,045,736	-	3,045,736
At 31 December 2004	<u>10,130,726</u>	<u>4,459,621</u>	<u>14,590,347</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 2004**

	2004	2003
	MNT '000	MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,533,361	1,836,303
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	409,057	409,775
Property, plant and equipment written off	333	2,010
Net allowance for loan losses	2,689,481	1,374,489
Allowance for impairment of other assets	-	19,588
Allowance for impairment of investment securities	4,267	5,840
Gain on disposal of property, plant and equipment	(1,507)	(2,652)
	<hr/>	<hr/>
Operating profit before working capital changes	5,634,992	3,645,353
<i>(Increase)/ decrease in operating assets:-</i>		
Loans and advances	(46,843,770)	(15,825,891)
Other assets	380,323	(2,651,925)
<i>Increase in operating liabilities</i>		
Deposits from customers	53,904,074	28,147,105
Deposits and placements of other banks and financial institutions	8,104,404	789,670
Other liabilities	966,821	786,820
	<hr/>	<hr/>
Cash generated from operations	22,146,844	14,891,132
Income tax paid	(762,789)	(804,431)
Net cash flow generated from operating activities	<hr/> 21,384,055 <hr/>	<hr/> 14,086,701 <hr/>
CASH FLOW FROM INVESTING ACTIVITIES		
Net decrease in investment securities	4,722,068	1,413,382
Proceeds on disposal of property, plant and equipment	354,044	5,304
Purchase of property, plant and equipment	(968,163)	(578,093)
Net cash flow generated from investing activities	<hr/> 4,107,949 <hr/>	<hr/> 840,593 <hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in statutory fund	3,045,736	3,001,760
Drawdown of loan from Bank of Mongolia	46,000	50,000
Drawdown of loans from government and foreign financial institutions	1,539,070	926,788
Net cash flow generated from financing activities	<hr/> 4,630,806 <hr/>	<hr/> 3,978,548 <hr/>

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

**CASH FLOW STATEMENT (CONTD.)
FOR THE YEAR ENDED 31 DECEMBER 2004**

	2004	2003
	MNT '000	MNT '000
Net increase in cash and cash equivalents	30,122,810	18,905,842
Cash and cash equivalents brought forward	51,920,618	33,014,776
Cash and cash equivalents carried forward	<u>82,043,428</u>	<u>51,920,618</u>
Cash and cash equivalents comprises:		
Cash and short term funds	9,117,883	5,252,245
Deposits and placement with other banks and financial institutions	72,925,545	46,668,373
	<u>82,043,428</u>	<u>51,920,618</u>

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

GOLOMT BANK OF MONGOLIA LLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 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 2004 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 March 2005.

2. BASIS OF PREPARATION

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

The financial statements have been prepared under the historical cost convention except for the measurement of financial assets and liabilities at fair values, where applicable. The reporting currency used in the financial statements is the Mongolian Togrog, which is denoted by the symbol MNT, shown rounded to the nearest thousand.

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income is suspended when interest or principal on credit facilities are overdue by more than 90 days. On commencement of suspension, previously accrued interest not received is clawed-back. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accruals basis when the uncertainties surrounding the recoverability are removed and the loan is reclassified as performing.

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. Fees and commission income derived by the Bank relate mainly to money transfer, loan processing, debit card and credit card service, current account withdrawal and deposit box.

(c) Foreign Currencies

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

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

	2004	2003
United States Dollar	1,209.00	1,168.00
Great Britain Pound	2,320.90	2,073.40
European Euro	1,647.40	1,460.20
Japanese Yen	11.65	10.92
Swiss Francs	1,067.70	935.70

(d) Loans and Advances and Allowance for Loan Impairment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Loans and Advances and Allowance for Loan Impairment (contd.)

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

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

The maturity of the loan portfolio is presented in Note 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 where for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing loans at maturity.

