Savings Bank Of Mongolia

Audited Financial Statements
31 December 2002

AUDITORS' REPORT

To Savings Bank of Mongolia

We have audited the financial statements of Savings Bank of Mongolia on pages 3 to 32.

Respective responsibilities of Directors and Auditors

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

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

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

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing in the framework of Accounting and Auditing Laws of Mongolia and rules issued by the Bank of Mongolia (the Central Bank). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements on pages 3 to 32 present fairly, in all material respects, the financial position of Savings Bank of Mongolia as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

The comparative figures have been audited by another firm of auditors as we were appointed as auditors only for the current year's financial statements. Accordingly, we do not express any opinion on the comparative figures.

Ulaan Baatar
4 April 2003

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 MNT '000	2001 MNT '000
Interest income	5	5,993,168	5,541,892
Interest expense	6	(3,694,405)	(3,983,711)
Net interest income		2,298,763	1,558,181
Fees and commissions	7	273,646	188,865
Foreign exchange and translation gains, net of losses	8	34,083	2,925
Other operating income	9	84,858	126,514
Non interest income		392,587	318,304
Operating income		2,691,350	1,876,485
Operating expenses	10	(1,532,523)	(1,077,441)
Provisions	11	(321,544)	(86,238)
Profit before taxation		837,283	712,806
Taxation	12	(151,740)	(91,995)
Net profit for the year		685,543	620,811

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

SAVINGS BANK OF MONGOLIA

BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 MNT '000	2001 MNT '000
ASSETS			
Cash and short term funds	14	7,451,515	8,485,450
Amounts due from other financial institutions	15	1,301,422	220,464
Securities purchased under resale agreement	16	700,000	-
Dealing securities	17	15,043,962	15,043,962
Investment securities held to maturity	18	18,630,778	19,753,587
Loans and advances	19	6,336,675	1,001,584
Other assets	20	590,746	802,030
Property, plant and equipment	21	1,018,897	1,071,228
TOTAL ASSETS		51,073,995	46,378,305
LIABILITIES AND CAPITAL FUNDS			
Deposits from customers	22	47,010,639	42,020,615
Amounts due to other financial institutions	23	-	629,249
Taxes payable		600	-
Other liabilities	24	581,641	932,869
TOTAL LIABILITIES		47,592,880	43,582,733
Statutory fund	25	2,217,300	2,000,000
Reserves		1,263,815	795,572
TOTAL CAPITAL FUNDS		3,481,115	2,795,572
TOTAL LIABILITIES AND CAPITAL FUNDS		51,073,995	46,378,305
COMMITMENTS AND CONTINGENCIES AND OFF BALANCE SHEET ITEMS	26	10,292,077	1,930,544

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

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

	Note	Statutory fund	Revaluation reserves (Note 27)	Retained profits	Total
		MNT'000	MNT'000	MNT'000	MNT'000
At 1 January 2001		2,000,000	5,341	824,399	2,829,740
Net profit for the year		-	-	620,811	620,811
Transfer to social development fund		-	-	(654,979)	(654,979)
At 31 December 2001		2,000,000	5,341	790,231	2,795,572
Net profit for the year		-	-	685,543	685,543
Dividend	**13**	-	-	(217,300)	(217,300)
Issue of share		217,300	-	-	217,300
At 31 December 2002		2,217,300	5,341	1,258,474	3,481,115

