MONGOL POST BANK

Audited Financial Statements
31 December 2004

MONGOL POST BANK LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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 P. Bat-Erdene P. Munkh-Erdene
COMPANY SECRETARY	: B. Oyuntsetseg
AUDITORS	: Ernst & Young Mongolia Audit LLC Certified Public Accountants

MONGOL POST BANK LLC

STATEMENT BY DIRECTORS AND EXECUTIVE

We, D. ZORIGT and D. OYUNJARGAL, being two of the directors of MONGOL POST BANK LLC ("the Bank"), and CH. ENKHBAT, 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 35 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. ZORIGT   D. OYUNJARGAL   CH. ENKHBAT

Ulaanbaatar

01 APR 2005

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 2004 set out on pages 3 to 35. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements have been properly drawn up in accordance with applicable International Financial Reporting Standards and the 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 LLC
ЭРНСТ энд ЯНГ МОНГОЛИЯ АУДИТ ХХК

Ernst & Young Mongolia Audit Co.

Ulaanbaatar

01 APR 2005

MONGOL POST BANK LLC

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	9,292,572	6,706,561
Interest expense	5	(4,944,938)	(3,833,173)
Net interest income		4,347,634	2,873,388
Non-interest income	6	930,368	547,398
Operating profit		5,278,002	3,420,786
Operating expenses	7	(2,745,990)	(1,962,429)
Profit before allowances		2,532,012	1,458,357
Allowances	8	(1,433,334)	(390,328)
Profit before taxation		1,098,678	1,068,029
Taxation	9	(352,984)	(503,273)
Net profit for the year		745,694	564,756

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

MONGOL POST BANK LLC

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
ASSETS			
Cash and short term funds	12	2,258,652	2,482,610
Deposits and placements with other banks and financial institutions	13	13,152,604	3,874,945
Investment in securities	14	9,677,765	3,650,359
Loans and advances	15	42,111,481	31,203,622
Other assets	16	2,792,979	2,730,334
Property, plant and equipment	17	3,564,625	2,940,626
TOTAL ASSETS		73,558,106	46,882,496
LIABILITIES			
Deposits from customers	18	54,217,416	34,634,126
Deposits and placements of other banks and financial institutions	19	1,220,730	350,400
Loans from foreign financial institutions	20	11,591,597	6,547,600
Other liabilities	21	856,428	659,246
Tax payables		167,984	166,573
TOTAL LIABILITIES		68,054,155	42,357,945
EQUITY			
Statutory fund	22	4,092,927	3,268,390
Revaluation surplus		582,380	582,380
Retained earnings		796,355	615,416
Social development fund	11	32,289	58,365
TOTAL EQUITY		5,503,951	4,524,551
TOTAL EQUITY AND LIABILITIES		73,558,106	46,882,496
COMMITMENTS AND OFF BALANCE SHEET ITEMS	26	4,838,408	6,860,584

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 2004

		Non-distributable			Distributable	
	Note	Statutory fund MNT '000	Revaluation surplus * MNT '000	Social Development fund MNT'000	Retained earnings MNT '000	Total MNT '000
At 1 January 2003		2,104,574	582,380	11,488	625,142	3,323,584
Net profit for the year		-	-	-	564,756	564,756
Dividends	10	-	-	-	(471,075)	(471,075)
Transfer to social development fund		-	-	103,407	(103,407)	-
Utilised during the year		-	-	(56,530)	-	(56,530)
Issue of shares		1,163,816	-	-	-	1,163,816
At 31 December 2003		3,268,390	582,380	58,365	615,416	4,524,551
Net profit for the year		-	-	-	745,694	745,694
Dividends	10	-	-	-	(564,755)	(564,755)
Utilised during the year		-	-	(26,076)	-	(26,076)
Issue of shares		824,537	-	-	-	824,537
At 31 December 2004		4,092,927	582,380	32,289	796,355	5,503,951

