

TRADE DEVELOPMENT BANK OF MONGOLIA LLC

Audited Financial Statements

31 December 2003

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

CORPORATE INFORMATION

REGISTERED OFFICE

: Commerce Street - 7
Ulaanbaatar - 11
Mongolia

BOARD OF DIRECTORS

: Fabio Calia
Jean Baudois

COMPANY SECRETARY

: D. Davaajav

AUDITORS

: Ernst & Young Mongolia Audit LLC
Certified Public Accountants

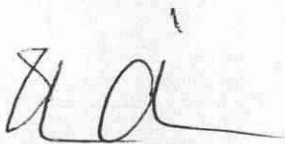
TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

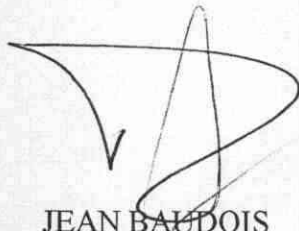
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STATEMENT BY DIRECTORS AND EXECUTIVE

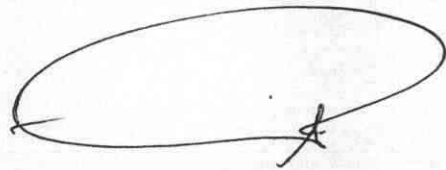
We, FABIO CALIA and JEAN BAUDOIS, being the two directors of TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC ("the Bank"), and DENNIS OPENSHAW, being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 3 to 38 are drawn up in accordance with applicable International Financial Reporting Standards and Regulations issued by the Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2003 and of the results and the cash flows of the Bank for the year then ended.



FABIO CALIA



JEAN BAUDOIS



DENNIS OPENSHAW

Ulaanbaatar

31 MAR 2004

REPORT OF THE AUDITORS

To the Board of Directors of Trade and Development Bank of Mongolia LLC

We have audited the accompanying financial statements of Trade and Development Bank of Mongolia LLC as at 31 December 2003 set out on pages 3 to 38. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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



Ulaanbaatar

31 MAR 2004

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 MNT '000	2002 MNT '000
Interest income	4	12,025,680	11,454,885
Interest expense	5	(3,366,456)	(2,826,883)
Net interest income		<u>8,659,224</u>	<u>8,628,002</u>
Non-interest income	6	5,008,694	4,788,894
Operating profit		<u>13,667,918</u>	<u>13,416,896</u>
Operating expenses	7	(5,589,954)	(4,371,592)
Profit before provisions		<u>8,077,964</u>	<u>9,045,304</u>
Provisions	8	(3,919,446)	(3,764,774)
Profit before taxation		<u>4,158,518</u>	<u>5,280,530</u>
Taxation	9	(1,584,512)	(2,029,288)
Profit after taxation		<u>2,574,006</u>	<u>3,251,242</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003 MNT '000	2002 MNT '000
ASSETS			
Cash and short term funds	10	10,726,723	7,832,147
Deposits and placements with other banks and financial institutions	11	74,222,557	43,664,408
Investment in securities	12	53,686,304	22,057,270
Loans and advances	13	55,468,039	46,255,321
Other assets	14	396,849	487,895
Tax recoverable	15	-	1,170,672
Long term government bonds	16	-	-
Property, plant and equipment	17	8,139,018	8,077,625
TOTAL ASSETS		<u>202,639,490</u>	<u>129,545,338</u>
LIABILITIES			
Deposits from customers	18	178,585,101	109,003,325
Deposits and placements of other banks and financial institutions	19	1,754,797	3,472,137
Loans from foreign financial institutions	20	8,257,671	5,585,689
Other liabilities	21	404,752	584,864
Provision for taxation		163,840	-
TOTAL LIABILITIES		<u>189,166,161</u>	<u>118,646,015</u>
EQUITY			
Statutory fund	22	2,000,000	2,000,000
Revaluation surplus		3,152,619	3,152,619
Retained earnings		8,320,710	5,746,704
TOTAL EQUITY		<u>13,473,329</u>	<u>10,899,323</u>
TOTAL EQUITY AND LIABILITIES		<u>202,639,490</u>	<u>129,545,338</u>
COMMITMENTS AND OFF BALANCE SHEET ITEMS			
	27	<u>25,740,706</u>	<u>15,347,360</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

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

	Note	Non-distributable		Distributable	Total MNT '000
		Statutory fund MNT '000	Revaluation surplus * MNT '000	Retained earnings MNT '000	
At 1 January 2002		2,000,000	3,152,619	5,681,288	10,833,907
Profit for the year		-	-	3,251,242	3,251,242
Dividends	23			(3,112,000)	(3,112,000)
Transfer to Social Development Fund		-		(73,826)	(73,826)
At 31 December 2002		<u>2,000,000</u>	<u>3,152,619</u>	<u>5,746,704</u>	<u>10,899,323</u>
At 1 January 2003		2,000,000	3,152,619	5,746,704	10,899,323
Profit for the year		-	-	2,574,006	2,574,006
At 31 December 2003		<u>2,000,000</u>	<u>3,152,619</u>	<u>8,320,710</u>	<u>13,473,329</u>

* Revaluation surplus arises from the revaluation of the Bank's property, plant & equipment carried out by an independent appraiser in 1999.

