

MONGOL POST BANK

Audited Financial Statements  
31 December 2002

## **AUDITORS' REPORT**

### **To Mongol Post Bank of Mongolia**

We have audited the financial statements of Mongol Post Bank on pages 3 to 31.

#### **Respective responsibilities of Directors and Auditors**

The Bank's Board of Directors is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

Specifically, the financial statements of Mongol Post Bank have been prepared to comply with International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, which have been prepared on the basis set out in the financial statements, present fairly the financial position of the Bank at 31 December 2002 and of the results for the year then ended.

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Board to ensure that the financial statements comply with the requirements set out in notes 3 and 4 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Bank. Applicable accounting standards have been followed in preparing the financial statements of the Bank insofar as they are appropriate to the basis of accounting set out in the notes to the financial statements.

### **Basis of opinion**

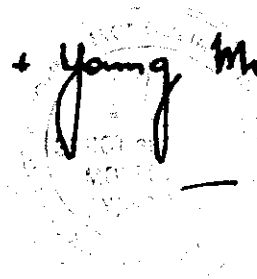
We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, other irregularities or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in notes 3 and 4.

### **Opinion**

In our opinion, the financial statements on pages 3 to 31 present fairly, in all material respects, the financial position of Mongol Post Bank at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

*Bms + Yang Mongol Audit Co.*



28 February 2003  
Ulaan Baatar

**MONGOL POST BANK**

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

	Note	2002 MNT '000	2001 MNT '000
Interest and similar income	5	3,206,794	1,658,332
Interest expense and similar charges	6	<u>(1,169,503)</u>	<u>(427,902)</u>
<b>Net interest income</b>		2,037,291	1,230,430
Fees and commissions	7	253,404	261,538
Foreign exchange and translation gains, net of losses	8	50,466	30,804
Other operating income	9	<u>84,216</u>	<u>79,023</u>
<b>Non interest income</b>		388,086	371,365
<b>Operating profit</b>		2,425,377	1,601,795
Operating expenses	10	<u>(1,259,810)</u>	<u>(863,807)</u>
<b>Profit before provisions</b>		1,165,567	737,988
Provisions	11	<u>(225,013)</u>	<u>(134,346)</u>
<b>Profit before taxation</b>		940,554	603,642
Taxation	12	<u>(357,539)</u>	<u>(264,029)</u>
<b>Profit for the year</b>		<u><u>583,015</u></u>	<u><u>339,613</u></u>

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

# MONGOL POST BANK

## BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 MNT '000	2001 MNT '000
<b>ASSETS</b>			
Cash and short term funds	13	2,591,346	1,854,148
Deposits and placements with other financial institutions	14	1,408,768	600,412
Investment in securities	15	6,577,422	1,429,345
Loans and advances	16	16,051,451	11,865,007
Owned premises	17	1,258,393	691,625
Other assets	18	362,379	340,256
Property, plant & equipment	19	2,254,480	1,785,720
<b>TOTAL ASSETS</b>		<u>30,504,239</u>	<u>18,566,513</u>
<b>LIABILITIES AND CAPITAL FUNDS</b>			
Deposits from customers and other financial institutions	20	24,841,906	14,899,741
Loans from foreign financial institutions	21	1,894,149	310,944
Dividend payable		-	288,671
Taxes payable		8,871	67,185
Other liabilities	22	447,217	373,113
<b>TOTAL LIABILITIES</b>		<u>27,192,143</u>	<u>15,939,654</u>
<b>CAPITAL FUNDS</b>			
Statutory fund	23	2,104,574	2,002,352
Revaluation reserves	24	582,380	582,380
Retained earnings		625,142	42,127
<b>TOTAL CAPITAL FUNDS</b>		<u>3,312,096</u>	<u>2,626,859</u>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<u>30,504,239</u>	<u>18,566,513</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	26	<u>2,352,587</u>	<u>1,151,107</u>

