MONGOL POST BANK LLC.

Audited Financial Statements
31 December 2003

MONGOL POST BANK LLC.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS

MONGOL POST BANK LLC.

CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Mongol Post Bank Building Kholboochdyn str.-4 Ulaanbaatar- 13 P.O. Box 874 Mongolia
BOARD OF DIRECTORS	: D. Zorigt P. Batsaikhan J. Munkhtur D. Oyunjargal L. Tsandeteg
COMPANY SECRETARY	: B. Oyuntsetseg
AUDITORS	: Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY DIRECTORS AND EXECUTIVE

We, D. ZORIGT and D. OYUNJARGAL, being two of the directors of MONGOL POST BANK LLC. ("the Bank"), and L. TSETSGEE, 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 34 are drawn up in accordance with applicable International Financial Reporting Standards 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 2003 and of the results and the cash flows of the Bank for the year then ended.

D.ZORIGT	D. OYUNJARGAL	L. TSETSGEE

Ulaanbaatar

18 MAR 2004

REPORT OF THE AUDITORS

To the Board of Directors of Mongol Post Bank LLC.

We have audited the accompanying financial statements of Mongol Post Bank LLC. as at 31 December 2003 set out on pages 3 to 34. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements have been properly drawn up in accordance with applicable International Financial Reporting Standards and Regulations issued by Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as of 31 December 2003 and of the results and the cash flows for the year then ended.

Ernst + Young Mongol Audit Co.

Ulaanbaatar

18 MAR 2[illegible]

MONGOL POST BANK LLC.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 MNT '000	2002 MNT '000
Interest income	4	6,706,561	3,206,794
Interest expense	5	(3,833,173)	(1,169,503)
Net interest income		2,873,388	2,037,291
Non-interest income	6	547,398	339,096
Operating profit		3,420,786	2,376,387
Operating expenses	7	(1,962,429)	(1,259,810)
Profit before provisions		1,458,357	1,116,577
Provisions	8	(390,328)	(176,023)
Profit before taxation		1,068,029	940,554
Taxation	9	(503,273)	(357,539)
Profit after taxation		564,756	583,015

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

MONGOL POST BANK LLC.

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003 MNT '000	2002 MNT '000
ASSETS			
Cash and short term funds	12	2,482,610	1,216,787
Deposits and placements with other banks and financial institutions	13	3,874,945	2,783,327
Investment in securities	14	3,650,359	6,577,422
Loans and advances	15	31,203,622	16,051,451
Other assets	16	2,730,334	1,620,772
Property, plant and equipment	17	2,940,626	2,254,480
TOTAL ASSETS		46,882,496	30,504,239
LIABILITIES			
Deposits from customers	18	34,634,126	24,503,847
Deposits and placements of other banks and financial institutions	19	350,400	338,059
Loans from foreign financial institutions	20	6,547,600	1,894,149
Other liabilities	21	659,246	435,729
Provision for taxation		166,573	8,871
TOTAL LIABILITIES		42,357,945	27,180,655
EQUITY			
Statutory fund	22	3,268,390	2,104,574
Revaluation surplus		582,380	582,380
Retained earnings		615,416	625,142
Social development fund	11	58,365	11,488
TOTAL EQUITY		4,524,551	3,323,584
TOTAL EQUITY AND LIABILITIES		46,882,496	30,504,239
COMMITMENTS AND OFF BALANCE SHEET ITEMS	26	6,860,584	2,352,587

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

MONGOL POST BANK LLC.

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

			Non-distributable	Distributable	
	Note	**Statutory fund** MNT '000	**Revaluation surplus *** MNT '000	**Retained earnings** MNT '000	**Total** MNT '000
At 1 January 2002		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
At 1 January 2003		2,104,574	582,380	625,142	3,312,096
Profit for the year		-	-	564,756	564,756
Dividend	10	-	-	(471,075)	(471,075)
Transfer to Social development fund	11	-	-	(103,407)	(103,407)
Issue of shares		1,163,816	-	-	1,163,816
At 31 December 2003		3,268,390	582,380	615,416	4,466,186

* Revaluation surplus arises from the revaluation of the Bank's building carried out by an independent appraiser in 2000.