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	2003	2002
	MNT '000	MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	4,158,518	5,280,530
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	711,198	584,746
Property, plant and equipment written off	44,563	-
Provision for loan losses	3,905,741	3,346,415
Provision for investment in securities	10,241	19,000
Provision for letter of credit and letter of guarantee	3,464	3,765
Provision for impairment of long term government bond	-	395,594
Writeback of provision	(70,822)	(302,557)
Gain on disposal of property, plant and equipment	(2)	-
Operating profit before working capital changes	<u>8,762,901</u>	<u>9,327,493</u>
<i>(Increase)/decrease in operating assets:-</i>		
Loans and advances	(13,047,637)	(15,951,379)
Other assets	90,877	305,812
<i>Increase/(decrease) in operating liabilities</i>		
Deposits from customers	69,581,776	14,838,932
Deposits and placements of other banks and financial institutions	(1,717,340)	839,980
Other liabilities	(183,576)	88,651
Cash generated from operations	<u>63,487,001</u>	<u>9,449,489</u>
Income tax paid	(250,000)	(3,156,424)
Net cash flow from operating activities	<u>63,237,001</u>	<u>6,293,065</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net decrease / (increase) in investment securities	(31,639,275)	4,685,134
Purchase of property, plant and equipment	(817,052)	(1,211,678)
Proceed from disposal of property, plant and equipment	69	-
Net cash flow from investing activities	<u>(32,456,258)</u>	<u>3,473,456</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in loans from foreign financial institutions	2,671,982	1,926,476
Social Development Fund contribution	-	(73,826)
Dividend paid	-	(3,112,000)
Net cash flow from financing activities	<u>2,671,982</u>	<u>(1,259,350)</u>
Net increase / (decrease) in cash and cash equivalents	33,452,725	8,507,171
Cash and cash equivalents brought forward	51,496,555	42,989,384
Cash and cash equivalents carried forward	<u>84,949,280</u>	<u>51,496,555</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

CASH FLOW STATEMENT (CONTD.)
FOR THE YEAR ENDED 31 DECEMBER 2003

Cash and cash equivalents comprises:

Cash and short term funds	10,726,723	7,832,147
Deposits and placement with other banks and financial institutions	<u>74,222,557</u>	<u>43,664,408</u>
	<u>84,949,280</u>	<u>51,496,555</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 13 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a public limited liability company, incorporated and domiciled in Mongolia.

The holding company of the Bank is Globull Investment and Development (SCA), which incorporated in Luxembourg, a joint venture company between Banca Commercial Lugano of Switzerland and Gerald Metals, Inc. of Stamford.

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

2. BASIS OF PREPARATION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided. Types of fees and commissions income derived by the Bank relate mainly to money transfer commissions, debit card and credit card service fees, current account withdrawal fees, and commissions from letter of credit and letter of guarantee.

(c) Foreign Currencies

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

All exchange rate differences are taken to the income statement.

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

	2003	2002
United States Dollar	1,168.00	1,125.00
Great Britain Pound	2,073.40	1,804.00
European Euro	1,460.20	1,169.40
Japanese Yen	10.92	9.38
Swiss Francs	935.70	804.00

(d) Loans and Advances and Provision for Loan Loss

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

The maturity of the loan portfolio is presented in Note 13 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing the loans at maturity.

(e) Taxation

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

(f) Cash and Cash Equivalents

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

(g) Investment Securities

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Property, Plant and Equipment

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

Revaluations are made at least once in every five years based on a valuation by an independent valuer on 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.

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

Buildings	40 years
Furniture, fixtures and vehicles	10 years
Computers	5 years

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

Upon disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item may be taken directly to retained profits.

(i) Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as trading or investments securities and the counterparty liability is included in amounts due to other financial institutions or as appropriate. Securities purchased under agreement to resell ('reverse repos') are recorded as amount due from other financial institutions or as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) 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.

(k) Operating Leases

Lease payments for operating leases, where substantially all risk and benefits remain with the lessor, are charged as an expense in the income statement on a straight-line basis over the term of the relevant lease.

(l) Employee Benefits

(i) Short term benefits

Wages, salaries, and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Fund. Such contributions are recognised as an expense in the income statement as incurred.

(m) Impairment of Assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Financial Instruments

Financial instruments are recognised in the balance sheet when the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Equity Instruments

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

(ii) Derivative Financial Instruments

Derivative financial instruments are not recognised in the financial statements on inception.

Forward foreign exchange contracts

The underlying foreign currency assets or liabilities are translated at their respective hedged exchange rate and all exchange gain or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transaction.