* 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 2004

	2004 MNT '000	2003 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,098,678	1,068,029
Adjustments for :-		
Depreciation of property, plant and equipment	198,598	151,318
Property, plant and equipment written off	16,849	5,731
Allowance for loan losses	1,371,073	232,924
Allowance for impairment of other assets	53,193	157,404
Allowance for impairment of investment in securities	9,068	-
Gain on disposal of property, palnt and equipment	(6,397)	(265)
Operating profit before working capital changes	2,741,062	1,615,141
Increase in operating assets:-		
Loans and advances	(12,278,932)	(15,385,095)
Other assets	(115,838)	(1,266,966)
Increase/(decrease) in operating liabilities		
Deposits from customers	19,583,290	10,130,279
Deposits and placements of other banks and financial institutions	870,330	12,341
Other liabilities	197,182	223,517
Cash generated from/(used in) operations	10,997,094	(4,670,783)
Income tax paid	(351,573)	(345,571)
Net cash generated from/(used in) operating activities	10,645,521	(5,016,354)
CASH FLOW FROM INVESTING ACTIVITIES		
Net (increase)/decrease in investment securities	(6,036,474)	2,927,063
Proceeds on disposal of property, plant and equipment	20,141	4,742
Purchase of property, plant and equipment	(853,190)	(847,672)
Net cash flow (used in)/generated from investing activities	(6,869,523)	2,084,133
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in loans from foreign financial institutions	5,043,997	4,653,451
Increase in statutory fund	824,537	1,163,816
Social development fund utilized	(26,076)	(56,530)
Dividend paid	(564,755)	(471,075)
Net cash flow generated from financing activities	5,277,703	5,289,662
Net increase in cash and cash equivalents	9,053,701	2,357,441
Cash and cash equivalents brought forward	6,357,555	4,000,114
Cash and cash equivalents carried forward	15,411,256	6,357,555
Cash and cash equivalents comprises:		
Cash and short term funds	2,258,652	2,482,610
Deposits and placement with other banks and financial institutions	13,152,604	3,874,945
	15,411,256	6,357,555

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 a limited liability company, incorporated and domiciled in Mongolia. The registered office of the Bank is Mongol Post Bank Building, Kholboochdyn str.-4, Ulaanbaatar - 13, P.O. Box 874, 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 1 April 2005.

2. BASIS OF PRESENTATION

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 and modified to include the revaluation of property, plant and equipment. 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 accrual 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, current account transactions, issuance of guarantee, fee charged on forms issued and loan processing.

(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	2,321.00	2,073.00
European Euro	1,647.00	1,460.00
Japanese Yen	11.65	10.92
Korean Won	1.16	0.98

(d) Loans and Advances and Allowance for Loan Impairment

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.

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

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 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 the 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 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 (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

Assets under construction are not depreciated. Depreciation of these assets begins when the related assets are ready for intended use. Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each assets to the residual value over the estimated useful life, at the following annual rates:

Buildings	1.2% - 2.5%
Furniture, fixtures and vehicles	8.0% - 12.5%
Computers	20%

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 and the unutilised portion of the revaluation surplus on that item may be taken directly to retained profits.

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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.

(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.

Equity Instruments

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

4. INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Loans and advances	8,546,100	6,247,763
Deposits and placements with other banks and financial institutions	147,364	107,874
Government securities	19,571	-
Promissory notes	168,655	-
Bank of Mongolia treasury bills	410,882	350,924
	9,292,572	6,706,561

5. INTEREST EXPENSE

	2004 MNT '000	2003 MNT '000
Time and saving account deposits	4,622,873	3,606,267
Current account deposits	207,151	134,040
Placements of other banks and financial institutions	10,171	18,396
Loans from foreign financial institutions	104,743	74,470
	4,944,938	3,833,173