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

SAVINGS BANK OF MONGOLIA

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 MNT '000	2001 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	837,283	712,806
Adjustments for:-		
Depreciation of property, plant and equipment	103,550	87,483
Gain on disposal of property, plant and equipment	(4,094)	-
Property, plant and equipment written off	1,660	-
Provisions for loan losses less write back	51,544	10,713
Provisions for losses on other receivables	270,000	75,525
Operating profit before working capital changes	1,259,943	886,527
(Increase)/Decrease in operating assets:-		
Securities purchased under resale agreement	(700,000)	-
Dealing securities	-	(15,043,962)
Loans and advances	(5,386,635)	(856,383)
Other assets	297,261	(399,784)
Increase/(Decrease) in operating liabilities:-		
Deposits from customers	4,990,024	2,209,108
Amount due to other financial institutions	(629,249)	629,249
Other liabilities	(351,228)	(57,919)
Cash generated from operations	(519,884)	(12,633,164)
Income tax paid	(151,140)	(91,995)
Net cash flow used in operating activities	(671,024)	(12,725,159)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in investment securities held to maturity	1,122,809	14,012,651
Purchase of property, plant and equipment	(411,025)	(160,487)
Proceeds on disposal of property, plant and equipment	6,263	-
Net cash flow from investing activities	718,047	13,852,164
Net cash brought forward	47,023	1,127,005

SAVINGS BANK OF MONGOLIA

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)

	2002 MNT '000	2001 MNT '000
Net cash carried forward	47,023	1,127,005
CASH FLOW FROM FINANCING ACTIVITY		
Increase in statutory fund	-	1,000,000
Social development fund contribution	-	(654,979)
Net change in cash and cash equivalents	47,023	1,472,026
Cash and cash equivalents brought forward	8,705,914	7,233,888
Cash and cash equivalents carried forward	8,752,937	8,705,914

Cash and cash equivalent comprise of:-

Cash and short term funds (Note 14)	7,451,515	8,485,450
Amounts due from other financial institutions (Note 15)	1,301,422	220,464
	8,752,937	8,705,914

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

1. GENERAL INFORMATION

The financial statements of the Bank for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the Directors on 3 March 2003.

Savings Bank of Mongolia is an entity incorporated and domiciled in Mongolia. It commenced operations in 1996. The registered address of the Bank is Commerce Street-6, Ulaanbaatar-11, Mongolia.

The Bank is wholly owned by the Mongolian Government.

2. PRINCIPAL ACTIVITIES

The principal activities of the Bank are that of the provision of banking and financial services, pursuant to License No. 11 issued by the Bank of Mongolia ("BOM"). There have been no significant changes in the nature of these activities during the year.

Savings Bank of Mongolia constitutes a single business, all conducted in Mongolia. The Bank has no branches or operations abroad.

3. BASIS OF PREPARATION

The Bank's financial statements have been prepared in accordance with applicable International Accounting Standards ("IAS"). These financial statements have also complied with the Commercial Banks Financial Statement Reporting Rules and the Unified Accounting Principles issued by the Central Bank - the Bank of Mongolia.

The financial statements have been prepared on the historical cost convention except for the revaluation of buildings, dealing securities and available for sale investment securities. 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.

4. 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 includes coupons earned on fixed income investment and dealing securities and accrued discount and premium on discounted instruments. Interest income is suspended when the probability of recoverability of either the principal or interest is ascertained as doubtful. In accordance with the requirement of Bank of Mongolia, interest is suspended when repayments are in arrears for 3 months. 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.

(b) Fees income and commissions

Fees income and commissions are accounted for on accrual basis based on contractual arrangement when the services are rendered.

(c) Foreign currencies

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

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

The official exchange rates for every unit of foreign currency ruling at the end of the year are as follows:-

	2002 **MNT**	**2001** **MNT**
US Dollar ("USD")	1,125.00	1,102.00
Pound Sterling ("GBP")	1,804.00	1,599.50
EURO ("Euro")	1,169.40	988.90
Japanese Yen ("JPY")	9.38	8.50
Chinese Yuan ("CNY")	135.90	133.10

(d) Originated loans and loss on loans and advances

Loans originated by the Bank by providing money directly to the borrower at draw down are categorised as loans originated by the Bank and are carried at amortised cost. 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 is made as considered necessary having regard to both specific and general factors. In determining the need for provisions, management considers, among other things, the financial position of the borrowers, the value of any collateral and guarantees received, industry performance, current economic conditions and past experiences. The amount of the provision 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 based on the interest rate at inception. Provision made (less amounts recovered) during the year is charged against the income statement.

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

(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 purposes, in accordance with the regulations of the Mongolian Government.