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

MONGOL POST BANK LLC.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 MNT '000	2002 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,068,029	940,554
Adjustments for :-		
Depreciation of property, plant and equipment	151,318	96,002
Property, plant and equipment written off	5,731	1,643
Net provisions	390,328	176,023
Net recoveries	-	(5,406)
Gain on disposal of plant, property and equipment	(265)	(244)
Operating profit before working capital changes	1,615,141	1,208,572
Increase in operating assets:-		
Loans and advances	(15,385,095)	(4,362,467)
Other assets	(1,266,966)	(583,485)
Increase/ (decrease) in operating liabilities		
Deposits from customers	10,130,279	9,942,165
Deposits and placements of other banks and financial institutions	12,341	-
Social development fund expenses	(56,530)	(41,818)
Other liabilities	223,517	115,922
Cash (used in)/ generated from operations	(4,727,313)	6,278,889
Income tax paid	(345,571)	(415,853)
Net cash (used in)/ generated from operating activities	(5,072,884)	5,863,036
CASH FLOW FROM INVESTING ACTIVITIES		
Net decrease / (increase) in investment securities	2,927,063	(5,148,077)
Proceeds on disposal of plant, property and equipment	4,742	1,128
Purchase of property, plant and equipment	(847,672)	(567,289)
Net cash flow from investing activities	2,084,133	(5,714,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in loans from foreign financial institutions	4,653,451	1,583,205
Increase in statutory fund	1,163,816	102,222
Dividend paid	(471,075)	(288,671)
Net cash flow from financing activities	5,346,192	1,396,756
Net increase in cash and cash equivalents	2,357,441	1,545,554
Cash and cash equivalents brought forward	4,000,114	2,454,560
Cash and cash equivalents carried forward	6,357,555	4,000,114

Cash and cash equivalents comprises:

Cash and short term funds	2,482,610	1,216,787
Deposits and placement with other banks and financial institutions	3,874,945	2,783,327
	6,357,555	4,000,114

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

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 4 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is incorporated and domiciled in Mongolia.

These financial statements of the Bank for the year ended 31 December 2003 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 17 March 2004.

2. BASIS OF PREPARATION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. The recognition of interest income is suspended when loans are outstanding for more than ninety days, in accordance with the requirements of Bank of Mongolia. On commencement of suspension, previously accrued interest not received is clawed-back. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accruals basis when the uncertainties surrounding the recoverability are removed and the loan is reclassified as performing.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided.

Fee and commission income comprises:-

- Commission on money transfer
- Commission on current account transactions
- Commission or fee on issuance of guarantee
- Fee charged on forms issued
- Loan processing fees

(c) Foreign Currencies

Transactions in foreign currencies are initially recorded in Togrog at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Togrog at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

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

	2003	2002
United States Dollar ("USD")	1,168	1,125
Great Britain Pound ("GBP")	2,073	1,804
European Euro ("EURO")	1,460	1,169

(d) Loans and Advances and Provision for Loan Loss

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Loans and Advances and Provision for Loan Loss (Contd.)

The maturity of the loan portfolio is presented in Note 15 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing the loans at maturity.

(e) Taxation

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

(f) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term funds, deposits and placements with other banks and financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(g) Investment Securities

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Property, Plant and Equipment

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

Revaluations are made at least once in every five years based on a valuation by an independent valuer or an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is recognised in the income statement to the extent of the decrease previously recognised. A revaluation decrease is first offset against an increase on unutilised earlier valuations in respect of the same asset and is thereafter recognised as an expense. Upon disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

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

	Rates
Buildings	1.2%
Furniture, fixtures and vehicle	8.0% - 12.5%
Computers	20%

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

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

(i) Customer Deposits

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

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Employee Benefits (Contd.)

(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 an expense in the income statement as incurred.

(k) Impairment of Assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) **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.