6. NON-INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Fee and comission income:		
Commission	424,752	447,993
Service charges and fees	253,193	1,578
	677,945	449,571
Investment income:		
Net gain on disposal of investment securities	-	20,428
Other income:		
Realised foreign currencies gain	203,886	93,545
Unrealised foreign currencies gain	(129)	(52,822)
Rental	2,346	12,271
Gain on disposal of property, plant and equipment	6,397	265
Net recoveries on allowance on impairment of other assets	738	-
Income from cash settlement centres	23,948	9,929
Income from accommodation charges	-	4,906
Income from phone charges	11,370	2,342
Other non-operating income	3,867	6,963
	252,423	77,399
Total non-interest income	930,368	547,398

7. OPERATING EXPENSES

	2004 MNT '000	2003 MNT '000
Staff costs		
- Salaries and wages	938,060	674,412
- Social and health insurance	176,566	134,251
Directors' remuneration	32,720	23,720
Communications	254,673	168,394
Advertising	117,028	115,315
Depreciation of property, plant and equipment	198,598	151,318
Training	44,441	7,462
Stationery	117,846	43,084
Business trips	75,118	105,829
Transportation and fuel supplies	52,072	36,508
Utilities	61,640	47,896
Maintenance of property, plant and equipment	29,329	28,613
Rental expenses	138,051	57,252
Repair costs	135,203	118,345
Loans and cash collection expenses	46,286	36,873
Property, plant and equipment written off	16,849	5,731
Entertainment expenses	20,878	39,553
Security expenses	45,246	38,346
Other operating expenses	245,386	129,527
	2,745,990	1,962,429

Other operating expenses include administrative expenses, branches' expenses, insurance, audit fees, periodicals and subscription expenses, janitorial costs and real estate and property tax.

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

	2004 Number	2003 Number
Directors and head of departments	11	11
Branch managers	22	22
Officers	377	372
Clerks	103	58
	513	463
Of which:		
- Head office	119	119
- Branches	394	344
	513	463

8. ALLOWANCES

	2004 MNT '000	2003 MNT '000
Allowance for loan losses	1,371,073	232,924
Allowance for impairment of investment in securities	9,068	-
Allowance for impairment of foreclosed properties	38,711	21,797
Allowance for impairment of other assets	14,482	135,607
	1,433,334	390,328

9. TAXATION

	2004 MNT '000	2003 MNT '000
Current income tax:		
Based on results for the year	352,984	503,273

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 the 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.

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 years ended 31 December is as follows:

	2004 MNT '000	2003 MNT '000
Profit before taxation	1,098,678	1,068,029
Tax at statutory rate of 30% (2003: 40%)	329,603	427,212
Effect on income subject to lower tax	(15,000)	(15,000)
Effect of income not subject to tax	(5,871)	-
Effect of expenses not allowable for tax purposes	44,252	91,061
Tax expense for the year	352,984	503,273

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. DIVIDENDS

	2004	2003
Equity dividends on ordinary shares	MNT '000	MNT '000
Declared and paid in the year	564,755	471,075
Dividends per share (MNT)	173	144

11. SOCIAL DEVELOPMENT FUND

Social Development Fund represents fund allocated for the purposes of employees' social and welfare expenses. In prior 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 MNT103.4 million was approved. There was no distribution being approved during the financial year.

12. CASH AND SHORT TERM FUNDS

	2004	2003
	MNT '000	MNT '000
Cash and short term funds:		
In local currencies	1,276,324	1,651,480
In foreign currencies	982,328	831,130
	2,258,652	2,482,610

13. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004	2003
	MNT '000	MNT '000
Current accounts with Bank of Mongolia	6,316,660	1,354,066
Placements with other banks and financial institutions	6,835,944	2,520,879
	13,152,604	3,874,945

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 institution and short term deposits with local financial institutions. Current accounts with foreign financial institutions are generally denominated in USD and bear interest at annual rates ranging from 9.5% to 11.0% (2003 : 9% to 27.6%), while those with local financial institutions bear interest ranging from 12% to 21% (2003: Nil).