(f) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amonts in the financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be avavilable against which the temporary differences can be utilised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Cash and cash equivalents

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

(h) Investment securities

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. 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. Management determines he approporiate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). 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 value for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumsatnces of the issuer. Unrealised gains or losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Dealing securities

Dealing securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realsied and unrealised gains and losses are includedin net trading income. Interest earned whilst holding trading securities is reported as interst income. Dividends recieved are included in dividend income.

All purchases and sales of dealing securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

(j) Property, plant and equipment

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

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

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

Capital work in progress is not depreciated. Depreciation on these assets begins when the related assets are placed in service.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(k) Provisions

Provisions are recognised when the Bank has a present legal and constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Repurchase agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and corresponding obligations to purchase the securities are reflected as a liability on the balance sheet.

(m) Deposits from customers

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

(n) Retirement and other benefit obligations

The Bank does not have any pension arrangements apart from the pension system of Mongolia, which requires current contributions by the employer be calculated as a percentage of current gross salary payments. Such expense is charged to the income statement in the period the related compensation is earned by the employee. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

5. INTEREST INCOME

	2002 MNT '000	2001 MNT '000
Loans and advances	1,027,656	166,273
Deposits and placements with foreign financial institutions	31,108	7,807
Placement with Bank of Mongolia	346,512	467,778
Government bonds and securities	4,569,941	4,900,034
Others	17,951	-
	5,993,168	5,541,892

6. INTEREST EXPENSE

Current account deposits	15,750	7,179
Time and saving account deposits	3,678,655	3,976,532
	3,694,405	3,983,711

7. FEES AND COMMISSIONS

Service charges from:		
Pensions	163,139	129,652
Money transfers	48,404	38,938
Remittances	10,817	12,452
Transfer of salaries	32,498	-
Foreign transactions	10,686	1,196
Others	8,102	6,627
	273,646	188,865

8. FOREIGN EXCHANGE AND TRANSLATION GAINS, NET OF LOSSES

Net foreign currency transaction gain	13,249	3,279
Net foreign currency translation gain / (loss)	20,834	(354)
	34,083	2,925

9. OTHER OPERATING INCOME

	2002 MNT '000	2001 MNT '000
Gain on disposal of property, plant and equipment	4,094	-
Income from penalties	33,975	33,094
Other income	46,789	93,420
	84,858	126,514

Included in other income are transaction slip, cheque book and savings book charges.

10. OPERATING EXPENSES

Included in operating expenses are:-

	2002	2001
Employee's salaries	377,709	316,821
Social insurance	86,287	67,938
Health insurance	22,612	17,215
Training	36,420	37,411
Travelling	39,020	32,881
Compensation bonus	149,935	85,699
Membership and audit fees	49,254	12,002
Advertising and public relations	35,942	20,029
Depreciation	103,550	87,483
Rental	91,080	72,903
Utilities	67,571	57,210
Repair and maintenance	145,754	64,433
Stationery	30,459	23,295
Armoured guard and security	116,937	82,916
Communications	56,785	42,795
Entertainment	14,769	10,001
Transportation	24,090	20,757

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

	2002	2001
Directors and heads of departments	4	4
Officers	35	34
Clerks etc.	368	352
	407	390
Of which:		
- Head office	74	68
- Branches and settlement centers	333	322
	407	390

11. PROVISIONS

	2002 MNT '000	2001 MNT '000
Provision for loan losses	51,544	10,713
Provision for probable losses on other receivables	270,000	75,525
	321,544	86,238

12. TAXATION

	2002 MNT '000	2001 MNT '000
Current income tax	151,740	91,995

The Bank is wholly owned by the Mongolian Government. As the Bank's major source of income is derived from the interest on government bonds which is tax exempt, the corporate tax assessment is made at the beginning of the financial period by the Mongolian Tax Authority based on the predetermined amount as per state budget. The tax is made payable on quarterly basis.

Accordingly, no reconciliation of statutory tax has been prepared.