4. INTEREST INCOME

	2003 MNT '000	2002 MNT '000
Loans and advances	9,560,238	8,962,280
Bank of Mongolia Treasury bills	1,463,065	1,430,202
Government securities	486,008	527,724
Deposits and placements with other banks and financial institutions	472,011	534,679
Sale and repurchase agreements	44,358	-
	<u>12,025,680</u>	<u>11,454,885</u>

5. INTEREST EXPENSE

	2003 MNT '000	2002 MNT '000
Time and savings deposits	2,052,857	1,656,000
Current account deposits	1,042,988	1,035,354
Loans from financial institutions	199,873	135,529
Sale and repurchase agreements	70,738	-
	<u>3,366,456</u>	<u>2,826,883</u>

6. NON-INTEREST INCOME

	2003 MNT '000	2002 MNT '000
Fee and commission income:		
Money transfer service charges	757,570	665,055
Current account withdrawals charges	508,482	616,818
Credit cards service charges and fees	515,829	453,168
Commission on letter of credit and guarantee	350,118	326,910
Other fee income	540,846	401,545
	<u>2,672,845</u>	<u>2,463,496</u>
Other income:		
Net realised foreign currency gain	899,661	762,849
Net unrealised foreign currency gain	165,454	48,859
Net realised precious metal gain	209,235	782,308
Net unrealised precious metal (loss)/gain	(251,335)	14,344
Rental income	93,415	102,579
Writeback of provision	70,822	438,294
Recoveries of loans written-off	1,123,027	162,651
Other operating income	25,570	13,514
	<u>2,335,849</u>	<u>2,325,398</u>
Total non-interest income	<u>5,008,694</u>	<u>4,788,894</u>

7. OPERATING EXPENSES

	2003 MNT '000	2002 MNT '000
Salaries and related expenses	2,206,153	1,885,604
Depreciation	711,198	584,746
Communications	344,015	270,932
Maintenance of information system	301,478	164,835
Cash collection service	248,765	244,257
ING Technical Assistance fees	231,800	-
Training	170,993	143,836
Service charges to foreign financial institutions	170,548	149,346
Advertising	159,264	101,914
Entertainment	129,688	81,462
Maintenance of property, plant and equipment	112,455	51,234
Rental expenses	106,386	93,496
Utilities	87,745	77,021
Travelling	80,129	96,581
Transportation and fuel supplies	78,721	53,347
Security expense	65,279	52,878
Stationery	59,683	63,886
Loans collection expenses	53,327	45,558
Membership and audit expenses	53,116	35,959
Refreshment and uniform expenses	47,395	27,191
Property, plant and equipment written-off	44,563	-
Insurance expense	41,336	35,763
Property tax	33,051	32,960
Other operating expenses	52,866	78,786
	<u>5,589,954</u>	<u>4,371,592</u>

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

	2003 Number	2002 Number
Directors and head of departments	38	26
Officers	340	360
Clerks	34	33
	<u>412</u>	<u>419</u>
Of which:		
- Head office	252	254
- Branches	160	165
	<u>412</u>	<u>419</u>

8. PROVISIONS

	2003 MNT '000	2002 MNT '000
Provision for loan losses	3,905,741	3,346,415
Provision for investment in securities	10,241	19,000
Provision for letter of credit and letter of guarantees	3,464	3,765
Provision for impairment on long term government bond	-	395,594
	<u>3,919,446</u>	<u>3,764,774</u>

9. TAXATION

	2003 MNT '000	2002 MNT '000
Mongolian taxation based on results for the year	<u>1,584,512</u>	<u>2,029,288</u>
	<u>1,584,512</u>	<u>2,029,288</u>

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

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

	2003 MNT '000	2002 MNT '000
Income tax at statutory rates based on profit before taxation	1,638,407	2,087,212
Tax exempt income	(194,403)	(211,090)
Non-deductible expenses	140,508	153,166
Tax expense for the year	<u>1,584,512</u>	<u>2,029,288</u>

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

10. CASH AND SHORT TERM FUNDS

	2003 MNT '000	2002 MNT '000
Cash in hand represented by:		
Local currency	3,454,183	2,457,042
Foreign currencies	7,272,540	5,375,105
	<u>10,726,723</u>	<u>7,832,147</u>

11. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2003 MNT '000	2002 MNT '000
Balances with Bank of Mongolia	5,949,208	8,906,706
Placements with other banks and financial institutions	68,273,349	34,757,702
	<u>74,222,557</u>	<u>43,664,408</u>

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

Placements with other banks and financial institutions represent foreign currency current accounts maintained with foreign financial institutions and short term deposits with local bank. The foreign currency current accounts are generally denominated in United States Dollar ("USD") and bear interest at an annual rates ranging from 0.001% to 6% (2002 : 0.01% to 1.55%) per annum. Short term deposits with local bank represents placement made with Agricultural Bank of Mongolia with an interest rate of 6% per annum.

12. INVESTMENT IN SECURITIES

	2003 MNT '000	2002 MNT '000
Bank of Mongolia Treasury bills	23,428,428	18,182,862
Government securities	28,943,508	1,796,787
Quoted shares	110,827	111,941
Promissory Notes	1,168,000	1,900,000
	<u>53,650,763</u>	<u>21,991,590</u>
Accretion of discounts	136,067	169,543
Provision for diminution in value of investment securities	(84,863)	(84,863)
General provision for securities	(15,663)	(19,000)
	<u>53,686,304</u>	<u>22,057,270</u>

Bank of Mongolia Treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. The effective interest rates of these bills range from 0.75% to 18% (2002 : 3.1% to 14.99%) per annum.