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

**MONGOL POST BANK**

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

	Note	Share capital MNT'000	Revaluation reserves MNT'000	Retained earnings MNT'000	Total MNT'000
At 1 January 2001		1,040,483	582,380	49,298	1,672,161
Profit for the year		-	-	339,613	339,613
Dividend	25	-	-	(288,671)	(288,671)
Transfer to social development fund		-	-	(58,113)	(58,113)
Issue of shares		961,869	-	-	961,869
At 31 December 2001		2,002,352	582,380	42,127	2,626,859
Profit for the year		-	-	583,015	583,015
Issue of shares		102,222	-	-	102,222
At 31 December 2002		2,104,574	582,380	625,142	3,312,096

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

**MONGOL POST BANK****CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	2002 MNT '000	2001 MNT '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before taxation</b>	940,554	603,642
<i>Adjustments for :-</i>		
Depreciation of plant, property & equipment	96,002	61,328
Provisions	225,013	134,346
Recoveries on provisions	(54,396)	(43,884)
Plant, property & equipment written off	1,643	150
Gain on disposal of plant, property & equipment	(244)	(506)
<b>Operating profit before working capital changes</b>	<u>1,208,572</u>	<u>755,076</u>
<i>Increase in operating assets:-</i>		
Loans and advances	(4,362,467)	(7,913,817)
Owned premises	(560,145)	(61,862)
Other assets	(23,340)	(145,523)
<i>Increase in operating liabilities</i>		
Deposits from customers	9,942,165	7,939,889
Other liabilities	74,104	89,223
<b>Cash generated from operations</b>	<u>6,278,889</u>	<u>662,986</u>
Income tax paid	(415,853)	(284,474)
<b>Net cash flows from operating activities</b>	<u>5,863,036</u>	<u>378,512</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net increase in investment in securities	(5,148,077)	(1,429,345)
Proceeds on disposal of plant, property & equipment	1,128	9,312
Purchase of plant, property & equipment	(567,289)	(269,642)
<b>Net cash flows used in investing activities</b>	<u>(5,714,238)</u>	<u>(1,689,675)</u>
<b>Net cash flows carried forward</b>	148,798	(1,311,163)

**MONGOL POST BANK**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTD.)**

	<b>2002</b>	<b>2001</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Net cash flows brought forward</b>	148,798	(1,311,163)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in loans from foreign financial institutions	1,583,205	247,640
Statutory fund contribution	102,222	961,869
Dividend paid	(288,671)	(230,334)
<b>Net cash flows from financing activities</b>	<u>1,396,756</u>	<u>979,175</u>
<b>Net change in cash and cash equivalents</b>	1,545,554	(331,988)
<b>Cash and cash equivalents brought forward</b>	<u>2,454,560</u>	<u>2,786,548</u>
<b>Cash and cash equivalents carried forward</b>	<u><u>4,000,114</u></u>	<u><u>2,454,560</u></u>

Cash and cash equivalents comprise:

Cash and short term funds	2,591,346	1,854,148
Deposits and placement with other financial institutions	<u>1,408,768</u>	<u>600,412</u>
	<u><u>4,000,114</u></u>	<u><u>2,454,560</u></u>

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



# **MONGOL POST BANK**

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

### **1. CORPORATE INFORMATION**

The financial statements of the Bank for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the Directors on 28 February 2003.

Mongol Post Bank commenced operations in 1993. The registered address and the principal place of business of the Bank is Mongol Post Bank Building, Kholboochdyn Street - 4, Ulaanbaatar-13, P.O. Box 874 Mongolia.

### **2. PRINCIPAL ACTIVITIES**

The principal activities of the Bank are that of the provision of banking and financial services, pursuant to License No. 4 issued by the Bank of Mongolia ("BOM"). There have been no significant changes in the nature of these activities during the year.

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

The Bank's financial statements have been prepared so as to present fairly the financial position of the Bank, and its income statement, cash flows and total recognized gains or losses, and in accordance with applicable International Accounting Standards ("IAS"). These financial statements have also complied with the Commercial Banks Financial Statement Reporting Rules and the Unified Accounting Principles issued by the Central Bank - the Bank of Mongolia.

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets. The reporting currency used in the financial statements is the Mongolian Togrog, which is denoted by the symbol MNT, shown rounded to the nearest thousand.