13. DIVIDEND

	2002 MNT '000	2001 MNT '000
2001 dividend declared and paid in current year	217,300	-

14. CASH AND SHORT TERM FUNDS

	2002 MNT '000	2001 MNT '000
Balances with Bank of Mongolia	5,371,143	7,389,433
Cash and bank balances	2,080,372	1,096,017
	7,451,515	8,485,450

Balances are maintained with Bank of Mongolia in accordance with Bank of Mongolia's requirements and bear interest at annual interest rate of 1.08% (2002: 1.08%). The balances maintained with Bank of Mongolia are determined at set percentages based on 15 days average cash balances. These balances are not available for the Bank's use in the day to day operations.

15. AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Foreign financial institutions	605,258	-
Local financial institutions	696,164	220,464
	1,301,422	220,464

The balances with foreign financial institutions are generally denominated in US Dollars, Japanese Yen and EURO and bear interest at annual rates ranging from 0.60% to 0.75%. (2001: Nil). The balances with local financial institutions are denominated in Togrog and non interest bearing.

16. REPURCHASE AGREEMENT

Repurchase agreement represents purchased of Bank of Mongolia bills from another bank on repurchase condition with a discount rate of 6% (2001: Nil).

17. DEALING SECURITIES

	2002 MNT '000	2001 MNT '000
Government securities	15,043,962	15,043,962

Government securities are issued by the Ministry of Finance and Economy of Mongolia, with maturities of generally more than one year at annual interest rate ranging from 15.2% to 16.2% to (2001: 16.2% to 17.5%).

18. INVESTMENT SECURITIES - HELD TO MATURITY

	2002 MNT '000	2001 MNT '000
Bank of Mongolia bills	7,500,000	5,846,000
Government securities	10,299,926	13,728,740
Bonds	861,500	192,250
	18,661,426	19,766,990
Amortisation of premium less accretion of discounts	(30,648)	(13,403)
	18,630,778	19,753,587

18. INVESTMENT SECURITIES - HELD TO MATURITY (CONT'D)

Bank of Mongolia bills are non interest bearing, short term bills with maturities of less than one month, and are issued at a discount to the fair value of the bills upon maturity. The discount rates range from 2.4% to 12% (2001: Nil).

Government securities are issued by the Ministry of Finance and Economy of Mongolia, with maturities of generally one to three months. Annual interest rates range from 3.6% to 14.4% (2001 : 8.4% to 14.4%).

Bonds are issued by private companies with maturities between six to eight months. These bonds bear interest at rates ranging from 19.56% to 19.80% (2001: 19.56%) per annum.

The movement in investment securities may be summarised as follows:

	2002 MNT '000	2001 MNT '000
At beginning of year	19,753,587	18,722,276
Additions	145,126,891	148,111,483
Disposals	(146,219,052)	(147,066,769)
Amortisation of premium less accretion of discounts	(30,648)	(13,403)
At end of year	18,630,778	19,753,587

19. LOANS AND ADVANCES

	2002 MNT '000	2001 MNT '000
Short term loans	5,998,644	-
Term loans	380,000	1,029,716
Staff loans	14,886	-
Loans to stakeholders and related parties		-
	6,393,530	1,029,716
Accrued interest	8,446	2,304
Gross loans and advances	6,401,976	1,032,020
Provisions for loan loss	(65,301)	(30,436)
Net loans and advances	6,336,675	1,001,584

19. LOANS AND ADVANCES (CONT'D)

The maturity structure of gross loans and advances are as follows:-

	2002 MNT '000	2001 MNT '000
Maturing within 1 year	6,021,976	1,032,020
One year to five years	380,000	-
	6,401,976	1,032,020

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

	2002 MNT '000	2001 MNT '000
State companies	945,000	110,000
Trade	1,416,745	147,304
Manufacturing	1,331,200	286,000
Purchasing	1,603,001	124,500
Services	10,037	6,730
Others	1,095,993	357,486
	6,401,976	1,032,020

Others are mainly consisting of salary loans, deposit loans and pension loans.