4. INTEREST INCOME

	2003 MNT '000	2002 MNT '000
Loans and advances	6,247,763	3,093,089
Deposits and placements with other banks and financial institutions	107,874	29,917
Bank of Mongolia treasury bills	350,924	83,788
	6,706,561	3,206,794

5. INTEREST EXPENSE

	2003 MNT '000	2002 MNT '000
Time and saving account deposits	3,606,267	1,082,381
Current account deposits	134,040	56,266
Placements of other banks and financial institutions	18,396	17,748
Loans from foreign financial institutions	74,470	13,108
	3,833,173	1,169,503

6. NON-INTEREST INCOME

	2003 MNT '000	2002 MNT '000
Fee income:		
Commission	447,993	253,404
Service charges and fees	1,578	272
	449,571	253,676
Investment income:		
Net gain on disposal of investment securities	20,428	-
Other income:		
Realised foreign currency gain	93,545	44,437
Unrealised foreign currency (loss)/ gain	(52,822)	6,029
Rental	12,271	11,313
Gain on disposal of property, plant and equipment	265	244
Net recoveries on provision for other receivables	-	5,406
Income from cash settlement centres	9,929	618
Income from accommodation charges	4,906	400
Income from phone charges	2,342	2,386
Other non-operating income	6,963	14,587
	77,399	85,420
Total non-interest income	547,398	339,096

7. OPERATING EXPENSES

	2003 MNT '000	2002 MNT '000
Personnel costs		
- Salaries and related expenses	796,894	529,056
- Bonuses and allowances	11,769	-
Directors' remuneration	23,720	6,872
Communications	168,394	116,143
Advertising	115,315	54,208
Depreciation of property, plant and equipment	151,318	96,002
Training	7,462	33,541
Stationery	43,084	33,851
Business trips	105,829	50,725
Transportation and fuel supplies	36,508	22,864
Utilities	47,896	36,622
Maintenance of property, plant and equipment	28,613	25,706
Rental expenses	57,252	41,764
Repair costs	118,345	89,955
	1,712,399	1,137,309

7. OPERATING EXPENSES (CONTD.)

	2003 MNT '000	2002 MNT '000
	1,712,399	1,137,309
Loans and cash collection expenses	36,873	27,397
Property, plant and equipment written off	5,731	1,643
Entertainment expenses	39,553	7,802
Security expenses	38,346	20,191
Other operating expenses	129,527	65,468
	1,962,429	1,259,810

Other operating expenses include administrative expenses, branches' expenses, Bank's 10th Anniversary Celebration expenses, insurance, audit fees, periodicals and subscrition expenses, janitorial costs and real estate and property tax.

The total number of employees of the Bank at year end was as follows:

	2003 Number	2002 Number
Directors and head of departments	11	9
Branch managers	22	21
Officers	372	260
Clerks	58	76
	463	366
Of which:		
- Head office	119	104
- Branches	344	262
	463	366

8. PROVISIONS

	2003 MNT '000	2002 MNT '000
Net provision for loan losses	232,924	176,023
Net provision for other receivables	157,404	-
	390,328	176,023

9. TAXATION

	2003 MNT '000	2002 MNT '000
Mongolian taxation based on results for the year	503,273	357,539

9. TAXATION (CONTD.)

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

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

	2003 MNT '000	2002 MNT '000
Income tax at statutory rates based on profit before taxation	402,212	351,222
Non-deductible expenses	101,061	6,317
Tax expense for the year	503,273	357,539

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

10. DIVIDENDS

Equity dividends on ordinary shares	2003 MNT '000	2002 MNT '000
Declared and paid in the year 2003	471,075	-
Dividends per share (MNT)	144	-

Dividends declared was in respect of financial year ended 31 December 2002.

11. SOCIAL DEVELOPMENT FUND

Social Development Fund represents fund allocated for the purposes of employees' social and welfare expenses. During the year, at the Shareholders' Meeting of the Bank on 17 April 2003 a distribution of retained earnings to the social development fund of the Bank amounting to MNT 103.4 million (2002: Nil) was approved.