(e) Taxation

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

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

(f) Cash and Cash Equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Investment Securities

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

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

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

Interest earned on investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

(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).

Assets under construction are not depreciated. Depreciation of these assets begins when the related assets are ready for intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life. The estimated useful lives used by the Bank are as follows :-

Buildings	40 years
Office equipment and vehicles	10 years
Computers	5 years

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

(i) 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

At each balance sheet date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

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

(k) Sale and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are retained in the financial statements as available-for-sale or held-for-maturity 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 the 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.

(i) Equity Instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Financial Instruments (contd.)

(ii) Derivative Financial Instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- c) the hedge is highly effective on an ongoing basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Financial Instruments (contd.)

(ii) Derivative Financial Instruments (contd.)

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement. Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

4. INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Loans and advances	12,902,142	9,326,074
Deposits and placements with other banks and financial institutions	401,201	247,726
Bank of Mongolia Treasury Bills	736,304	520,546
Government bonds and securities	71,129	62,457
	<u>14,110,776</u>	<u>10,156,803</u>

5. INTEREST EXPENSE

	2004 MNT '000	2003 MNT '000
Current account deposits	554,789	365,292
Time and demand deposits	6,910,564	4,641,602
Loans from other financial institutions	737,978	416,297
Placements by other financial institutions	170,349	43,025
	<u>8,373,680</u>	<u>5,466,216</u>

6. NON-INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Fee and commission income:		
Service charges and fees	1,284,858	603,972
Credit cards advance fees	685,906	543,296
Other fees income	753,881	642,901
	<u>2,724,645</u>	<u>1,790,169</u>
Other income:		
Realised foreign currencies gain	1,277,790	141,008
Unrealised foreign currencies (loss)/ gain	(289,681)	212,734
Gain on disposal of property, plant and equipment	1,507	2,652
Other operating income	34,971	103,069
	<u>1,024,587</u>	<u>459,463</u>
Total non-interest income	<u>3,749,232</u>	<u>2,249,632</u>

7. OPERATING EXPENSES

	2004	2003
	MNT '000	MNT '000
Advertising	173,015	133,132
Communication	351,632	254,459
Depreciation of property, plant and equipment	409,057	409,775
Entertainment	18,184	10,671
Other operating expenses	582,210	484,529
Staff costs		
- Salaries and wages	750,882	538,499
- Social and health insurance	142,795	102,718
Rental of premises	742,903	688,669
Safety expenses	112,034	49,805
Service charges	549,711	692,983
Stationery	173,586	117,101
Training expenses	51,578	25,966
Travelling	205,566	193,682
Write-off of property, plant and equipment	333	2,010
	<u>4,263,486</u>	<u>3,703,999</u>

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

	2004	2003
	Number	Number
Directors and head of departments	25	22
Officers	268	218
Clerks	39	31
	<u>332</u>	<u>271</u>
Of which:		
- Head office	160	130
- Branches	172	141
	<u>332</u>	<u>271</u>

8. ALLOWANCES

	2004	2003
	MNT '000	MNT '000
Allowance for loan losses less writebacks	2,685,214	1,374,489
Allowance for impairment of investment securities	4,267	5,840
Allowance for impairment of other assets	-	19,588
	<u>2,689,481</u>	<u>1,399,917</u>

9. TAXATION

	2004 MNT '000	2003 MNT '000
Current income tax:		
Based on results for the year	771,175	747,186
Under/(over) provision in prior year	10,326	(264)
	<u>781,501</u>	<u>746,922</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. The income tax rate for profits of bank is 15% for the first MNT100 million of taxable income, and 30% (2003: 40%) on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. The allowance for loan losses is deductible for income tax purposes.