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

Mongol Post Bank constitutes a single business, all conducted in Mongolia. The Bank has no branches or operations abroad. Accordingly, no further analysis into business or geographical segments is appropriate in the financial statements.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### (a) Interest income and expense

Interest income and expense are recognised on an accruals basis. The recognition of interest income is suspended when the probability of recoverability of either the principal or interest is ascertained as doubtful. In accordance with the requirements of Bank of Mongolia, interest is suspended when repayments are in arrears for 1 month. On commencement of suspension, previously accrued interest not received is claw-backed. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accrual basis when the uncertainties surrounding the recoverability are removed.

##### (b) Fee income and commissions

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

##### (c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Togrog at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are stated at cost or revalued amount, being the Togrog equivalent of the foreign currency at the date of acquisition of the assets or incidence of the liability, or on the date the asset or liability was revalued. Income and expenditure are translated into Togrog at the exchange rates ruling at the date of transactions.

The resulting exchange gain or loss arising from monetary assets and liabilities, and foreign currency transactions are recognised in the income statement.

The principal exchange rates used are as follows:-

	2002	2001
US Dollar ("USD")	1,125.00	1,102.00
Pound Sterling ("GBP")	1,804.00	1,599.50
EURO	1,169.00	988.90
Deutsche Mark ("DEM")	-	505.60

#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### (d) Provision for loan loss

Provision for loan loss is made as considered necessary having regard to both specific and general factors. In determining the need for provisions, management considers, among other things, the financial position of the borrowers, the value of any collateral and guarantees received, industry performance, current economic conditions and past experiences. Provision made (less amounts recovered) during the year is charged against the income statement.

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

##### (e) Maturity of loans and advances

The maturity of the loan portfolio is presented in Note 16 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolia marketplace, short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by a classification based on contractual terms.

##### (f) Property, plant & equipment

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

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

Building	1.2%
Furniture & vehicles	8.0%-16.6%
Computers	20.0%

Capital work in progress is not depreciated. Depreciation on these assets begins when the related assets are placed in service. During the year, the Bank changed the estimated useful life of computers from 16.6% to 20.0%.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### **(g) Investment securities**

Bank of Mongolia bills and foreign issue securities are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date on a straight line basis. Provision is made when the Directors consider that there is a permanent diminution in value of such investments.

##### **(h) 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.

##### **(i) Cash and cash equivalents**

Cash and cash equivalents consist of cash and short term funds, deposits and placements with other financial institution that are readily convertible to cash with insignificant risk of changes in value.

##### **(j) Deposits of customers and other financial institutions**

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

##### **(k) Impairment of assets**

The Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### (l) Statement of cash flows

The statement of cash flows classifies changes in cash and cash equivalents according to operating, investing and financing activities. The Bank does not consider any of the assets other than non-fiduciary cash and bank balances and short term deposits to meet the definition of cash and cash equivalents. The statement of cash flows is prepared using the indirect method.

##### (m) Use of estimates

The preparation of financial statements in conformity with IAS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

#### 5. INTEREST AND SIMILAR INCOME

	2002 MNT '000	2001 MNT '000
Loans and advances	3,093,089	1,586,865
Deposits and placements with foreign financial institutions	2,198	4,425
Treasury bills	83,788	62,589
Others	27,719	4,453
	<u>3,206,794</u>	<u>1,658,332</u>

#### 6. INTEREST EXPENSE AND SIMILAR CHARGES

Current account deposits	74,014	37,615
Time and saving account deposits	1,082,381	380,092
Others	13,108	10,195
	<u>1,169,503</u>	<u>427,902</u>

#### 7. FEES AND COMMISSIONS

This represents fees and commissions earned from current account withdrawals.