14. INVESTMENT IN SECURITIES

	2004 MNT '000	2003 MNT '000
Securities held-to-maturity:		
Bank of Mongolia treasury bills	8,083,920	3,018,963
Accretion of discounts	10,986	999
	8,094,906	3,019,962
Promissory notes	961,155	-
Allowance for impairment losses	(9,068)	-
	952,087	-
Net securities held-to-maturity	9,046,993	3,019,962
Securities available-for-sale:		
Shares - quoted	7,484	7,484
- unquoted	623,288	622,913
Net securities available-for-sale	630,772	630,397
	9,677,765	3,650,359
Market value of quoted shares	6,692	11,139

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 15.9% (2003 : 8.5% to 14%).

Promissory notes are issued by a private corporation with a 120 days maturity period. The annual interest rate is 24% (2003: nil) per annum.

15. LOANS AND ADVANCES

	2004 MNT '000	2003 MNT '000
Term loans	44,260,517	31,991,552
Staff loans	222,544	209,472
Gross loans and advances	44,483,061	32,201,024
Allowances for loan losses		
- specific	(1,970,844)	(700,636)
- general	(400,736)	(296,766)
Net loans and advances	42,111,481	31,203,622

	2004 MNT '000	2003 MNT '000
Maturity structure		
Maturing within one year	29,560,103	26,078,298
One to five years	10,916,816	1,173,080
After five years	4,006,142	4,949,646
	44,483,061	32,201,024

Included in the gross loans and advances amount is interest receivable amounting to MNT 914 million (2003: MNT 564 million).

15. LOANS AND ADVANCES (CONTD.)

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

	2004 MNT '000	2003 MNT '000
Agriculture	3,162,638	2,262,970
Mining	2,341,693	1,543,787
Manufacturing and processing	7,799,916	6,747,943
Petroleum importation	1,535,956	1,037,960
Textile	865,376	4,451,268
Trading	11,921,470	6,936,835
Financial services	800,000	-
Others	16,056,012	9,220,261
	44,483,061	32,201,024

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

Movements in the past due loans ("PDLs") are as follows:

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	-	-
Reclassified from NPLs	1,560,173	-
Addition during the period	396,770	-
Recoveries/regularised during the period	(766,696)	-
Gross balance at end of year	1,190,247	-
Less: Specific allowance	(59,512)	-
Net balance at end of year	1,130,735	-

Arising from changes of Regulations on Assets Classification and Provisioning in November 2004, the classification of loans have been changed. No comparative figures are available.

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

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	1,963,245	2,163,170
NPLs during the year - gross	3,887,224	654,766
Reclassified to PDLs	(1,560,173)	-
Recoveries/regularised during the year	(1,974,296)	(27,461)
Amount written off	-	(1,871)
Transferred to other assets	(10,828)	(825,359)
Gross balance at end of year	2,305,172	1,963,245
Less: Specific allowance	(1,911,332)	(700,636)
Net balance at end of year	393,840	1,262,609
Gross NPLs ratio as a percentage of gross total loans	5.2%	6.1%
Net NPLs ratio as a percentage of net total loans	0.9%	4.0%

15. LOANS AND ADVANCES (CONTD.)

Movements in the allowance for loan losses are as follows:

	2004 MNT '000	2003 MNT '000
Specific Allowance		
Balance at beginning of year	700,636	623,667
Allowance made during the year	1,600,594	260,385
Amount written back in respect of recoveries	(330,386)	(27,461)
Amount written off	-	(155,955)
Balance at end of year	1,970,844	700,636

	2004 MNT '000	2003 MNT '000
General Allowance		
Balance at beginning of year	296,766	142,682
Allowance made during the year	103,970	154,084
Balance at end of year	400,736	296,766

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for EURO loans and USD loans amounting to MNT 5,754 million and MNT 7,412 million (2003: MNT 3,100 million and MNT 6,383 million) respectively. Interest rate ranges from 7.75% to 39% per annum (2003 : 7.75% to 50.2% per annum) respectively.