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

	2004 MNT '000	2003 MNT '000
Profit before taxation	<u>2,533,361</u>	<u>1,836,303</u>
Tax at statutory tax rate of 30% (2003: 40%)	760,008	734,521
Effect of income not subject to tax	(21,339)	(24,982)
Effect of expenses not allowable for tax purposes	47,506	52,647
Effect of income subject to lower tax rate	(15,000)	(15,000)
Under/(over) provision in prior year	10,326	(264)
Tax expense for the year	<u>781,501</u>	<u>746,922</u>

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

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

10. CASH AND SHORT TERM FUNDS

	2004 MNT '000	2003 MNT '000
Cash and short term funds represented by:		
Local currency	2,887,549	2,379,209
Foreign currencies	6,230,334	2,873,036
	<u>9,117,883</u>	<u>5,252,245</u>

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

	2004	2003
	MNT '000	MNT '000
Current accounts with Bank of Mongolia	25,585,838	9,658,508
Placements with other banks and financial institutions	47,339,707	37,009,865
	<u>72,925,545</u>	<u>46,668,373</u>

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

Placements with other banks and financial institutions represent foreign currencies current accounts maintained with foreign and local financial institutions, which are generally denominated in United States Dollar ("USD") and EURO Dollar ("EURO") and bear interest at annual rates ranging from 0.53% to 2.50% (2003: 0.53% to 1.02%) per annum.

12. INVESTMENT IN SECURITIES

	2004	2003
	MNT '000	MNT '000
Securities held-to-maturity:		
Bank of Mongolia treasury bills	4,129,331	8,568,085
Accretion of discounts	6,320	176,102
Net securities held-to-maturity	<u>4,135,651</u>	<u>8,744,187</u>
Securities available-for-sale:		
Promissory notes	418,726	538,098
Allowance for impairment losses	(4,267)	(5,840)
Net securities available-for-sale	<u>414,459</u>	<u>532,258</u>
	<u>4,550,110</u>	<u>9,276,445</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 6.48% to 15.19% (2003: 0.97% to 17.00%) per annum.

Promissory notes are issued by a private corporation with a 180 days maturity period. The annual interest rate of these promissory notes range from 14.4% to 21.6% (2003: 21.6%) per annum.

13. LOANS AND ADVANCES

	2004	2003
	MNT '000	MNT '000
Short term loans	90,864,592	42,926,216
Term loans	6,814,410	7,877,251
Credit cards	336,747	281,504
Staff loans	392,939	288,311
Accrued interest	544,019	710,313
Gross loans and advances	<u>98,952,707</u>	<u>52,083,595</u>
Allowance for loan losses		
- specific	(6,971,125)	(4,825,717)
- general	(1,038,519)	(469,104)
Net loans and advances	<u>90,943,063</u>	<u>46,788,774</u>

	2004	2003
	MNT '000	MNT '000
Maturity structure		
Maturing within one year	75,546,911	38,256,068
One to five years	13,820,862	7,280,489
After five years	1,575,290	1,252,217
	<u>90,943,063</u>	<u>46,788,774</u>

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

	2004	2003
	MNT '000	MNT '000
Trading	29,041,374	19,421,270
Processing related industries	28,217,223	16,699,633
Mining	8,578,238	3,798,901
Construction and transportation	7,372,401	4,483,150
Power, gas and water supply	4,559,220	1,470,870
Hospitality	3,899,361	1,137,902
Small medium enterprises	5,770,139	607,365
Leasing	3,954,013	587,295
Health and Education	2,200,532	572,795
Agriculture	1,134,086	344,724
Others	4,226,120	2,959,690
	<u>98,952,707</u>	<u>52,083,595</u>

13. LOANS AND ADVANCES (CONTD.)

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

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	5,159,987	6,099,950
NPLs during the year - gross	8,016,025	4,016,439
Recoveries/regularised during the year	(3,847,644)	(5,073,776)
Exchange differences	129,509	117,374
Gross balance at end of year	<u>9,457,877</u>	<u>5,159,987</u>
Less: Specific allowance	<u>(6,971,125)</u>	<u>(4,825,717)</u>
Net balance at year end	<u>2,486,752</u>	<u>334,270</u>
Gross NPLs ratio as a percentage of gross total loans	<u>9.6%</u>	<u>9.9%</u>
Net NPLs ratio as a percentage of net total loans	<u>2.7%</u>	<u>0.7%</u>