Government securities are issued by the Ministry of Finance and Economy with maturities ranging from 90 days to 270 days. Interest rates are in the range of 2.9% to 15.8% (2002: 3.51% to 15.8%) per annum for securities denominated in local currency and 3.5% to 5.25% (2002: nil) per annum for securities denominated in United States Dollar ("USD").

13. LOANS AND ADVANCES

	2003 MNT '000	2002 MNT '000
Term loans	64,943,639	53,711,201
Staff loans	280,153	142,192
Gross loans and advances	<u>65,223,792</u>	<u>53,853,393</u>
Provision for loan losses		
- specific	(9,197,693)	(7,165,758)
- general	(558,060)	(432,314)
Net loans and advances	<u>55,468,039</u>	<u>46,255,321</u>

	2003 MNT '000	2002 MNT '000
Maturity structure		
Maturing within one year	54,502,964	45,572,009
One to five years	10,180,044	7,831,384
After five years	540,784	450,000
	<u>65,223,792</u>	<u>53,853,393</u>

13. LOANS AND ADVANCES (CONTD.)

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

	2003 MNT '000	2002 MNT '000
Small and medium enterprises	15,066,464	11,746,027
Food and meat processing	14,107,234	14,289,753
Mining related	9,405,712	12,807,797
Construction	6,937,917	-
Trading	6,662,746	7,584,379
Petroleum importation	6,412,224	2,645,470
Cashmere	6,631,495	4,779,967
	<u>65,223,792</u>	<u>53,853,393</u>

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

	2003 MNT '000	2002 MNT '000
Balance at beginning of year	7,596,258	4,757,322
NPL during the year - gross	20,540,826	8,439,288
Recoveries/regularised during the year	(8,791,354)	(5,504,928)
Amount written off	(1,822,200)	(191,463)
Exchange difference	315,324	96,039
Gross balance at end of year	<u>17,838,854</u>	<u>7,596,258</u>
Less: Specific Provision	(9,197,693)	(7,165,758)
Net balance at end of year	<u>8,641,161</u>	<u>430,500</u>
Gross NPL ratio as a percentage of gross total loans	27.4%	14.1%
Net NPL ratio as a percentage of net total loans	15.6%	0.9%

13. LOANS AND ADVANCES (CONTD.)

Movements in the provision for loan losses are as follows:

	2003 MNT '000	2002 MNT '000
Specific Provision		
Balance at beginning of year	7,165,758	4,364,323
Provision made during the year	4,852,383	3,293,452
Amount written back in respect of recoveries	(1,146,764)	(302,557)
Amount written off	(1,822,200)	(191,463)
Transfer from general provision	74,376	-
Exchange difference	74,140	2,003
Balance at end of year	<u>9,197,693</u>	<u>7,165,758</u>
	2003	2002
	MNT '000	MNT '000
General Provision		
Balance at beginning of year	432,314	379,346
Provision made during the year	200,122	52,963
Transfer to specific provision	(74,376)	-
Exchange difference	-	5
Balance at end of year	<u>558,060</u>	<u>432,314</u>

At 31 December 2003, all loans and advances to borrowers are denominated in Togrog except for foreign currency loans amounting to MNT37.15 billion (2002: 32 billion). Interest rate ranges from 7.75% to 42% per annum (2002 : 12% to 48% per annum).

Loans and advances amounting to approximately MNT47.4 billion at 31 December 2003 (2002 : MNT46.3 billion) were classified as normal and provided with a 1% loss reserve. Further, loans amounting to MNT17.8 billion (2002 : MNT7.6 billion) were classified as NPLs as at year end and provisions of MNT9.2 billion (2002 : MNT7.2 billion) have been allocated against these NPLs.

Included in loans and advances is accrued interest totalling MNT1.1 billion (2002: MNT1.4 billion).

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

14. OTHER ASSETS

	2003 MNT '000	2002 MNT '000
Foreclosed properties	412,545	1,832,327
Prepaid expenses	114,988	11,430
Inventory	✓ 138,717	107,466
Precious metal	✓ 22,026	257,939
Other receivables	114,846	108,847
	<u>803,122</u>	<u>2,318,009</u>
Less:		
Provision for foreclosed properties	(406,273)	(1,826,055)
Provision for receivable losses	-	(4,059)
	<u>396,849</u>	<u>487,895</u>

15. TAX RECOVERABLE

	2003 MNT '000	2002 MNT '000
Tax recoverable	-	<u>1,170,672</u>

There is no tax recoverable for the current year (2002: MNT1.17 billion). Tax recoverable represents the excess of tax paid compared to the taxation payable in the prior year which has been approved by the Mongolian Tax Authority (MTA).