	2003 MNT '000	2002 MNT '000
Balance brought forward	11,488	53,306
Transfer from retained earnings	103,407	-
Utilised during the year	(56,530)	(41,818)
Balance carried forward	58,365	11,488

12. CASH AND SHORT TERM FUNDS

	2003 MNT '000	2002 MNT '000
Cash and bank balances denominated in local currencies	1,651,480	684,406
Cash and bank balances denominated in foreign currencies	831,130	532,381
	2,482,610	1,216,787

13. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2003 MNT '000	2002 MNT '000
Current accounts with Bank of Mongolia	1,354,066	1,374,559
Placements with other banks and financial institutions	2,520,879	1,408,768
	3,874,945	2,783,327

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

Placements with other banks and financial institutions represent foreign currency current accounts maintained with foreign and local financial institutions. Current accounts with foreign financial institutions are generally denominated in USD and bear interest at annual rates ranging from 0.75% to 2.3% (2002 : 3.5% to 6%), while those with local financial institutions bear no interest (2002: Nil).

14. INVESTMENT IN SECURITIES

		2003 MNT '000	2002 MNT '000
Bank of Mongolia treasury bills		3,018,963	6,575,107
Shares	- quoted	7,484	
	- unquoted	622,913	2,315
		3,649,360	6,577,422
Accretion of discounts		999	-
		3,650,359	6,577,422

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 8.5% to 14% (2002 : 4.4% to 14.5%).

15. LOANS AND ADVANCES

	2003 MNT '000	2002 MNT '000
Term loans	31,991,552	16,551,883
Staff loans	209,472	265,917
Gross loans and advances	32,201,024	16,817,800
Provision for loan losses		
- specific	(700,636)	(623,667)
- general	(296,766)	(142,682)
Net loans and advances	31,203,622	16,051,451

	2003 MNT '000	2002 MNT '000
Maturity structure		
Maturing within one year	26,078,298	15,842,292
One to five years	1,173,080	607,797
After five years	4,949,646	367,711
	32,201,024	16,817,800

Included in the gross loans and advances amount is interest receivable amounting to MNT 564 million (2002: MNT 218 million).

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

	2003 MNT '000	2002 MNT '000
Agriculture	2,262,970	1,667,515
Mining related	1,543,787	1,109,725
Processing related industries	6,747,943	1,972,000
Petroleum importation	1,037,960	750,000
Textile	4,451,268	3,480,826
Trading	6,936,835	3,741,364
Others	9,220,261	4,096,370
	32,201,024	16,817,800

Others include individuals and companies in industries such as financial, health, telecommunication, tourism and hospitality management and utilities.

15. LOANS AND ADVANCES (CONTD.)

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

	2003 MNT '000	2002 MNT '000
Balance at beginning of year	2,163,170	1,166,119
NIL during the year - gross	654,766	1,795,059
Recoveries/regularised during the year	(27,461)	(40,800)
Amount written off	(1,871)	(184,365)
Transferred to OREO	(825,359)	(572,843)
Gross balance at end of year	1,963,245	2,163,170
Less: Specific Provision	(700,636)	(623,667)
Net balance at end of year	1,262,609	1,539,503
Gross NPL ratio as a percentage of gross total loans	6.1%	12.9%
Net NPL ratio as a percentage of net total loans	4.0%	9.6%

Movements in the provision for loan losses are as follows:

	2003 MNT '000	2002 MNT '000
Specific Provision		
Balance at beginning of year	623,667	632,009
Provision made during the year	260,385	216,823
Amount written back in respect of recoveries	(27,461)	(40,800)
Amount written off	(155,955)	(184,365)
Balance at end of year	700,636	623,667

	2003 MNT '000	2002 MNT '000
General Provision		
Balance at beginning of year	142,682	113,277
Provision made during the year	154,084	29,405
Balance at end of year	296,766	142,682

At 31 December 2003, all loans and advances to borrowers are denominated in Togrog except for USD loans amounting to MNT 6,382.9 million and MNT 3,099.5 million respectively (2002: MNT 3,665.4 million and MNT 1,193.8 million). Interest rate ranges from 7.75% to 50.2% per annum (2002 : 7.75% to 51.1% per annum).

Loans and advances amounting to approximately MNT 30,238 million at 31 December 2003 (2002 : MNT 14,655 million) were classified as normal and provided with a loss reserve. Further, loans amounting to MNT 1,963 million (2002 : MNT 2,163 million) were classified as NPLs for the year and provisions of MNT 700 million (2002 : MNT623 million) have been allocated against these NPLs.