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

	2002 MNT '000	2001 MNT '000
General provisions		
At 1 January	30,436	119,723
Charge for the year	54,612	11,447
Recoveries	(3,068)	(734)
Transfer to provision for losses on other receivables	(16,679)	-
Written off	-	(100,000)
At 31 December	65,301	30,436

The Bank's balance sheet credit exposure at 31 December 2002 amounted to MNT6.4 billion (2001: MNT1.0 billion). The Bank has no non-performing loans ("NPL").

19. LOANS AND ADVANCES (CONT'D)

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

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

20. OTHER ASSETS

	2002 MNT '000	2001 MNT '000
Receivables	550,935	751,689
Prepaid expenses	277,776	37,130
Advances	-	98
Consumables and other inventory	277,374	240,675
Other receivables	29,079	32,759
	1,135,164	1,062,351
Less: Provision for losses	(544,418)	(260,321)
	590,746	802,030

21. PROPERTY, PLANT & EQUIPMENT

	Buildings MNT'000	Office equipment and vehicles MNT'000	Computers MNT'000	Capital work in progress MNT'000	Total MNT'000
Net book value					
At 1 January 2002	171,628	328,027	156,797	414,776	1,071,228
Additions	152,329	111,499	72,493	74,704	411,025
Disposals	(1,000)	(1,169)	-	-	(2,169)
Write-off	-	(858)	(802)	-	(1,660)
Depreciation	(1,512)	(46,960)	(55,078)	-	(103,550)
Transfer from/(to) other assets	73,271	(51,184)	86,116	(464,180)	(355,977)
At 31 December 2002	394,716	339,355	259,526	25,300	1,018,897
At 31 December 2002					
Cost	408,205	549,344	433,884	25,300	1,416,733
Accumulated depreciation	(13,489)	(209,989)	(174,358)	-	(397,836)
	394,716	339,355	259,526	25,300	1,018,897
At 31 December 2001					
Cost	183,604	497,891	311,684	414,776	1,407,955
Accumulated depreciation	(11,976)	(169,864)	(154,887)	-	(336,727)
	171,628	328,027	156,797	414,776	1,071,228

Included in cost of buildings is an amount of MNT5.34 million (2001: MNT5.34 million) arising from valuation of property based on Directors' valuation done in 1997.

22. DEPOSITS FROM CUSTOMERS

	2002 MNT '000	2001 MNT '000
Current	10,850,730	6,630,944
Savings	7,639,867	6,590,090
Time	27,878,097	28,799,379
Others	641,945	202
	47,010,639	42,020,615

Analysis of deposits by customers are as follows:

	2002 MNT '000	2001 MNT '000
Government	4,630,386	4,197,092
Corporate customers	5,938,005	1,905,559
Small and medium sized enterprises	795,294	440,744
Retail customers	35,646,954	35,477,220
	47,010,639	42,020,615

Current account generally bears no interest, however, for depositors maintaining a balance above a prescribed limit, interest is provided at annual rates of approximately 1.2% to 3.0% (2001: Nil) for local currency current accounts.

Foreign currency saving deposits bear interest at an annual rate of approximately 2.4% (2001: 2.4%), while local currency saving deposits bear interest at an annual rate of approximately 6.0% (2001: 6.0%).

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate of approximately 4.2% (2001: 4.2%), while for local currency time deposits, at an annual rate of approximately 12.0% (2001: 4.2%).

23. AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS

	2002 MNT '000	2001 MNT '000
Foreign currency current deposits	-	629,249

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

24. OTHER LIABILITIES

	2002 MNT '000	2001 MNT '000
Payable	125,015	146,335
Social development fund	43,400	362,368
Accrued interest on deposits	413,226	424,166
	581,641	932,869

The social development fund represents provisions made for staff development which includes training, travelling and social events.

25. STATUTORY FUND

At 1 January	2,000,000	2,000,000
Issued during the year	217,300	-
At 31 December	2,217,300	2,000,000

During the year, the Bank increased its statutory fund by MNT217,300,000 by way of capitalisation of dividend for 2001 declared during the year.