16. LONG TERM GOVERNMENT BONDS

	2003 MNT '000	2002 MNT '000
As at 1 January	399,590	399,590
Redemption payments	-	-
As at 31 December	<u>399,590</u>	<u>399,590</u>
Provision for possible losses	(399,590)	(399,590)
	<u>-</u>	<u>-</u>

These government bonds, issued in July 1997 was a result of the conversion of certain directed and inherited loans. As at 31 December 2002, there was a dispute over the amount due from the government and due to the uncertainty on the amount recoverable from the government, a full provision has been made on the balance.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Office Equipment and Vehicles	Computers	Construction in Progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At cost/valuation					
Balance at beginning of year	6,138,200	1,599,801	1,921,746	129,999	9,789,746
Additions	39,619	64,233	138,370	574,830	817,052
Disposals	-	(104)	-	-	(104)
Transfers	41,062	110,494	423,274	(574,830)	-
Write-offs	(44,563)	-	-	-	(44,563)
Balance at end of year	<u>6,174,318</u>	<u>1,774,424</u>	<u>2,483,390</u>	<u>129,999</u>	<u>10,562,131</u>
Representing:					
At cost	794,510	735,303	2,058,954	129,999	3,718,766
At valuation	<u>5,379,808</u>	<u>1,039,121</u>	<u>424,436</u>	<u>-</u>	<u>6,843,365</u>
	<u>6,174,318</u>	<u>1,774,424</u>	<u>2,483,390</u>	<u>129,999</u>	<u>10,562,131</u>
Accumulated depreciation					
Balance at beginning of year	448,458	673,613	590,050	-	1,712,121
Charge for the year	154,701	164,112	392,385	-	711,198
Disposals	-	(37)	-	-	(37)
Adjustment	-	(169)	-	-	(169)
Balance at end of year	<u>603,159</u>	<u>837,519</u>	<u>982,435</u>	<u>-</u>	<u>2,423,113</u>

17. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings	Office Equipment and Vehicles	Computers	Construction in Progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Net Book Value					
At 31 December 2003					
At cost	762,956	331,821	1,436,371	129,999	2,661,147
At valuation	4,808,203	605,084	64,584	-	5,477,871
	<u>5,571,159</u>	<u>936,905</u>	<u>1,500,955</u>	<u>129,999</u>	<u>8,139,018</u>
At 31 December 2002					
At cost	734,924	216,627	1,181,973	129,999	2,263,523
At valuation	4,954,818	709,561	149,723	-	5,814,102
	<u>5,689,742</u>	<u>926,188</u>	<u>1,331,696</u>	<u>129,999</u>	<u>8,077,625</u>
Depreciation charge for 2002	<u>141,423</u>	<u>154,087</u>	<u>289,236</u>	<u>-</u>	<u>584,746</u>

Details of the latest independent professional valuations of property, plant and equipment at 31 December 2003 are as follows:

Date of Valuation	Description of Property	Valuation Amount MNT'000	Basis of Valuation
30 September 1999	All property, plant and equipment	6,853,157	Market value

Had the revalued property, plant and equipment been carried at historical cost, the net book value of the property, plant and equipment that would have been included in the financial statements of the Bank as at 31 December 2003 would have been MNT2.8 billion (2002 : MNT3.1 billion).

18. DEPOSITS FROM CUSTOMERS

	2003 MNT '000	2002 MNT '000
Current account deposits	137,003,651	75,113,436
Time deposits	22,859,499	16,138,878
Savings deposits	13,883,073	12,464,087
Other deposits	4,838,878	5,286,924
	<u>178,585,101</u>	<u>109,003,325</u>

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

	2003 MNT '000	2002 MNT '000
Due within six months	18,974,265	11,085,292
Six months to one year	3,885,234	5,053,586
	<u>22,859,499</u>	<u>16,138,878</u>

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

	2003 MNT '000	2002 MNT '000
Business enterprises	131,827,154	62,752,644
Government Bodies	4,858,455	7,867,424
Individuals	41,899,492	38,383,257
	<u>178,585,101</u>	<u>109,003,325</u>

Current account deposits and other deposits generally bear no interest. However, for depositors maintaining current account balance above prescribed limit, interest is provided at rates of approximately 1% and 3% (2002 : 1% and 3%) per annum for foreign currency and local currency accounts respectively.

Foreign currency time deposits bear an interest rate ranging from 3.7% to 5.5% (2002 : 3.7% to 5.5%) per annum, while for local currency time deposits interest rates range from 14% to 15.4% (2002 : 14% to 15.4%) per annum.

Savings deposits are interest bearing and may be withdrawn upon demand. Foreign currency savings deposits bear interest rates of approximately 1.8% (2002 : 1.8%) per annum, while local currency saving deposits at approximately 6.2% (2002 : 6.2%) per annum.

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

	2003 MNT '000	2002 MNT '000
Foreign currency current deposits	1,644,585	2,164,603
Local currency current deposits	95,095	-
Foreign currency cheques for selling	15,117	7,695
Obligation on securities sold under repurchase agreements	-	1,299,839
	<u>1,754,797</u>	<u>3,472,137</u>

Foreign currency and local currency current deposits are placed by local and foreign commercial banks and generally bear no interest.

20. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2003 MNT '000	2002 MNT '000
Foreign funded loans:		
Kreditanstalt fuer Wiederaufbau (KfW)	4,714,206	3,319,008
World Bank Loan I	2,002,778	1,410,949
World Bank Loan II	571,752	-
World Bank Loan III	79,677	-
Asian Development Bank	192,976	202,153
International Development Association	696,282	653,579
	<u>8,257,671</u>	<u>5,585,689</u>

Kreditanstalt fuer Wiederaufbau (KfW)

As at 31 December 2003, the KfW loan balance amounts to EUR3.2 million or MNT4.7 billion (2002: EUR2.8 million or MNT3.3 billion). This loan was obtained via Bank of Mongolia for the purpose of providing financing to various customers at preferential interest rates. The interest rate of the KfW loan is fixed at an annual rate of 1.75%, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. Principal repayments on this loan commenced in December 2001 per the repayment schedules, and the final date of repayment in June 2010.

20. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS (CONTD.)

World Bank Loan I

The World Bank USD loans were obtained via the Ministry of Finance and Economy. As at 31 December 2003, this loans balances amounts to USD1.7 million or approximately MNT2 billion (2002: USD1.3 million or approximately MNT1.4 billion). The World Bank loan is channeled to various borrowers under the Private Sector Development Credit programme. The interest on the loans are variable and calculated on the LIBOR 6 months USD rate + 3% per annum (2002: LIBOR 6 months USD rate + 3% per annum). Principal repayments of the loans are in accordance with the repayment schedules with the final payment due in September 2010.

World Bank Loan II

The World Bank MNT loan was obtained during the year via the Ministry of Finance and Economy. As at 31 December 2003, this loan balance amounts to MNT572 million (2002: nil). The World Bank loan is channeled to various borrowers under the Private Sector Development Credit programme. The interest on the loan is variable and calculated on the LIBOR 6 months USD rate + 3% per annum + a margin equal to the last 12 months moving average changes in prices (C.P.I) + a margin to cover the foreign exchange risk (2002: Nil). Principal repayments on this loan commences in December 2004, and the final date of repayment is in December 2008.

World Bank Loan III

The World Bank Training program loan balance stands at USD68 thousand or MNT80 million (2002: nil). This loan was obtained via the Ministry of Finance and Economy in the current financial year for the purpose of financing the Bank's implementation of institutional development programme, including credit management system renewal, staff training, provision of equipment and consultants' services. The interest rate of the loan is fixed at 2% per annum (2002: nil) with the principal amount shall be repaid in twenty years.

Asian Development Bank ("ADB")

As at 31 December 2003, the ADB loan balance amounts to USD165 thousand or MNT193 million (2002: USD180 thousand or MNT 202 million). The ADB loan was obtained in year 2002 via Bank of Mongolia and it was utilized by the bank for the purpose of upgrading their accounting information system. The loan is interest free and the principal is to be repaid over 30 annual installments commencing from year 2002.

International Development Association ("IDA")

The IDA loan balance stands at USD595 thousand or MNT696 million (2002: USD581 thousand or MNT654 million). The loan was utilised to finance the Twinning Agreement with Norwegian Banking Resources Ltd ("NBR"), whereby NBR will transfer operational knowledge and technical skills to the Bank. As at 31 December 1999, this twinning program has been satisfactorily completed, the total cost of which amounted to USD581 thousand, or approximately MNT572 million, of which MNT241 million and MNT145 million have been expensed off in 1998 and 1999 respectively. The remaining balance of MNT186 million was expensed off in 2000, to amortise the cost to the benefits derived from the program to their respective years. Principal repayments on this loan will commence in August 2007, and the final date of repayment is in February 2037.

21. OTHER LIABILITIES

	2003 MNT '000	2002 MNT '000
Provision for bonus	140,000	-
Foreign remittance under request	58,410	405,800
Delay on clearing settlement	13,033	43,462
Other payables	193,309	135,602
	<u>404,752</u>	<u>584,864</u>

22. STATUTORY FUND

	Number of Ordinary Shares of MNT1,000 each		Amount	
	2003	2002	2003 MNT '000	2002 MNT '000
At 1 January/ At 31 December	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

Pursuant to the "Privatisation Guidelines for 2001-2004" approved by the State Ih Hural, the Government of Mongolia adopted the "Privatisation Program for 2001" in February 2001. Within the framework of this Program, the Government approved the sale of its holding in the Bank of 76% through a competitive tender and in December 2002 the Bank was privatised to Banca Commerciale Lugano of Switzerland and Gerald Metals, Inc. of Stamford. Currently, Banca Commerciale Lugano and Gerald Metals, Inc are the largest shareholders of the Bank holding 76% shares in the Bank via a joint venture company, Globull Investment and Development (SCA).

23. DIVIDENDS

	2003 MNT '000	2002 MNT '000
Paid:		
Final dividend in respect of financial year ended 2001	<u>-</u>	<u>3,112,000</u>

24. 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 risk are as follows.