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

	2002 MNT '000	2001 MNT '000
Net foreign currency transaction gains	50,466	34,036
Net foreign currency translation losses	-	(3,232)
	<u>50,466</u>	<u>30,804</u>

**9. OTHER OPERATING INCOME**

Service charges	272	304
Rental	11,557	7,555
Other income	17,991	71,164
Recoveries on provision for loan losses	40,800	-
Recoveries on provision for other assets	13,147	-
Recoveries on provision for owned premises	449	-
	<u>84,216</u>	<u>79,023</u>

**10. OPERATING EXPENSES**

Salaries and retirement benefits, provision for staff welfare and bonus	439,307	267,760
Depreciation	96,002	61,328
Travelling	50,725	31,044
Rental of premises	41,499	32,198
Entertainment	7,802	17,146
Advertising	54,208	41,908
Social and health insurance	70,737	42,763
Social development fund	19,012	11,151
Communication	116,143	77,319
Other operating expenses	364,375	281,190
	<u>1,259,810</u>	<u>863,807</u>

## 10. OPERATING EXPENSES (CONT'D)

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

	2002 Number	2001 Number
Directors and heads of departments	30	29
Officers	260	257
Clerks etc.	76	77
	<u>366</u>	<u>363</u>
Of which:		
- Head office	104	81
- Branches	262	282
	<u>366</u>	<u>363</u>

## 11. PROVISIONS

	2002 MNT '000	2001 MNT '000
Loan losses	216,823	112,148
Owned premises	6,524	-
Other assets-receivables	1,666	22,198
	<u>225,013</u>	<u>134,346</u>

## 12. TAXATION

Current income tax	357,539	196,844
Underprovision of prior year taxation	-	67,185
	<u>357,539</u>	<u>264,029</u>

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the tax authorities. The tax rate is 15% for taxable profits up to MNT100 million and 40% for taxable profits in excess of MNT100 million.

### 13. CASH AND SHORT TERM FUNDS

	2002 MNT '000	2001 MNT '000
Balances with Bank of Mongolia	1,374,559	1,195,001
Cash and bank balances with other banks	1,216,787	659,147
	<u>2,591,346</u>	<u>1,854,148</u>

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

### 14. DEPOSITS AND PLACEMENTS WITH OTHER FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Foreign financial institutions	258,650	214,679
Local financial institutions	1,150,118	385,733
	<u>1,408,768</u>	<u>600,412</u>

This represents foreign currency current accounts maintained with foreign and local financial institutions. Current accounts with foreign financial institutions are generally denominated in US Dollars and EURO and bear interest at annual rates ranging from 3.5% to 6.0% (2001 : 2.3% to 4.3%), while those with local financial institutions bear annual interest rate of 3.5% to 5.5% (2001 : 2.5%) .

### 15. INVESTMENT IN SECURITIES

	2002 MNT '000	2001 MNT '000
Bank of Mongolia bills	6,550,214	1,427,387
Securities - Foreign issue	2,315	1,958
	<u>6,552,529</u>	<u>1,429,345</u>
Accretion of discounts	24,893	-
	<u>6,577,422</u>	<u>1,429,345</u>

Bank of Mongolia bills are non interest bearing short term bills with maturities of less than one month, and are issued at a discount to the fair value of the bills upon maturity.



## 16. LOANS AND ADVANCES

	2002 MNT '000	2001 MNT '000
Term loans	16,551,883	12,526,300
Staff loans	95,889	15,005
Loans to stakeholders and related parties	<u>170,028</u>	<u>68,988</u>
Gross loans and advances	16,817,800	12,610,293
Provisions		
- specific provision	(623,667)	(632,009)
- general provision	<u>(142,682)</u>	<u>(113,277)</u>
	<u>(766,349)</u>	<u>(745,286)</u>
Net loans and advances	<u><u>16,051,451</u></u>	<u><u>11,865,007</u></u>
<b>Maturity structure</b>		
Maturing within 1 year	15,842,292	11,934,049
One year to five years	607,797	365,300
Over five years	<u>367,711</u>	<u>310,944</u>
	<u><u>16,817,800</u></u>	<u><u>12,610,293</u></u>

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

	2002 MNT '000	2001 MNT '000
Trade	3,741,364	6,688,140
Petroleum importation	750,000	1,209,950
Food processing	1,972,000	2,890,358
Mining related	1,109,725	719,638
Agriculture	1,667,515	-
Textile	3,480,826	-
Others	<u>4,096,370</u>	<u>1,102,207</u>
	<u><u>16,817,800</u></u>	<u><u>12,610,293</u></u>

Others include companies in industries such as energy, construction and real estate.