Movements in the allowance for loan losses are as follows:

	2004 MNT '000	2003 MNT '000
Specific Allowance		
Balance at beginning of year	4,825,717	3,624,774
Allowance made during the year	2,336,244	1,395,974
Allowance taken over from other banks	19,463	-
Amount written back in respect of recoveries	(221,488)	(200,008)
Exchange difference	11,189	4,977
Balance at end of year	<u>6,971,125</u>	<u>4,825,717</u>

	2004 MNT '000	2003 MNT '000
General Allowance		
Balance at beginning of year	469,104	290,554
Allowance made during the year	681,249	178,523
Amount written back in respect of recoveries	(110,791)	-
Exchange difference	(1,043)	27
Balance at end of year	<u>1,038,519</u>	<u>469,104</u>

13. LOANS AND ADVANCES (CONTD.)

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for USD loans amounting to MNT58,649 million (2003: MNT27,869 million) and EURO loans amounting to MNT694 million (2003: NIL). Interest rate ranges from 6% to 42% per annum (2003 : 6% to 42% per annum).

Loans and advances amounting to approximately MNT89,495 million at 31 December 2004 (2003 : MNT46,924 million) were classified as normal and provided with a 1% loss reserve. Further, loans amounting to MNT9,458 million as at 31 December 2004 (2003 : MNT5,160 million) were classified as NPLs and allowances of MNT6,971 million (2003 : MNT4,826 million) have been allocated against these NPLs.

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

14. OTHER ASSETS

	2004 MNT '000	2003 MNT '000
Other assets	744,139	280,784
Less: Allowance for impairment of other assets	(68,720)	(69,528)
	<u>675,419</u>	<u>211,256</u>
Prepaid expenses	2,498,715	3,217,942
Consumables and other inventories	205,309	232,911
Net balance of other assets	<u>3,379,443</u>	<u>3,662,109</u>

15. TAX RECOVERABLE

	2004 MNT '000	2003 MNT '000
Tax recoverable	<u>1,549</u>	<u>20,261</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

	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Construction in progress MNT'000	Total MNT '000
At cost					
Balance at beginning of year	1,007,494	30,538	2,347,088	97,657	3,482,777
Additions	205,312	-	762,851	-	968,163
Disposals	(397,248)	-	(2,014)	-	(399,262)
Transfer to other assets	-	-	-	(97,657)	(97,657)
Write-offs	-	-	(14,837)	-	(14,837)
Balance at end of year	815,558	30,538	3,093,088	-	3,939,184
Accumulated depreciation					
Balance at beginning of year	151,539	12,894	927,475	-	1,091,908
Charge for the year	26,469	3,054	379,534	-	409,057
Disposals	(45,902)	-	(823)	-	(46,725)
Write-offs	-	-	(14,504)	-	(14,504)
Balance at end of year	132,106	15,948	1,291,682	-	1,439,736
Net Book Value					
At 31 December 2004	683,452	14,590	1,801,406	-	2,499,448
At 31 December 2003	855,955	17,644	1,419,613	97,657	2,390,869
Depreciation charge for 2003	54,621	3,054	352,100	-	409,775

17. DEPOSITS FROM CUSTOMERS

	2004 MNT '000	2003 MNT '000
Current account deposits	32,635,907	26,280,795
Demand account deposits	35,043,281	19,291,117
Time deposits	76,590,230	44,917,365
Government deposits	2,142,253	1,892,537
Other deposits	712,902	838,685
	<u>147,124,573</u>	<u>93,220,499</u>

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

	2004 MNT '000	2003 MNT '000
Due within six months	60,823,405	31,512,785
Six months to one year	14,446,884	6,734,583
One year to five years	110,150	6,669,997
Over five years	1,209,791	-
	<u>76,590,230</u>	<u>44,917,365</u>