Loans and advances amounting to approximately MNT 41,024 million at 31 December 2004 (2003 : MNT 30,238 million) were classified as normal and provided with a loss reserve. Further, loans amounting to MNT 3,495 million (2003 : MNT 1,963 million) were classified as NPLs for the year and provisions of MNT 1,971 million (2003 : MNT 700 million) have been allocated against these NPLs.

The allowance 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

	2004 MNT '000	2003 MNT '000
Foreclosed properties	1,691,628	2,097,552
Less: Allowance for impairment of foreclosed properties	(41,527)	(21,797)
	1,650,101	2,075,755
Other assets	190,232	99,326
Less: Allowance for impairment of other assets	(73,562)	(70,715)
	116,670	28,611
Prepaid expenses	441,005	172,236
Advances	295,166	218,714
Consumables and other inventories	290,037	235,018
	2,792,979	2,730,334

The carrying value of the foreclosed properties are based on directors' valuation, taking into consideration the estimate recovery rates and features of these properties in current conditions. No independent valuation has been performed on the foreclosed properties.

On 21 October 2004, the Bank has also obtained a waiver from Bank of Mongolia from complying with the Regulation on Asset Classification and Provisioning specifically on allowances for impairment of foreclosed properties. Under the waiver, the Bank has been given a grace period until 31 December 2005 to comply with the related regulations.

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	1,678,038	912,157	418,105	271,178	3,279,478
Additions	347,502	117,649	95,521	292,518	853,190
Disposals	-	(28,131)	-	-	(28,131)
Transfer	203,310	-	-	(203,310)	-
Write-offs	-	(9,519)	(12,402)	-	(21,921)
Balance at end of year	2,228,850	992,156	501,224	360,386	4,082,616
Representing:					
At cost	928,850	992,156	501,224	360,386	2,782,616
At valuation	1,300,000	-	-	-	1,300,000
	2,228,850	992,156	501,224	360,386	4,082,616

17. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT '000	Furniture, fixtures & vehicles MNT '000	Computers MNT '000	Construction in progress MNT '000	Total MNT '000
Accumulated depreciation					
Balance at beginning of year	60,882	168,478	109,492	-	338,852
Charge for the year	41,277	85,200	72,121	-	198,598
Disposals	-	(14,387)	-	-	(14,387)
Write-offs	-	(1,673)	(3,399)	-	(5,072)
Balance at end of year	102,159	237,618	178,214	-	517,991
Net Book Value					
At 31 December 2004					
At cost	888,529	754,538	323,010	360,386	2,326,463
At valuation	1,238,162	-	-	-	1,238,162
	2,126,691	754,538	323,010	360,386	3,564,625
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
Depreciation charge for 2003	27,463	69,190	54,665	-	151,318

Details of the latest independent professional valuations of buildings at 31 December 2004 are as follows:

Date of Valuation	Description of Property	Valuation Amount MNT'000	Basis of Valuation
19 December 2000	Headquarters 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

	2004 MNT '000	2003 MNT '000
Time deposits	38,198,301	21,816,128
Current account deposits	12,715,346	8,969,908
Demand deposits	3,303,769	3,848,090
	54,217,416	34,634,126

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

	2004 MNT '000	2003 MNT '000
Due within six months	24,572,145	10,003,467
Six months to one year	13,592,481	11,812,661
One year to three years	33,675	-
	38,198,301	21,816,128

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

	2004 MNT '000	2003 MNT '000
Individuals	40,622,866	22,414,927
Business enterprises	11,335,121	10,127,355
State Enterprises	2,259,429	2,091,844
	54,217,416	34,634,126

Current account deposits bear no interest. Demand deposits are interest bearing and may be withdrawn upon demand. Demand deposits for foreign currencies and local currency bear an annual interest rate of approximately 4.8% (2003 : 4.8%) and 7.2% (2003 : 7.2%), respectively.

Time deposits for foreign currencies and local currency bear an annual interest rate ranging from 7.2% to 8.4% (2003 : 7.2% to 8.4%) and 14.4% to 19.2% (2003 : 14.4% to 19.2%), respectively.