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

16. OTHER ASSETS

	2003 MNT '000	2002 MNT '000
Other real estate owned ("OREO")	2,097,552	1,272,193
Other receivables	99,326	71,107
Prepaid expenses	172,236	30,340
Advances	218,714	41,044
Inventory	235,018	215,678
Consumables	-	19,795
	2,822,846	1,650,157
Less: Provision for other assets	(92,512)	(29,385)
Net balance of other assets	2,730,334	1,620,772

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings MNT '000	Furniture, fixtures & vehicles MNT '000	Computers MNT '000	Construction in progress MNT '000	Total MNT '000
At cost/valuation					
Balance at beginning of year	1,503,181	527,211	257,386	164,988	2,452,766
Additions	153,072	395,176	171,449	127,975	847,672
Disposals	-	(4,298)	(2,695)	-	(6,993)
Reclassification	21,785	(2,636)	2,636	(21,785)	-
Write-offs	-	(3,296)	(10,671)	-	(13,967)
Balance at end of year	1,678,038	912,157	418,105	271,178	3,279,478
Representing:					
At cost	378,038	912,157	418,105	271,178	1,979,478
At valuation	1,300,000	-	-	-	1,300,000
	1,678,038	912,157	418,105	271,178	3,279,478
Accumulated depreciation					
Balance at beginning of year	33,419	102,381	62,486	-	198,286
Charge for the year	27,463	69,190	54,665	-	151,318
Disposals	-	(2,028)	(488)	-	(2,516)
Write-offs	-	(1,065)	(7,171)	-	(8,236)
Balance at end of year	60,882	168,478	109,492	-	338,852
Net Book Value					
At 31 December 2003					
At cost	363,956	743,679	308,613	271,178	1,687,426
At valuation	1,253,200	-	-	-	1,253,200
	1,617,156	743,679	308,613	271,178	2,940,626
At 31 December 2002					
At cost	200,962	424,830	194,900	164,988	985,680
At valuation	1,268,800	-	-	-	1,268,800
	1,469,762	424,830	194,900	164,988	2,254,480
Depreciation charge for 2002	16,886	42,805	36,311	-	96,002

17. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Details of the latest independentprofessional valuations of buildings at 31 December 2003 are as follows:

Date of Valuation	Description of Property	Valuation Amount MNT'000	Basis of Valuation
19 December 2000	Head Quarters Building	1,300,000	Open Market value

Information regarding the carrying amount of the property, plant and equipment had these assets been carried at cost is not available and therefore has not been disclosed as required by IAS 16, Property, Plant and Equipment.

18. DEPOSITS FROM CUSTOMERS

	2003 MNT '000	2002 MNT '000
Time deposits	21,816,128	13,911,344
Current account deposits	8,969,908	8,244,222
Demand deposits	3,848,090	2,348,281
	34,634,126	24,503,847

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

	2003 MNT '000	2002 MNT '000
Due within six months	10,003,467	7,354,776
Six months to one year	11,812,661	4,753,511
One year to three years	-	1,803,057
	21,816,128	13,911,344

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

	2003 MNT '000	2002 MNT '000
Individuals	22,414,927	15,022,601
Business enterprises	10,127,355	6,787,406
State Enterprises	2,091,844	2,693,840
	34,634,126	24,503,847

18. DEPOSITS FROM CUSTOMERS (CONTD.)

Current account deposits bear no interest. Demand deposits are interest bearing and may be withdrawn upon demand. Foreign currency demand deposits bear annual interest rate of approximately 4.8% in 2003 (2002 : 4.8%). Local currency demand deposits bear annual interest rates of approximately 7.2% in 2003 (2002 : 10.2%).

Foreign currency time deposits bear an annual interest rate ranging from 7.2% to 8.4% (2002 : 7.2% to 9.1%), while for local currency time deposits annual interest rates range from 14.4% to 19.2% (2002 : 19.2%).

19. DEPOSITS AND PLACEMENTS OF OTHER BANKS AND FINANCIAL INSTITUTIONS

	2003 MNT '000	2002 MNT '000
Foreign currency current account deposits	350,400	338,059

Foreign currency current deposits are placed by local commercial banks and generally bear interest ranging from 5% (2002: 5%).

20. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2003 MNT '000	2002 MNT '000
Loan from KfW	3,218,308	956,189
Loan from ADB		
- housing	2,254,108	-
- agricultural	1,075,184	847,960
- upgrade of accounting information system	-	90,000
	6,547,600	1,894,149

Loan from Kreditanstalt fuer Wiederaufbau ("KfW")

The loan was obtained from a German governmentbank- KfW via the Bank of Mongolia. The loan is denominatedin EURO and the interest rate is fixed at 1.75% per annum for the Bank, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. The principal sum is repayable, in accordance with the repayment schedule for each disbursement made to final borrower and the amount above will be fully paid by December 2010. The loan is used to provide financing to various customers at preferential interest rates.

20. LOANS FROM BANK OF MONGOLIA (CONTD.)

Loan from Asian Development Bank ("ADB")

Housing

The loan is disbursed by ADB upon approval of loan application by ADB, with the Bank acting as intermediary to channel the loans to final borrowers. The loan principal has no fixed term of repayment. However, the Bank is required to channel the principal repaid by the final borrowers within 6 months of the actual payment date. The loan bears interest at 8%, payable in October and April annually.

Agricultural

The loan is only disbursed to borrowers from 6 aimags; Hovd, Darkhan, Selenge, Uvs, Zavhan and Gobi Altay. The loan bears interest at 5.5% (2002: 5.5%) annually, payable by the Bank on a monthly basis. Principal amounts are repayable within one year of disbursement.

21. OTHER LIABILITIES

	2003 MNT '000	2002 MNT '000
Payables	178,321	157,540
Foreign remittance under request	6,203	691
Collateral deposits and escrow account	429,925	247,099
Other payables	44,797	30,399
	659,246	435,729

22. STATUTORY FUND

	Number of Ordinary Shares of MNT1,000 each		Amount	
	2003	2002	2003 MNT '000	2002 MNT '000
At 1 January	2,104,574	2,002,352	2,104,574	2,002,352
Issued during the year	1,163,816	102,222	1,163,816	102,222
At 31 December	3,268,390	2,104,574	3,268,390	2,104,574

During the financial year, the Bank increased its statutory fund by MNT1,164 million (2002: MNT102 million). The increase was approved by Bank of Mongolia. The new funds rank pari passu with the existing funds.

23. RISK MANAGEMENT POLICIES

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

Credit risk

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

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

23. RISK MANAGEMENT POLICIES (CONTD.)

The geographical concentration of banking assets and liabilities are as follows:

	2003 (MNT'000)		
	Mongolia	**Foreign**	**Total**
Assets			
Cash and short term funds	2,482,610	-	2,482,610
Deposits and placements with other banks and financial institutions	1,414,620	2,460,325	3,874,945
Investment in securities	3,647,439	2,920	3,650,359
Loans and advances	31,203,622	-	31,203,622
Other assets	2,730,334	-	2,730,334
Property, plant and equipment	2,940,626	-	2,940,626
	44,419,251	2,463,245	46,882,496
Liabilities			
Deposits from customers	34,634,126	-	34,634,126
Deposits and placements of other banks and financial institutions	-	350,400	350,400
Loans from foreign financial institution	-	6,547,600	6,547,600
Other liabilities	659,246	-	659,246
Provision for taxation	166,573	-	166,573
	35,459,945	6,898,000	42,357,945

	2002 (MNT'000)		
	Mongolia	**Foreign**	**Total**
Assets			
Cash and short term funds	1,216,787	-	1,216,787
Deposits and placements with other banks and financial institutions	2,524,677	258,650	2,783,327
Investment in securities	6,575,107	2,315	6,577,422
Loans and advances	16,051,451	-	16,051,451
Other assets	1,620,772	-	1,620,772
Property, plant and equipment	2,254,480	-	2,254,480
	30,243,274	260,965	30,504,239
Liabilities			
Deposits from customers	24,503,847	-	24,503,847
Deposits and placements of other banks and financial institutions	338,059	-	- 338,059
Loans from foreign financial institution	-	1,894,149	1,894,149
Other liabilities	447,217	-	447,217
Provision for taxation	8,871	-	8,871
	25,297,994	1,894,149	27,192,143

23. RISK MANAGEMENT POLICIES (CONTD.)

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total.