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

	2004 MNT '000	2003 MNT '000
Business enterprises	29,057,274	20,045,851
Individuals	115,925,046	71,282,111
Government	2,142,253	1,892,537
	<u>147,124,573</u>	<u>93,220,499</u>

Current account and other deposits generally bear no interest, however for depositors maintaining current account balance above a prescribed limit, interests are provided at annual rates of approximately 1.2% (2003: 1.2%) per annum and between 1.2% to 3.6% (2003: 3.0% to 3.6%) per annum for foreign currencies and local currency accounts, respectively.

Demand deposits in foreign currencies and local currency bear an annual interest rate of approximately 3.6% (2003: 3.6%) per annum and 7.2% (2003: 7.2%) per annum, respectively.

Time deposits in foreign currencies and local currency bear an annual interest rate ranging from 7.20% to 8.16% (2003: 0.7% to 7.2%) per annum and 12.0% to 17.4% (2003: 1.3% to 14.4%) per annum, respectively.

Government deposits in foreign currencies and local currency bear an annual interest rate ranging from 6.0% to 7.2% (2003: 6.0% to 7.2%) per annum and 12.0% to 14.4% (2003: 12.0% to 14.4%) per annum, respectively.

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

	2004	2003
	MNT '000	MNT '000
Foreign currency current account deposits	6,438,152	1,379,194
Local currency current account deposits	3,349,717	304,271
	<u>9,787,869</u>	<u>1,683,465</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

	2004	2003
	MNT '000	MNT '000
Loans from Bank of Mongolia	<u>1,120,000</u>	<u>1,074,000</u>

These borrowings bear an interest rate of 10% (2003: 10%) per annum. The final repayment of these borrowings is due in July 2005 in accordance to the repayment schedule.

20. GOVERNMENT LOAN

	2004	2003
	MNT '000	MNT '000
Loan from government	<u>500,000</u>	<u>320,000</u>

The interest rate of the loan is fixed at 6% (2003: 6%) per annum. The loan was repayable within a year in 2003 in accordance to the repayment schedule. The loan was however rescheduled and is accordingly repayable within a year from the current financial year.

21. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2004	2003
	MNT'000	MNT'000
Foreign funded loans:		
World Bank Loan I	2,902,048	3,075,422
World Bank Loan II	1,819,466	2,177,796
World Bank Loan III	413,789	327,825
Berliner Bank Loan	536,596	488,446
Asian Development Bank	2,185,333	428,673
	<u>7,857,232</u>	<u>6,498,162</u>

21. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS (CONTD.)

World Bank Loan I

The World Bank USD loan amounts to USD2.4 million or MNT2.9 billion (2003: USD2.6 million or MNT3.0 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 ranges from 4.17% to 5.63% (2003: 4.20% to 4.46%). The repayment of the loan is in accordance with various repayment schedules, with the final payment due in March 2010.

World Bank Loan II

The World Bank MNT loan balance stands at MNT1.8 billion (2003: MNT2.2 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 ranges from 13.51% to 15.96% (2003: 12.25% to 13.51%). The final repayment of the loan is in accordance with various repayment schedules, 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% (2003 : 2%) per annum with half yearly 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% (2003: 7.45%) per annum. The Bank commenced quarterly principal repayments in June 1996 and the final repayment is due in September 2025.

Asian Development Bank

The loan was subsequently disbursed to housing loan borrowers. The interest rate on the loans is between 8.2% to 8.8% (2003: 8% to 8.2%) per annum. Terms of repayment of the loan are in accordance with the various repayment schedules.