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

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

	2002 MNT '000	2001 MNT '000
At 1 January	1,166,119	1,326,524
NPL during the year - gross	3,670,941	1,600,196
Recoveries	(1,832,270)	(1,437,719)
Amount written off	(153,918)	(132,882)
Transferred to other assets	(687,702)	(190,000)
	<u>2,163,170</u>	<u>1,166,119</u>
Gross balance at 31 December		
Less: Specific provision	<u>(623,667)</u>	<u>(632,009)</u>
Net balance at 31 December	<u>1,539,503</u>	<u>534,110</u>
Gross NPL ratio as a percentage of gross total loans	12.9%	9.2%
Net NPL ratio as a percentage of net total loans	9.6%	4.5%

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

	2002 MNT '000	2001 MNT '000
<b>Specific provisions</b>		
At 1 January	632,009	717,684
Charge for the year	187,418	112,444
Recoveries	(40,800)	(78,504)
Directly written off	(154,960)	(119,615)
	<u>623,667</u>	<u>632,009</u>
At 31 December		
<b>General provisions</b>		
At 1 January	113,277	34,675
Charge for the year less write backs	29,405	78,602
	<u>142,682</u>	<u>113,277</u>
At 31 December		

Included in loans and advances is accrued interest totaling MNT218 million (2001 : MNT116 million).

The Bank's balance sheet credit exposures as at 31 December 2002 amounted to MNT16.8 billion (2001 : MNT12.4 billion), of which MNT2.2 billion (2001 : MNT1.2 billion) are due on accounts which have been classified as non-performing loans ("NPL").

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

Specific and general provisions of MNT766 million (2001 : MNT745 million) have been allocated against the NPLs, which represents a coverage ratio of approximately 35% (2001 : 64%) of the total NPL amount.

The current practice of the Bank is to base the level of specific provisions on an evaluation of each customer's present situation and the level of general provision on an evaluation of the present situation of the Bank's entire performing loans and advances portfolio. As such, the provisions are based on conditions prevailing and information available at the date of these financial statements. The provisions do not incorporate an assessment of the potential for future deterioration in the asset quality of the Bank.

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

## 17. OWNED PREMISES

	2002 MNT '000	2001 MNT '000
Foreclosed assets	<u>1,258,393</u>	<u>691,625</u>

Foreclosed properties are disclosed net of provisions totalling MNT13.8 million (2001 : MNT7.7 million). These provisions are based on guidelines by the Bank of Mongolia.

## 18. OTHER ASSETS

	2002 MNT '000	2001 MNT '000
Receivables	55,522	-
Prepayment	30,340	120,893
Advances	41,044	64,167
Inventory	215,678	143,295
Fast depreciation and low value assets	<u>19,795</u>	<u>11,901</u>
	<u>362,379</u>	<u>340,256</u>

## 19. PROPERTY, PLANT & EQUIPMENT

Net Book Value	Buildings		Furniture & vehicles		Computers		Construction		Total
	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	
At 1 January 2002	1,314,857	279,898	140,965	50,000	1,785,720				
Additions	171,791	190,961	89,549	114,988	567,289				
Disposals	-	(884)	-	-	(884)				
Written off	-	(1,252)	(391)	-	(1,643)				
Reclassification	-	(1,088)	1,088	-	-				
Depreciation	(16,886)	(42,805)	(36,311)	-	(96,002)				
At 31 December 2002	1,469,762	424,830	194,900	164,988	2,254,480				
At 31 December 2002									
At cost	1,503,181	527,211	257,386	164,988	2,452,766				
Accumulated depreciation	(33,419)	(102,381)	(62,486)	-	(198,286)				
Net carrying amount	1,469,762	424,830	194,900	164,988	2,254,480				
At 31 December 2001									
At cost	1,331,390	340,415	172,079	50,000	1,893,884				
Accumulated depreciation	(16,533)	(60,517)	(31,114)	-	(108,164)				
Net carrying amount	1,314,857	279,898	140,965	50,000	1,785,720				

The cost of buildings is shown at cost and valuation. Included in the cost of buildings is an amount of MNT582,380 thousand (2001: MNT582,380 thousand) carried at valuation which was done in year 2000 by a professional valuer.