The statutory fund is wholly owned by the Mongolian Government.

26. COMMITMENTS AND CONTINGENCIES AND OFF BALANCE SHEET ITEMS

	2002 MNT '000	2001 MNT '000
Loans collateral	10,181,380	1,830,544
Loans written off	105,501	100,000
Security for tender	5,196	-
	10,292,077	1,930,544

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

27. REVALUATION RESERVES

This represents a surplus arising from valuation of the Bank's property done in 1997 based on Directors' valuation.

28. CAPITAL ADEQUACY

The Bank of Mongolia requires commercial banks to maintain a capital adequacy ratio of 10.00%, compiled on the basis of total equity and total assets as adjusted for their risk. At 31 December 2002, the Bank has a core capital ratio of 11.60% (2001 : 11.78%) and risk weighted capital ratio of 11.83% (2001 : 11.92%), as computed below:

	2002 MNT '000	2001 MNT '000
Tier I capital		
Statutory fund	2,217,300	2,000,000
Retained profit	1,258,474	790,231
Total Tier I Capital	3,475,774	2,790,231
Tier II capital		
Revaluation reserves (net off 55%)	2,403	2,403
General reserve for bad and doubtful debts	65,301	30,436
	3,543,478	2,823,070

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

%	2002 MNT'000	2002 MNT'000
0	-	-
10	-	-
20	260,284	4,093
50	7,541	-
100	29,688,798	23,686,221
Total	29,956,623	23,690,314

Core capital ratio	11.60%	11.78%
Risk weighted capital ratio	11.83%	11.92%

29. TRANSACTIONS WITH RELATED PARTIES

The transactions with related parties of the Bank in 2002 relate solely to loans to staff.

	2002 MNT '000	2001 MNT '000
Gross loans to staff	14,886,450	-
General provision	(148,865)	-
Net related party loans at 31 December 2002	14,737,586	-

The Directors of the Bank are of the opinion that the above transaction is in the normal course of business and had been carried out at terms mutually agreed between the parties.

30. RISK MANAGEMENT POLICIES

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

Credit risk

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

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

30. RISK MANAGEMENT POLICIES (CONT'D)

Credit risk (Cont'd)

The geographical concentration of monetary assets and liabilities follows:

	2002		
	Mongolia	**Other countries**	**Total**
	MNT'000	**MNT'000**	**MNT'000**
Assets			
Cash and short term funds	7,451,515	-	7,451,515
Amounts due from other financial institutions	696,164	605,258	1,301,422
Securities purchased under resale agreement	700,000	-	700,000
Dealing securities	15,043,962	-	15,043,962
Investment securities held to maturity	18,630,778	-	18,630,778
Loans and advances	6,336,675	-	6,336,675
Other assets	590,746	-	590,746
Property, plant and equipment	1,018,897	-	1,018,897
Total assets	50,468,737	605,258	51,073,995
Liabilities			
Deposits from customers	47,010,639	-	47,010,639
Amounts due to other financial institutions	-	-	-
Taxes payable	600	-	600
Other liabilities	581,641	-	581,641
Total liabilities	47,592,880	-	47,592,880
Statutory fund	2,217,300	-	2,217,300
Reserves	1,263,815	-	1,263,815
Total capital funds	3,481,115	-	3,481,115
Total liabilities and capital funds	51,073,995	-	51,073,995

30. RISK MANAGEMENT POLICIES (CONT'D)

Currency risk

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

	2002		
	Mongolia	**Others**	**Total**
	MNT'000	**MNT'000**	**MNT'000**
Assets			
Cash and short term funds	7,451,515	-	7,451,515
Amounts due from other financial institutions	696,164	605,258	1,301,422
Securities purchased under resale agreement	700,000	-	700,000
Dealing securities	15,043,962	-	15,043,962
Investment securities held to maturity	18,630,778	-	18,630,778
Loans and advances	6,336,675	-	6,336,675
Receivables	590,746	-	590,746
Property, plant and equipment	1,018,897	-	1,018,897
Total assets	50,468,737	605,258	51,073,995
Liabilities			
Deposits from customers	47,010,639	-	47,010,639
Amounts due to other financial institutions	-	-	-
Taxes payable	600	-	600
Payables	581,641	-	581,641
Total liabilities	47,592,880	-	47,592,880
Statutory fund	2,217,300	-	2,217,300
Reserves	1,263,815	-	1,263,815
Total capital funds	3,481,115	-	3,481,115
Total liabilities and capital funds	51,073,995	-	51,073,995