22. OTHER LIABILITIES

	2004 MNT '000	2003 MNT '000
Payables	291,643	244,089
Foreign remittance under request	156,854	627,757
Delay on clearing settlement	1,731,560	230,390
Other payables	256,963	367,963
	<u>2,437,020</u>	<u>1,470,199</u>

23. STATUTORY FUND

	2004 MNT '000	2003 MNT '000
At the beginning of the year	7,084,990	4,083,230
Issued during the year	3,045,736	3,001,760
At the end of the year	<u>10,130,726</u>	<u>7,084,990</u>

24. FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main 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 MNT43.5 billion (2003: MNT36.1 billion) and property, plant and equipment amounting to MNT492 million (2003: MNT507 million), all banking assets and liabilities were geographically concentrated in Mongolia.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable 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.

24. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Currency risk (contd.)

As at 31 December 2004

	Local Currency MNT'000	Foreign Currencies			Total MNT'000
		USD MNT'000	EURO MNT'000	Others MNT'000	
Assets					
Cash and short term funds	2,887,550	2,738,718	595,137	2,896,478	9,117,883
Deposits and placements with other banks and financial institutions	9,588,979	51,313,636	6,487,516	5,535,414	72,925,545
Investment in securities	4,127,287	-	422,823	-	4,550,110
Loans and advances	31,600,011	58,649,106	693,946	-	90,943,063
Other assets	2,758,193	375,439	41	245,770	3,379,443
Tax recoverable	1,549	-	-	-	1,549
	50,963,569	113,076,899	8,199,463	8,677,662	180,917,593
Liabilities					
Deposits from customers	38,193,798	97,242,753	6,787,379	4,900,643	147,124,573
Deposits and placements of other banks and financial institutions	6,438,152	2,718,207	166,413	465,097	9,787,869
Loans from Bank of Mongolia	1,120,000	-	-	-	1,120,000
Government loans	500,000	-	-	-	500,000
Loans from foreign financial institutions	3,991,917	3,328,719	536,596	-	7,857,232
Other liabilities	1,090,698	953,285	203,473	189,564	2,437,020
	51,334,565	104,242,964	7,693,861	5,555,304	168,826,694
Net position	(370,996)	8,833,935	505,602	3,122,358	12,090,899
Commitments and other off balance sheet items	126,455	14,187,513	642,485	472,746	15,429,199

24. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Currency risk (contd.)

As at 31 December 2003

	Local Currency MNT'000	Foreign Currencies			Total MNT'000
		USD MNT'000	EURO MNT'000	Others MNT'000	
Assets					
Cash and short term funds	2,379,209	1,840,350	425,999	606,687	5,252,245
Deposits and placements with other banks and financial institutions	1,727,290	33,945,511	2,552,714	8,442,858	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	317,487	15,685	71,531	3,662,109
Tax recoverable	20,261	-	-	-	20,261
	35,038,375	64,514,358	2,994,398	9,121,076	111,668,207
Liabilities					
Deposits from customers	32,213,755	57,573,134	2,818,698	614,912	93,220,499
Deposits and placements of other banks and financial institutions	304,271	1,368,239	10,347	608	1,683,465
Loans from Bank of Mongolia	1,074,000	-	-	-	1,074,000
Government loans	320,000	-	-	-	320,000
Loans from foreign financial institutions	2,602,212	3,408,278	487,672	-	6,498,162
Other liabilities	5,926	1,382,028	8,938	73,307	1,470,199
	36,520,164	63,731,679	3,325,655	688,827	104,266,325
Net position	(1,481,789)	782,679	(331,257)	8,432,249	7,401,882
Commitments and other off balance sheet items	558,576	7,205,830	20,820	6,737,051	14,522,277

24. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's Assets and Liabilities Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The following table analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

24. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Liquidity risk (contd.)