Credit risk

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

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

Apart from deposits and placements with other banks and financial institutions amounting to MNT67.69 billion (2002: MNT34.76 billion), all the banking assets and liabilities are geographically concentrated in Mongolia.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Currency risk

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

24. RISK MANAGEMENT POLICIES (CONTD.)

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

	2003 (MNT'000)		
	MNT	Foreign currencies	Total
Assets			
Cash and short term funds	3,454,183	7,272,540	10,726,723
Deposits and placements with other banks and financial institutions	99,297	74,123,260	74,222,557
Investment in securities	23,986,669	29,699,635	53,686,304
Loans and advances	24,472,076	30,995,963	55,468,039
Other assets	305,271	91,578	396,849
Property, plant and equipment	8,139,018	-	8,139,018
	<u>60,456,514</u>	<u>142,182,976</u>	<u>202,639,490</u>
Liabilities			
Deposits from customers	52,597,625	125,987,476	178,585,101
Deposits and placements of other banks and financial institutions	95,095	1,659,702	1,754,797
Loans from foreign financial institutions	571,752	7,685,919	8,257,671
Other liabilities	177,654	227,098	404,752
Provision for tax	163,840	-	163,840
	<u>53,605,966</u>	<u>135,560,195</u>	<u>189,166,161</u>
Net position	<u>6,850,548</u>	<u>6,622,781</u>	<u>13,473,329</u>
Commitments and other off balance sheet items	<u>6,674,254</u>	<u>19,066,452</u>	<u>25,740,706</u>
	2002 (MNT'000)		
	MNT	Foreign currencies	Total
Assets			
Cash and short term funds	2,457,042	5,375,105	7,832,147
Deposits and placements with other banks and financial institutions	4,665,448	38,998,960	43,664,408
Investment in securities	21,157,270	900,000	22,057,270
Loans and advances	14,042,549	32,212,772	46,255,321
Other assets	175,122	312,773	487,895
Tax receivable	1,170,672	-	1,170,672
Property, plant and equipment	8,077,625	-	8,077,625
	<u>51,745,728</u>	<u>77,799,610</u>	<u>129,545,338</u>

24. RISK MANAGEMENT POLICIES (CONTD.)

	2002 (MNT'000)		
	MNT	Foreign currencies	Total
Liabilities			
Deposits from customers	43,836,131	65,167,194	109,003,325
Deposits and placements of other banks and financial institutions	1,299,838	2,172,299	3,472,137
Loans from foreign financial institutions	-	5,585,689	5,585,689
Other liabilities	109,850	475,014	584,864
	<u>45,245,819</u>	<u>73,400,196</u>	<u>118,646,015</u>
Net position	<u>6,499,909</u>	<u>4,399,414</u>	<u>10,899,323</u>
Commitments and other off balance sheet items	<u>6,569,747</u>	<u>8,777,613</u>	<u>15,347,360</u>

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 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.

24. RISK MANAGEMENT POLICIES (CONTD.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2003 are as follows (MNT million):

	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	10,726,723	-	-	-	-	10,726,723
Deposits and placements with other banks and financial institutions	74,222,557	-	-	-	-	74,222,557
Investment in securities	24,720,815	15,264,373	13,675,152	-	25,964	53,686,304
Loans and advances	18,827,549	16,189,974	9,825,791	10,089,349	535,376	55,468,039
Other assets	396,849	-	-	-	-	396,849
Property, plant and equipment	-	-	-	-	8,139,018	8,139,018
	<u>128,894,493</u>	<u>31,454,347</u>	<u>23,500,943</u>	<u>10,089,349</u>	<u>8,700,358</u>	<u>202,639,490</u>
Liabilities						
Deposits from customers	169,695,382	5,004,485	3,885,234	-	-	178,585,101
Deposits and placements of other banks and financial institutions	1,754,797	-	-	-	-	1,754,797
Loans from foreign financial institutions	1,945,976	-	12,258	5,668,834	630,603	8,257,671
Other liabilities	404,752	-	-	-	-	404,752
Provision for tax	163,840	-	-	-	-	163,840
	<u>173,964,747</u>	<u>5,004,485</u>	<u>3,897,492</u>	<u>5,668,834</u>	<u>630,603</u>	<u>189,166,161</u>
Net liquidity gap	(45,070,254)	26,449,862	19,603,451	4,420,515	8,069,755	13,473,329
Accumulated gap	<u>(45,070,254)</u>	<u>(18,620,392)</u>	<u>983,059</u>	<u>5,403,574</u>	<u>13,473,329</u>	

24. RISK MANAGEMENT POLICIES (CONTD.)

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

	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	7,832,147	-	-	-	-	7,832,147
Deposits and placements with other banks and financial institutions	43,664,408	-	-	-	-	43,664,408
Investment in securities	19,375,354	600,006	1,683,605	398,305	-	22,057,270
Loans and advances	15,951,642	10,525,725	13,128,008	6,204,446	445,500	46,255,321
Other assets	487,895	-	-	-	-	487,895
Tax recoverable	1,170,672	-	-	-	-	1,170,672
Property, plant and equipment	-	-	-	-	8,077,625	8,077,625
	<u>88,482,118</u>	<u>11,125,731</u>	<u>14,811,613</u>	<u>6,602,751</u>	<u>8,523,125</u>	<u>129,545,338</u>
Liabilities						
Deposits from customers	96,815,078	7,134,661	5,053,586	-	-	109,003,325
Deposits and placements of other banks and financial institutions	3,472,137	-	-	-	-	3,472,137
Loans from foreign financial institutions	64,283	473,913	217,395	1,628,513	3,201,585	5,585,689
Other liabilities	584,864	-	-	-	-	584,864
	<u>100,936,362</u>	<u>7,608,574</u>	<u>5,270,981</u>	<u>1,628,513</u>	<u>3,201,585</u>	<u>118,646,015</u>
Net liquidity gap	(12,454,244)	3,517,157	9,540,632	4,974,238	5,321,540	10,899,323
Accumulated gap	<u>(12,454,244)</u>	<u>(8,937,087)</u>	<u>603,545</u>	<u>5,577,783</u>	<u>10,899,323</u>	

24. 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 in the previous page.