19. DEPOSITS AND PLACEMENTS OF OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Foreign currency current account deposits	11,475	350,400
Foreign currency time deposits	1,209,000	-
Local currency current account deposits	255	-
	1,220,730	350,400

Foreign currency current account deposits generally bear interest ranging from 5% to 8.5% (2003: 5%). The foreign currency time deposits bear interest of 1.5%. Local currency current account deposit bear no interest.

20. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Loan from Kreditanstalt fuer Wiederaufbau ("KfW")	5,812,131	3,218,308
Loan from Asian Development Bank ("ADB")		
- housing	3,066,927	2,254,108
- agricultural	1,518,760	1,075,184
Loan from World Bank	530,959	-
Loan from International Development Association ("IDA")	662,820	-
	11,591,597	6,547,600

Loan from KfW

The loan was obtained from a German government bank- KfW via the Bank of Mongolia. The loan is denominated in 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.

Loan from 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 7 aimags; Hovd, Darkhan, Selenge, Uvs, Zavhan, Bayankhongor and Gobi Altay. The loan bears interest at 5.5% (2003: 5.5%) annually, payable by the Bank on a monthly basis. Principal amounts are repayable within one year of disbursement.

20. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS (CONTD.)

Loan from World Bank

The loan is utilised for the financial capacity development project . The interest rate of the loan is fixed at 3% (2003 :Nil) per annum with principal repayment commencing on January 2008 and final repayment due in July 2022 in accordance with the repayment schedule.

Loan from International Developement Association ("IDA")

The loan is only disbursed to borrowers from 4 aimags; Dornod, Umnugobi, Bayanhongor and Uvurhangai. The loan bears interest at 5% per annum with principal repayment commencing on November 2004 and final repayment due in August 2005 in accordance with the repayment schedule.

21. OTHER LIABILITIES

	2004 MNT '000	2003 MNT '000
Payables	398,182	178,321
Foreign remittance under request	51,576	6,203
Collateral deposits and escrow account	406,590	429,925
Other payables	80	44,797
	856,428	659,246

22. STATUTORY FUND

	Number of Ordinary Shares of MNT1,000 each		Amount	
	2004	2003	2004 MNT '000	2003 MNT '000
At 1 January	3,268,390	2,104,574	3,268,390	2,104,574
Issued during the year	824,537	1,163,816	824,537	1,163,816
At 31 December	4,092,927	3,268,390	4,092,927	3,268,390

During the financial year, the Bank increased its statutory fund by MNT825 million (2003: MNT1,164 million) by issuance of 824,537 ordinary shares of MNT1,000 at par. The increase was approved by Bank of Mongolia. The new funds rank pari passu with the existing funds.

As required by Bank of Mongolia, the Bank would need to raise the minimum statutory fund to MNT8 billion by the first quarter of 2006. Currently, the Bank is taking active actions to meet with this requirement.

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

23. RISK MANAGEMENT POLICIES (CONTD.)

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

	2004 (MNT'000)		
	Mongolia	**Foreign**	**Total**
Assets			
Cash and short term funds	2,240,359	18,293	2,258,652
Deposits and placements with other banks and financial institutions	11,082,020	2,070,584	13,152,604
Investment in securities	9,674,470	3,295	9,677,765
Loans and advances	42,111,481	-	42,111,481
Other assets	2,786,799	6,180	2,792,979
	67,895,129	2,098,352	69,993,481
Liabilities			
Deposits from customers	54,217,416	-	54,217,416
Deposits and placements of other banks and financial institutions	1,209,255	11,475	1,220,730
Loans from foreign financial institution	-	11,591,597	11,591,597
Other liabilities	856,428	-	856,428
Tax payable	167,984	-	167,984
	56,451,083	11,603,072	68,054,155

	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
	41,478,625	2,463,245	43,941,870
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
Tax payable	166,573	-	166,573
	35,459,945	6,898,000	42,357,945