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

Assets	Less than 3 months		6 months to 1 year		1 to 5 years		Over 5 years		Total
	3 to 6 months	1 year	1 to 5 years	6 months to 1 year	1 to 5 years	Over 5 years	Total		
Cash and short term funds	9,117,883	-	-	-	-	-	-	-	9,117,883
Deposits and placements with other banks and financial institutions	71,674,430	-	-	1,209,000	-	-	42,115	-	72,925,545
Investment in securities	4,550,110	-	-	-	-	-	-	-	4,550,110
Loans and advances	29,221,285	17,000,473	13,820,862	29,325,153	13,820,862	1,575,290	-	-	90,943,063
Other assets	3,379,443	-	-	-	-	-	-	-	3,379,443
Tax recoverable	1,549	-	-	-	-	-	-	-	1,549
	<u>117,944,700</u>	<u>17,000,473</u>	<u>13,820,862</u>	<u>30,534,153</u>	<u>13,820,862</u>	<u>1,617,405</u>	<u>-</u>	<u>-</u>	<u>180,917,593</u>
Liabilities									
Deposits from customers	123,177,792	8,179,956	110,150	14,446,884	110,150	1,209,791	-	-	147,124,573
Deposits and placements of other banks and financial institutions	9,183,369	-	-	604,500	-	-	-	-	9,787,869
Loan from Bank of Mongolia	21,000	-	251,200	847,800	251,200	-	-	-	1,120,000
Government loan	-	500,000	-	-	-	-	-	-	500,000
Loans from foreign financial institutions	343,882	585,194	4,244,867	591,374	4,244,867	2,091,915	-	-	7,857,232
Other liabilities	2,182,020	-	255,000	-	255,000	-	-	-	2,437,020
	<u>134,908,063</u>	<u>9,265,150</u>	<u>4,861,217</u>	<u>16,490,558</u>	<u>4,861,217</u>	<u>3,301,706</u>	<u>-</u>	<u>-</u>	<u>168,826,694</u>
Net liquidity gap	<u>(16,963,363)</u>	<u>7,735,323</u>	<u>8,959,645</u>	<u>14,043,595</u>	<u>8,959,645</u>	<u>(1,684,301)</u>	<u>-</u>	<u>-</u>	<u>12,090,899</u>
Accumulated gap	<u>(16,963,363)</u>	<u>(9,228,040)</u>	<u>13,775,200</u>	<u>4,815,555</u>	<u>13,775,200</u>	<u>12,090,899</u>	<u>-</u>	<u>-</u>	<u>12,090,899</u>

24. FINANCIAL 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
Assets						
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
	<u>73,413,680</u>	<u>14,933,004</u>	<u>14,781,809</u>	<u>7,287,497</u>	<u>1,252,217</u>	<u>111,668,207</u>
Liabilities						
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	21,069,885	(16,081,114)	6,888,114	(4,315,387)	(159,616)	7,401,882
Accumulated gap	<u>21,069,885</u>	<u>4,988,771</u>	<u>11,876,885</u>	<u>7,561,498</u>	<u>7,401,882</u>	

24. FINANCIAL 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 2004 and 2003 for monetary financial instruments are as follows:

	2004		2003	
	MNT	Foreign currencies	MNT	Foreign currencies
Interest earning assets				
Placement with other banks	-	0.53% - 2.50%	-	0.53% - 1.02%
Bank of Mongolia treasury bills	6.48% - 15.19%	-	0.97% - 17.00%	-
Government bonds	7.29% - 13.28%		5.04% - 14.18%	-
Promissory notes	20.40% - 21.60%	14.40%	-	21.60%
Loans and advances	6.00% - 42.00%	12.00% - 26.40%	6.00% - 42.00%	18.00% - 30.00%
Interest bearing liabilities				
Demand deposits from customers	7.20%	3.60%	7.20%	3.60%
Time deposits from customers	12.00% - 17.40%	7.20% - 8.16%	1.30% - 14.40%	0.70% - 7.20%
Current account deposits from customers	1.20% - 3.60%	1.20%	3.00% - 3.60%	1.20%
Government deposits	12.00% - 14.40%	6.00% - 7.20%	12.00% - 14.40%	6.00% - 7.20%
Government loan	6.00%	-	6.00%	-
Loans from Bank of Mongolia	-	10.00%	-	10.00%
Loans from foreign financial institutions	13.51% - 15.96%	2.00% - 8.8%	10.00% - 14.40%	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.