## 20. DEPOSITS FROM CUSTOMERS

	2002 MNT '000	2001 MNT '000
Current accounts	8,244,222	7,982,911
Savings deposits	2,348,281	743,330
Time deposits	14,249,403	6,173,500
	<u>24,841,906</u>	<u>14,899,741</u>

Current account generally bears no interest, however for depositors maintaining a balance above a prescribed limit, interest is provided at annual rates of approximately 2.4% and 4.8% (2001 : 2.4% and 4.8%) for both foreign currency and local currency current accounts respectively.

Foreign currency saving deposits bear interest at an annual rate of approximately 4.8% (2001 : 4.8%), while local currency saving deposits at approximately 10.2% (2001 : 6.0%).

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate ranging from approximately 7.2% to 8.4% (2001 : 7.2%), while for local currency time deposits, at a range of approximately 19.2% (2001 : 12.0% to 14.4%).

## 21. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Loan from international organisations	<u>1,894,149</u>	<u>310,944</u>

Included here are borrowings from two institutions, namely a German government bank - Kreditanstalt fuer Wiederaufbau ("KfW") and Asian Development Bank which was obtained via the Bank of Mongolia. At 31 December 2002, the KfW loan balance amounts to MNT956 million or EURO818 thousand (2001: DEM615 thousand or MNT310 million) while the ADB loan balance amounts to MNT938 million (2001: Nil).

The KfW loan is used to provide financing to various customers at preferential interest rates. At 31 December 2002, the loan balance of these ultimate borrowers amounted to MNT956 million.

The interest rate of the KfW loan is fixed at an annual rate of 1.75% for the Bank, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. Principal payments on this loan will commence in December 2003, and the final date of repayment in December 2010.

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

The ADB loan was obtained in year 2002 via Bank of Mongolia and it was utilized by the Bank for the purpose of upgrading their accounting information system and a sum of MNT848 million which was granted for agriculture development purposes. The loan is interest free and the repayments commenced in the current year 2002 and is to be repaid over 30 years, maturing in year 2031.

## 22. OTHER LIABILITIES

	2002 MNT '000	2001 MNT '000
Payables	157,540	163,081
Foreign remittance under request	691	-
Accumulated interest payables	-	37,471
Social development fund	11,488	53,306
Special non cash transactions	247,099	82,053
Other payables	30,399	37,202
	<u>447,217</u>	<u>373,113</u>

Special non cash transactions relate to cash kept by borrowing corporations as collateral.

## 23. STATUTORY FUND

	2002 MNT '000	2001 MNT '000
At 1 January	2,002,352	1,040,483
Issued during the year	102,222	961,869
At 31 December	<u>2,104,574</u>	<u>2,002,352</u>

During the financial year, the Bank increased its statutory fund by MNT102,222 thousand, of which MNT101,998 thousand was by way of capitalisation of prior year's proposed dividend and MNT224 thousand was a restatement of fund which was erroneously cancelled in year 2000. The increase was approved by the Central Bank of Mongolia - Bank of Mongolia. The new funds rank pari passu with the existing funds.

## 24. REVALUATION RESERVES

This arises from the revaluation of the head quarters building in 2000 based on valuation done by a professional valuer.

## 25. DIVIDEND

	2002 MNT '000	2001 MNT '000
Proposed dividend of Nil (2001: 74% of retained profit)	-	288,671

There is no dividend declared for the current financial year.

## 26. COMMITMENTS AND CONTINGENCIES

### a) Financial commitments and contingencies

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

	2002 MNT '000	2001 MNT '000
Letter of credit	28,884	-
Guarantees granted	1,429,781	2,796
Other contingencies	893,922	1,148,311
	<u>2,352,587</u>	<u>1,151,107</u>

At 31 December 2002, all the Bank's outstanding letter of credits and guarantees issued are fully collateralised, mainly by cash, and therefore not subject to credit risk.

Included in the other contingencies by the Bank are written off loans amounting to MNT283 million (2001 : MNT198 million) and interest receivable on non-performing loan worth MNT610 million at 31 December 2002 (2001 : MNT950 million).