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:

	2004 (MNT'000)				
	MNT	**USD**	**EURO**	**Others**	**Total**
Assets					
Cash and short term funds	1,276,324	795,501	110,313	76,514	2,258,652
Deposits and placements with other banks and financial institutions	4,186,855	8,686,800	261,524	17,425	13,152,604
Investment in securities	8,722,382	952,088	3,295	-	9,677,765
Loans and advances	28,945,826	7,411,647	5,754,008	-	42,111,481
Other assets	2,174,771	624,098	(11,774)	5,884	2,792,979
	45,306,158	18,470,134	6,117,366	99,823	69,993,481
Liabilities					
Deposits from customers	39,186,298	14,879,279	132,085	19,754	54,217,416
Deposits and placements of other banks and financial institutions	255	1,220,475	-	-	1,220,730
Loans from foreign financial institutions	4,568,002	1,211,464	5,812,131	-	11,591,597
Other liabilities	535,634	240,866	77,981	1,947	856,428
Tax payable	167,984	-	-	-	167,984
	44,458,173	17,552,084	6,022,197	21,701	68,054,155
Net position	847,985	918,050	95,169	78,122	1,939,326
Commitments and other off balance sheet items	2,890,522	1,845,778	102,108	-	4,838,408

23. RISK MANAGEMENT POLICIES (CONTD.)

	2003 (MNT'000)				
	MNT	USD	EURO	Others	Total
Assets					
Cash and short term funds	1,651,480	738,558	49,191	43,381	2,482,610
Deposits and placements with other banks and financial institutions	1,354,066	2,377,357	135,769	7,753	3,874,945
Investment in securities	3,647,439	-	2,920	-	3,650,359
Loans and advances	21,720,773	6,382,916	3,099,933	-	31,203,622
Other assets	2,730,334	-	-	-	2,730,334
	31,104,092	9,498,831	3,287,813	51,134	43,941,870
Liabilities					
Deposits from customers	25,976,272	8,001,073	656,680	101	34,634,126
Deposits and placements of other banks and financial institutions	-	350,400	-	-	350,400
Loans from foreign financial institutions	-	3,447,667	3,099,933	-	6,547,600
Other liabilities	659,246	-	-	-	659,246
Tax payable	166,573	-	-	-	166,573
	26,802,091	11,799,140	3,756,613	101	42,357,945
Net position	4,302,001	(2,300,309)	(468,800)	51,033	1,583,925
Commitments and other off balance sheet items	6,760,289	69,631	30,664	-	6,860,584

23. 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 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. 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.

23. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2004 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	2,258,652	-	-	-	-	2,258,652
Deposits and placements with other banks and financial institutions	11,748,104	604,500	800,000	-	-	13,152,604
Investment in securities	9,046,994	-	-	-	630,771	9,677,765
Loans and advances	12,485,701	5,702,148	9,149,903	10,807,648	3,966,081	42,111,481
Other assets	2,792,979	-	-	-	-	2,792,979
	38,332,430	6,306,648	9,949,903	10,807,648	4,596,852	69,993,481
Liabilities						
Deposits from customers	27,052,236	13,539,024	13,592,481	31,957	1,718	54,217,416
Deposits and placements of other banks and financial institutions	616,230	604,500	-	-	-	1,220,730
Loans from foreign financial institutions	909,043	666,100	823,268	7,142,120	2,051,066	11,591,597
Other liabilities	856,428	-	-	-	-	856,428
Tax payable	167,984	-	-	-	-	167,984
	29,601,921	14,809,624	14,415,749	7,174,077	2,052,784	68,054,155
Net liquidity gap	8,730,509	(8,502,976)	(4,465,846)	3,633,571	2,544,068	1,939,326
Accumulated gap	8,730,509	227,533	(4,238,313)	(604,742)	1,939,326	

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
	13,767,215	4,489,858	11,747,000	10,207,466	3,730,331	43,941,870
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
Tax payable	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)	7,518,639	2,203,979	1,583,925
Accumulated gap	9,093,306	(5,390,211)	(8,138,693)	(620,054)	1,583,925	