As at 31 December, the Bank has the following balances and transactions with related parties, which are companies in which the directors has substantial financial interest:

	2004	2003
	MNT '000	MNT '000
a) Deposits from customers:		
Bodi Insurance Co. Limited	16,284	61
Bodi International Co. Limited	9,134	305
Bodicom Co. Limited	348,993	1,790
Smartcard Co. Limited	31,989	20,266
Bodi Computer Co. Limited	106	23
Bodi Properties Co. Limited	31,584	55,299
MPC Co. Limited	973	12,186
Bodi Automotive Co. Limited	52,733	44,403
SB Logistic Co. Limited	67	5,835
Bodi Tower Co. Limited	14,995	-
	<u>506,858</u>	<u>140,168</u>
	2004	2003
	MNT '000	MNT '000
b) Purchase of computers and software from:		
Smartcard Co.Limited	120,651	67,427
MPC Co.Limited	120,780	75,808
	<u>241,431</u>	<u>143,235</u>

25. RELATED PARTY DISCLOSURES (CONTD.)

	2004 MNT '000	2003 MNT '000
d) Rental of garage to:		
Bodicom Co. Limited	152	544
MPC Co. Limited	333	544
Bodi Insurance Co. Limited	758	712
Bodi Properties Co. Limited	333	544
Smartcard Co. Limited	-	544
	<u>1,576</u>	<u>2,888</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 in 2003.

f) Loans to key management personnel

Total outstanding balance as at 31 December 2004 of loans granted to key management personnel amounts to MNT48.1 million (2003: MNT82.5 million). The loans to Bank's employees bear interest rate of 6% (2003: 6%) per annum.

Directors' Remuneration

The executive director received remuneration totalling MNT7.5 million (2003 : MNT5.4 million). The non-executive director received fees totalling MNT7.5 million (2003 : MNT5.4 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:

	2004	2003
Core capital ratio	13.10%	15.36%
Risk weighted capital ratio	13.10%	15.36%
<u>Tier I capital</u>		
Statutory fund	10,130,726	7,084,990
Retained earnings	4,459,621	2,707,761
Total Tier I Capital/ Capital Base	<u>14,590,347</u>	<u>9,792,751</u>

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

	2004		2003	
	MNT '000		MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	37,575,984	-	23,420,670	-
10	-	-	-	-
20	61,279,977	12,255,995	37,213,395	7,442,679
50	-	-	21,280	10,640
100	99,150,874	99,150,874	56,292,644	56,292,644
Total	<u>198,006,835</u>	<u>111,406,869</u>	<u>116,947,989</u>	<u>63,745,963</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.

	2004 MNT '000	2003 MNT '000
Guarantees and letter of credits	15,201,163	456,781
Lease commitments	-	372,402
Foreign exchange commitments	-	11,409,051
Other off balance sheet items	228,036	2,284,043
	<u>15,429,199</u>	<u>14,522,277</u>

In the year 2001, the Bank has entered into an agreement on letters of credit ("LCs") with a foreign supplier ("beneficiary"). Under the agreement, the Bank is obligated to pay on the LCs to the beneficiary only upon receipts of payments from the buyers. In the event that there are any arrears in the repayment by the buyers on the LCs' amounts, the Bank shall have no liability to the beneficiary.

b) 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 2004, the Bank has NIL open positions (2003: 10 open positions) on foreign currency exchange forward contracts amounting to MNT NIL (2003: MNT11.4 billion).

c) Other off balance sheet items.

At 31 December 2004 and 2003, other off balance sheet items comprise 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. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

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

29. CURRENCY

All amounts are in Mongolian Togrog unless otherwise stated.

30. MONGOLIAN TRANSLATION

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