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

	2003 (MNT'000)		
	MNT	Foreign currencies	Total
Assets			
Cash and short term funds	1,651,480	831,130	2,482,610
Deposits and placements with other banks and financial institutions	1,354,066	2,520,879	3,874,945
Investment in securities	3,647,439	2,920	3,650,359
Loans and advances	21,720,773	9,482,849	31,203,622
Other assets	2,730,334	-	2,730,334
Property, plant and equipment	2,940,626	-	2,940,626
	34,044,718	12,837,778	46,882,496
Liabilities			
Deposits from customers	25,976,272	8,657,854	34,634,126
Deposits and placements of			-
other banks and financial institutions	-	350,400	350,400
Loans from foreign financial institution	-	6,547,600	6,547,600
Other liabilities	659,246	-	659,246
Provision for taxation	166,573	-	166,573
	26,802,091	15,555,854	42,357,945
Net position	7,242,627	(2,718,076)	4,524,551

	2002 (MNT'000)		
	MNT	Foreign currencies	Total
Assets			
Cash and short term funds	684,406	532,381	1,216,787
Deposits and placements with other banks and financial institutions	2,374,559	408,768	2,783,327
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	1,620,772	-	1,620,772
Property, plant and equipment	2,254,480	-	2,254,480
	24,591,382	5,912,857	30,504,239

23. RISK MANAGEMENT POLICIES (CONTD.)

	2002 (MNT'000)		
	MNT	Foreign currencies	Total
Liabilities			
Deposits from customers	20,361,922	4,141,925	24,503,847
Deposits and placements of			-
other banks and financial institutions	255	337,804	338,059
Loans from foreign financial institution	937,960	956,189	1,894,149
Other liabilities	389,595	57,622	447,217
Provision for taxation	8,871	-	8,871
	21,698,603	5,493,540	27,192,143
Net position	2,892,779	419,317	3,312,096

Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

23. 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	2,482,610	-	-	-	-	2,482,610
Deposits and placements with other banks and financial institutions	3,874,945	-	-	-	-	3,874,945
Investment in securities	3,019,962	-	-	-	630,397	3,650,359
Loans and advances	1,659,364	4,489,858	11,747,000	10,207,466	3,099,934	31,203,622
Other assets	2,730,334	-	-	-	-	2,730,334
Property, plant and equipment	-	-		308,613	2,632,013	2,940,626
	13,767,215	4,489,858	11,747,000	10,516,079	6,362,344	46,882,496
Liabilities						
Deposits from customers	3,848,090	18,973,375	11,812,661	-	-	34,634,126
Deposits and placements of other banks and financial institutions	-	-	350,400	-	-	350,400
Loans from foreign financial institutions	-	-	2,332,421	2,688,827	1,526,352	6,547,600
Other liabilities	659,246	-	-	-	-	659,246
Provision for taxation	166,573	-	-	-	-	166,573
	4,673,909	18,973,375	14,495,482	2,688,827	1,526,352	42,357,945
Net liquidity gap	9,093,306	(14,483,517)	(2,748,482)	7,827,252	4,835,992	4,524,551
Accumulated gap	9,093,306	(5,390,211)	(8,138,693)	(311,441)	4,524,551	

23. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2002 are as follows (MNT '000):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and short term funds	1,216,787	-	-	-	-	1,216,787
Deposits and placements with other banks and financial institutions	2,783,327	-	-	-	-	2,783,327
Investment in securities	6,575,107	-	-	-	2,315	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	-	1,258,393	-	1,620,772
Property, plant and equipment	-	-	-	424,830	1,829,650	2,254,480
	14,220,517	4,963,433	5,600,351	2,941,346	2,778,592	30,504,239
Liabilities						
Deposits from customers	13,431,901	4,515,378	4,753,511	1,803,057	-	24,503,847
Deposits and placements of other banks and financial institutions	-	-	-	338,059	-	338,059
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
	13,745,684	4,657,683	4,753,511	2,231,116	1,804,149	27,192,143
Net liquidity gap	474,833	305,750	846,840	710,230	974,443	3,312,096
Accumulated gap	474,833	780,583	1,627,423	2,337,653	3,312,096	

23. RISK MANAGEMENT POLICIES (CONTD.)

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's interest rates in 2003 and 2002 for monetary financial instruments are as follows:

	2003		2002	
	MNT	FOREIGN CURRENCY	MNT	FOREIGN CURRENCY
Interest earning assets				
Deposits and placement with other banks and other financial institutions	-	0.75% - 2.3% (USD)	-	3.5% - 6% (USD)
Bank of Mongolia treasury bills	8.5% - 14%	-	4.4% - 14.5%	-
Loans and advances	10.4% - 50.2%	7.75% (EUR) 14% - 31.4% (USD)	26.8% - 51.1%	7.75% (EUR) 26.8% - 51.1% (USD)
Interest bearing liabilities				
Demand deposits from customers	7.20%	4.80%	10.20%	4.80%
Time deposits of customers	14.4% - 19.2%	7.2% - 8.4%	19.20%	7.2% - 9.1%
Deposits and placements of other banks and financial institutions	-	5.00%	-	5.00%
Loans from foreign financial institution	5.5% - 8%	1.75% (EUR)	-	1.75% (EUR)

24. RELATED PARTY DISCLOSURES

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

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

	2003 MNT '000	2002 MNT '000
Loans to directors and key management personnel	79,473	95,889
Repayable		
- within one year	17,473	33,889
- one to five years	62,000	62,000
	79,473	95,889
Provision for probable loan losses	(795)	(959)
Total	78,678	94,930

The loans to Bank's employeesbear annual interest rates ranging from 1.2% to 17.3% (2002 : 1.2% to17.3%)

Directors' Remuneration

The executive members of the Board of Directors received remuneration totalling MNT14.3 million(2002 : MNT1.1 million). The non-executivemembers received fees totalling MNT9.4 million (2002 : MNT5.8 million).

25. CAPITAL ADEQUACY

Bank of Mongolia requires commercial banks to maintain a core capital adequacy ratio of 5% and risk weighted capital ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. The capital adequacy ratios of the Bank as at 31 December are as follows:

	2003	**2002**
Core capital ratio	10.21%	13.45%
Risk weighted capital ratio	11.74%	16.32%
Tier I capital		
Statutory fund	3,268,390	2,104,574
Retained earnings	615,416	625,142
Total Tier I Capital	3,883,806	2,729,716
Tier II capital		
Revaluation surplus	582,380	582,380
Total capital base	4,466,186	3,312,096

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

	2003 MNT '000		**2002 MNT '000**	
	Assets	**Risk Weighted**	**Assets**	**Risk Weighted**
%				
0	6,856,638	-	9,168,768	-
10	-	-	-	-
20	2,546,550	509,310	1,287,534	257,507
50	114	57	150,118	75,059
100	37,535,643	37,535,643	19,960,453	19,960,453
Total	46,938,945	38,045,010	30,566,873	20,293,019

26. 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.

	2003 MNT '000	**2002 MNT '000**
Letters of credit	69,631	28,884
Guarantees	5,557,895	1,429,781
Other off balance sheet items	1,233,058	893,922
	6,860,584	2,352,587

26. COMMITMENTS AND OFF BALANCE SHEET ITEMS (CONTD.)

At 31 December 2003, all the Bank's outstanding letter of credits and guarantees issued are fully collateralised, mainly by cash.

At 31 December 2003, other off balance sheet items consist mainly of loans (inclusive of interest) of MNT1,139 million (2002 : MNT834 million) and collateral assets obtained from customers amounting to MNT94 million (2002 : MNT Nil) that were written off.

27. 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.

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

28. COMPARATIVE FIGURES

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

	As Restated MNT'000	As Previously Stated MNT'000
<u>Assets</u>		
Cash and short term funds	1,216,787	2,591,346
Deposits and placements with other banks and financial institutions	2,783,327	-
Deposits and placements with other financial institutions	-	1,408,768
Other assets	1,620,772	-
Owned premises	-	1,258,393
Other assets	-	362,379

28. COMPARATIVE FIGURES (CONTD.)

	As Restated MNT'000	As Previously Stated MNT'000
Liabilities		
Deposits from customers	24,503,847	-
Deposits and placements of other banks and financial institutions	338,059	-
Deposits from customers and other financial institutions	-	24,841,906

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.