30. RISK MANAGEMENT POLICIES (CONT'D)

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 flows obligations as they become due.

The contractual maturities of monetary assets and liabilities at 31 December 2002 are as follows:

	1 to 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	7,451,515	-	-	-	-	7,451,515
Amounts due from other financial institutions	1,301,422	-	-	-	-	1,301,422
Securities purchased under resale agreement	700,000	-	-	-	-	700,000
Dealing securities	-	-	-	15,043,962	-	15,043,962
Investment in securities	8,100,000	166,286	10,364,492	-	-	18,630,778
Loans and advances	3,138,590	1,457,039	1,741,046	-	-	6,336,675
Other assets	254,956	53,443	282,347	-	-	590,746
Property, plant and equipment	-	-	20,356	390,748	607,793	1,018,897
Liabilities						
Deposits from customers	(19,132,541)	(26,862,144)	-	(146,611)	(869,343)	(47,010,639)
Amounts due to other financial institutions	-	-	-	-	-	-
Taxes payable	(600)	-	-	-	-	(600)
Other liabilities	(581,641)					(581,641)
Net position	1,231,701	(25,185,376)	12,408,241	15,288,099	(261,550)	3,481,115
Accumulated gap	1,231,701	(23,953,675)	(11,545,434)	3,742,665	3,481,115	6,962,230

30. RISK MANAGEMENT POLICIES (CONT'D)

Interest rate risk

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

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

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

	2002	
	MNT	**Foreign currencies**
Financial assets		
Amounts due from other financial institutions	0.6% - 0.75%	-
Securities purchased under resale agreement	2.98% - 12.2%	-
Dealing securities	1.27% - 1.35%	-
Investment securities held to maturity	2.75% - 19.8%	-
Loans and advances	1.5% - 3.5%	1.5% - 3.2%
Financial liabilities		
Deposits from customers	1.2% - 3.0%	-
Amounts due to other financial institutions	12.0%	4.2%

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying amount MNT '000	Fair value MNT '000
ASSETS		
Cash and short term funds	7,451,515	7,451,515
Amounts due from other financial institutions	1,301,422	1,301,422
Securities purchased under resale agreement	700,000	700,000
Dealing securities	15,043,962	15,043,962
Investment in securities	18,630,778	18,630,778
Loans and advances	6,336,675	6,336,675
Receivables in other assets	590,746	590,746
Property, plant and equipment	1,018,897	1,018,897
TOTAL ASSETS	51,073,995	51,073,995
LIABILITIES		
Deposits from customers	47,010,639	47,010,639
Amounts due to other financial institutions	-	-
Taxes payable	600	600
Other liabilities	4,062,756	4,062,756
TOTAL LIABILITIES	51,073,995	51,073,995

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

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

Cash and short term funds

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

Deposits and placements

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

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

Investment in securities

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

Loans and advances

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

Other assets

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

Deposits from customers

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

Deposits and placements of other financial institutions

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

Loans from foreign financial institutions

The fair value of loans from foreign financial institution is stated at carrying amount due to the extensive period that their financial instruments are held.

Other liabilities

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

32. POST BALANCE SHEET EVENTS

Subsequent to the year end, the rate of exchange of the Togrog to the US Dollar has changed to 1,138 Togrog to one US Dollar, as at 3 April 2003.

33. 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.

34. COMPARATIVE FIGURES

The comparative figures had been audited by another firm of auditors as we were appointed as auditors only for the current year's results.