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 2004 and 2003 for monetary financial instruments are as follows:

	2004		2003	
	MNT	**FOREIGN CURRENCIES**	**MNT**	**FOREIGN CURRENCIES**
Interest earning assets				
Deposits and placement with other banks and other financial institutions	12% - 21%	9.5% - 11% (USD)	-	9.0% - 27.6% (USD)
Bank of Mongolia treasury bills	8.5% - 15.9%	-	8.5% - 14%	-
Loans and advances	19.2% - 39%	7.75% (EUR) 18% - 36.6% (USD)	10.4% - 50.2%	7.75% (EUR) 14% - 31.4% (USD)
Interest bearing liabilities				
Demand deposits from customers	7.20%	4.80%	7.20%	4.80%
Time deposits of customers	14.4% - 19.2%	7.2% - 8.4%	14.4% - 19.2%	7.2% - 8.4%
Deposits and placements of other banks and financial institutions	-	1.5% - 8.5%	-	5.00%
Loans from foreign financial institution	3.0% - 8%	1.75% (EUR)	5.5% - 8%	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.

	2004 MNT '000	2003 MNT '000
Loan to shareholders'/directors' related companies	1,700,060	-
Loan to key management personnel	72,484	79,473
	1,772,544	79,473
Repayable		
- within one year	892,544	17,473
- one to five years	880,000	62,000
	1,772,544	79,473
Allowance for loan losses	(17,725)	(795)
Total	1,754,819	78,678

The loans to Bank's employees bear annual interest rates ranging from 1.2% to 17.3% (2003 : 1.2% to 17.3%)

Directors' Remuneration

The executive members of the Board of Directors received remuneration totalling MNT19.9 million (2003 : MNT14.3 million). The non-executive members received fees totalling MNT12.8 million (2003 : MNT9.4 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:

	2004	**2003**
Core capital ratio	9.59%	10.21%
Risk weighted capital ratio	10.79%	11.89%

	MNT'000	**MNT'000**
Tier I capital		
Statutory fund	4,092,927	3,268,390
Retained earnings	796,355	615,416
Total Tier I Capital	4,889,282	3,883,806
Tier II capital		
Revaluation surplus	582,380	582,380
Social development fund	32,289	58,365
Total Tier II Capital	614,669	640,745
Total Capital Base	5,503,951	4,524,551

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

	2004 MNT '000		**2003 MNT '000**	
%	**Assets**	**Risk Weighted**	**Assets**	**Risk Weighted**
0	16,746,312	-	6,856,638	-
10	-	-	-	-
20	8,362,605	1,672,521	2,546,550	509,310
50	4,205,567	2,102,784	114	57
100	47,217,333	47,217,333	37,535,643	37,535,643
Total	76,531,817	50,992,638	46,938,945	38,045,010

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.

	2004 MNT '000	**2003 MNT '000**
Letters of credit	1,537,829	69,631
Guarantees	207,402	5,557,895
Other off balance sheet items	3,093,177	1,233,058
	4,838,408	6,860,584

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

At 31 December 2004, all the Bank's outstanding letter of credits and guarantees issued are fully collateralised, mainly by cash.

At 31 December 2004, other off balance sheet items consist of mainly loans (inclusive of interest) of MNT1,725 million (2003 : MNT1,139 million) that were written off and credit line approved.

27. CONTINGENT LIABILITY

In year 2003, 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.

Subsequently, LCs amounting to USD30 million (approximately MNT36.27 billion) was issued of which no valid claims have crystallised to date. In order to terminate the agreement and LCs, the Bank has referred the matter for arbitration as provided in the terms of agreement on the ground of breach of main conditions stipulated in the agreement by the beneficiary. Based on the Bank's internal legal advice, the directors are of the opinion that no liability has become enforecable or likely to become enforceable on the Bank.

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.

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 assessment 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.