### b) Capital commitments

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

## 27. CAPITAL ADEQUACY

The Bank of Mongolia requires commercial banks to maintain a capital adequacy ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. At 31 December 2002, the Bank has a core capital ratio of 13.48% (2001: 13.70%) and risk weighted capital ratio of 14.19% (2001: 14.46%), as computed below:

	<b>2002</b> <b>MNT '000</b>
<u>Tier I capital</u>	
Statutory fund	2,104,574
Retained earnings	<u>625,142</u>
Total Tier I Capital	2,729,716
<u>Tier II capital</u>	
General reserve for bad and doubtful debts	<u>142,682</u>
Total capital/capital base	<u><u>2,872,398</u></u>

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

	<b>2002</b> <b>MNT '000</b>
%	
<b>0</b>	9,168,768
<b>10</b>	-
<b>20</b>	1,287,534
<b>50</b>	150,118
<b>100</b>	<u>19,960,453</u>
<b>Total</b>	<u><u>30,566,873</u></u>
Core capital ratio	13.45%
Risk weighted capital ratio	14.15%
Core capital ratio - 2001	13.70%
Risk weighted capital ratio - 2001	14.46%



## 28. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Bank wholly relate to loans given to shareholders and staff.

	2002 MNT'000	2001 MNT'000
Total loans to shareholders	170,028	68,988
Total loans to staff	95,889	15,005
	<hr/>	<hr/>
Gross related party loans	265,917	83,993
General provision	(144)	(113)
Specific provision	(581)	(613)
	<hr/>	<hr/>
Net related party loans at 31 December	<u>265,192</u>	<u>83,267</u>

The interest charged to related party borrowers are at normal commercial rates.

## 29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risk inherent to the Bank's operations are those related to credit risk, foreign exchange rates, liquidity and market movements in interest rates. A description of the Bank's risk management policies in relation to those risk are as follows:

### Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risk are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved regularly by the Bank's management team.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral on and corporate and personal guarantees.

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

The geographical concentration of monetary assets and liabilities follows:

	<b>Mongolia</b>	<b>Other</b>	<b>Total</b>
	<b>MNT'000</b>	<b>countries</b>	<b>MNT'000</b>
	<b>MNT'000</b>	<b>MNT'000</b>	<b>MNT'000</b>
Current account at Bank of Mongolia	1,092,528	-	1,092,528
Current account at foreign banks	-	258,650	258,650
Foreign currency current account at other local banks	150,118	-	150,118
Foreign currency current account at Bank of Mongolia	282,031	-	282,031
Deposit account at other banks	1,000,000	-	1,000,000
<b>Assets</b>	<b>2,524,677</b>	<b>258,650</b>	<b>2,783,327</b>
Other loans from Bank of Mongolia	1,894,149	-	1,894,149
Current account of foreign bank in foreign currency	-	304	304
Current account of other local bank	255	-	255
Deposits of other banks in foreign currency	337,500	-	337,500
<b>Liabilities</b>	<b>2,231,904</b>	<b>304</b>	<b>2,232,208</b>

### Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily U.S Dollar). These limits also comply with the minimum requirements of the Central Bank of Mongolia.

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

The Bank's exposure to foreign currency exchange rate risk are as follows:

	2002		
	MNT MNT'000	Foreign MNT'000	Total MNT'000
<b>Assets</b>			
Cash and short term funds	1,776,935	814,411	2,591,346
Deposits and placements	-	-	-
with other financial institutions	1,000,000	408,768	1,408,768
Investment in securities	6,575,107	2,315	6,577,422
Loans and advances	11,082,058	4,969,393	16,051,451
Other assets	362,379	-	362,379
Owned Premises	1,258,393	-	1,258,393
Property, plant and equipment	2,254,480	-	2,254,480
<b>Total assets</b>	<b>24,309,352</b>	<b>6,194,887</b>	<b>30,504,239</b>
<b>Liabilities</b>			
Deposits from customers	20,361,922	4,141,925	24,503,847
Deposits and placements			
of other financial institutions	255	337,804	338,059
Loans from foreign financial institutions	937,960	956,189	1,894,149
Other liabilities	389,595	57,622	447,217
Taxes payable	8,871	-	8,871
<b>Total liabilities</b>	<b>21,698,603</b>	<b>5,493,540</b>	<b>27,192,143</b>
Statutory funds	2,104,574	-	2,104,574
Reserves	582,380	-	582,380
Retained earnings	625,142	-	625,142
<b>Total capital funds</b>	<b>3,312,096</b>	<b>-</b>	<b>3,312,096</b>
<b>Total liabilities and capital funds</b>	<b>25,010,699</b>	<b>5,493,540</b>	<b>30,504,239</b>

**29. 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 maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flows obligations as they become due. The contractual maturities of monetary assets and liabilities as at 31 December 2002 are as follows:

	<u>Less than 3 months</u>	<u>3 to 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>Assets</b>						
Cash and short term funds	2,591,346	-	-	-	-	2,591,346
Deposits and placements with other financial institutions	408,768	1,000,000	-	-	-	1,408,768
Investment in securities	6,577,422	-	-	-	-	6,577,422
Loans and advances	3,536,870	4,709,480	5,600,351	1,258,123	946,627	16,051,451
Other assets	108,426	253,953	-	-	-	362,379
Propert, plant and equipment	-	-	-	-	2,254,480	2,254,480
Owned premises	-	-	-	1,258,393	-	1,258,393
	<u>13,222,832</u>	<u>5,963,433</u>	<u>5,600,351</u>	<u>2,516,516</u>	<u>3,201,107</u>	<u>30,504,239</u>
<b>Liabilities</b>						
Deposits from customers and other financial institutions	13,769,960	4,515,378	4,753,511	1,803,057	-	24,841,906
Loans from foreign financial institutions	-	-	-	90,000	1,804,149	1,894,149
Other liabilities	304,912	142,305	-	-	-	447,217
Taxes payable	8,871	-	-	-	-	8,871
	<u>14,083,743</u>	<u>4,657,683</u>	<u>4,753,511</u>	<u>1,893,057</u>	<u>1,804,149</u>	<u>27,192,143</u>
<b>Net position</b>	<u>(860,911)</u>	<u>1,305,750</u>	<u>846,840</u>	<u>623,459</u>	<u>1,396,958</u>	<u>3,312,096</u>

## 29. 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 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 policies are reviewed on a regular interval basis. The Bank's average effective interest rates as of 31 December 2002 for monetary financial instruments are as follows:

	2002	
	MNT	Foreign
<b>Interest earning assets</b>		
Placements with other banks	3.75%	0.83%
Bank of Mongolia bills	6.82%	-
Loan to customers	28.09%	10.21%
<b>Interest bearing liabilities</b>		
Current account deposits	1.34%	0.30%
Time & savings deposits of customers	18.65%	4.63%

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

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

	<b>Bank</b>	
	<b>Carrying amount MNT'000</b>	<b>Fair value MNT'000</b>
<b>Assets</b>		
Cash and short term funds	2,591,346	2,591,346
Deposits and placements with other financial institutions	1,408,768	1,408,768
Investment in securities	6,577,422	6,577,422
Loans and advances	16,051,451	16,051,451
Other assets	362,379	362,379
Owned premises	1,258,393	1,258,393
<b>Total Assets</b>	<u>28,249,759</u>	<u>28,249,759</u>
<b>Liabilities</b>		
Deposits from customers and other financial institutions	24,841,906	24,841,906
Loans from foreign financial institutions	1,894,149	1,894,149
Other liabilities	447,217	447,217
<b>Total Liabilities</b>	<u>27,183,272</u>	<u>27,183,272</u>

As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

As of December 31, 2002, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### **Cash and short term funds**

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

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

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

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

#### **Investment in securities**

As set out in Note 4, securities held by the Bank for investment purposes as of December 31, 2002 are carried at cost, adjusted for accretion and amortisation of discounts and premiums, respectively, less any provision for permanent diminution in value.

#### **Loans and advances**

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the borrower and collateral obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of the credit risk. The carrying amount of loans is a reasonable estimate of fair value.

#### **Other assets**

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

#### **Deposits from customers and other financial institutions**

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

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

The fair values of loans from foreign financial institution is stated at carrying amounts due to the extensive period that their financial instruments will be held.

#### **Other liabilities**

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

### **31. COMPARATIVE FIGURES**

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

### **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.