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 Committee. The Bank's effective interest rates in 2003 and 2002 for monetary financial instruments are as follows:

	2003		2002	
	MNT	Foreign currency	MNT	Foreign currency
Interest earning assets				
Deposits and placement with other banks and financial institution	16%	0.001% - 6%	-	0.01%-1.55%
Bank of Mongolia Treasury bills	0.75% - 18%	-	3.1%-14.99%	-
Government securities	2.94%-15.8%	3.5%-5.25%	3.51%-15.8%	-
Loans and advances	19.2%-42%	7.75%-27.6%	19.2%-48%	12%-48%
Interest bearing liabilities				
Deposits from customers	3%-15.4%	1%-5.5%	3%-15.4%	1%-5.5%
Loans from foreign financial institutions	12.3%-14.4%	1%-7.5%	-	1%-4.26%

25. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Globull Investment and Development (SCA), which owns 76% the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances as at the year end, and relating income for the year are listed As at 31 December, balances and transactions with related parties included:

	2003 MNT '000	2002 MNT '000
a) Interest Income - Gerald Metals, Inc.	<u>16,111</u>	<u>-</u>

b) Loans to key management personnel

Total outstanding balance as at 31 December 2003 of loans granted to key management personnel amounts to MNT7 million (2002: MNT34 million). The loans to Bank's employees bear annual interest ranging from 1% to 3.5% (2002: 1% to 3.5%).

Directors' Remuneration

The executive members of the Board of Directors received remuneration totalling MNT nil (2002 : MNT3.3 million). The non-executive members received fees totalling MNT nil (2002: MNT6.6 million)

26. CAPITAL ADEQUACY

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

	2003	2002
Core capital ratio	11.53%	10.66%
Risk weighted capital ratio	<u>15.05%</u>	<u>15.01%</u>
<u>Tier I capital</u>		
Statutory fund	2,000,000	2,000,000
Retained earnings	8,320,710	5,746,704
Total Tier I Capital	<u>10,320,710</u>	<u>7,746,704</u>
<u>Tier II capital</u>		
Revaluation surplus	3,152,619	3,152,619
Total capital base	<u>13,473,329</u>	<u>10,899,323</u>

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

	2003		2002	
	MNT '000		MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	66,540,723	-	36,374,332	-
10	-	-	-	-
20	71,515,236	14,303,047	34,711,341	6,942,268
50	3,700,336	1,850,168	1,257,169	628,585
100	73,357,687	73,357,687	65,066,464	65,066,464
Total	<u>215,113,982</u>	<u>89,510,902</u>	<u>137,409,306</u>	<u>72,637,317</u>

27. COMMITMENTS AND OFF BALANCE SHEET ITEMS

a) Financial Commitments and Off Balance Sheet Items

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

	2003 MNT '000	2002 MNT '000
Outstanding letter of credits	4,866,798	5,107,899
Guarantees granted	2,361,248	1,548,000
Foreign exchange commitments	5,622,058	-
Other off balance sheet items	12,890,602	8,691,461
	<u>25,740,706</u>	<u>15,347,360</u>

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

b) Foreign Exchange Commitments and Derivatives

In the normal course of the business, the Bank enters into foreign currency exchange contracts with third parties. As at 31 December 2003, the Bank has 4 open positions (2002: nil) on foreign currency exchange forward contracts worth approximately MNT5.6 billion (2002: nil).

c) Other off balance sheet items.

Included in the other off balance sheet items held by the Bank are mainly on the written off loans amounting to MNT5.17 billion (2002: MNT6.1 billion), credit line amounting to MNT3.17 billion (2002: MNT945 million), interest suspended amounting to MNT3.09 billion (2002: 1.61 billion) and written off of provision for foreclosed properties amounting to MNT1.46 billion (2002: MNT40.8 million).

28. CONTINGENT LIABILITIES

During the financial year, there was an action taken by a customer against the Bank on the wrongful release of funds by the Bank amounting to MNT236 million. Subsequently, on 9 March 2004, the Capital City Court decided to reject the claim made by the customer and to dismiss the case. The Bank believes that there are no other possibilities of the customer making another claim against the Bank on the same matter.

29. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

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

30. SIGNIFICANT EVENT DURING THE YEAR

In August 2003, ING Financial Institutions' Institutional and Government Advisory (IGA) group, the Bank and Gerald Metals, Inc. signed a Technical Assistance Agreement under which IGA will provide Management Services and Technical Assistance for the Bank. Under this agreement, IGA will second for a minimum three-year period a Chief Executive Officer and an Executive Chief Operating Officer to lead the management of the Bank, and will also provide advisors for key operational areas, including Credit and Risk Management, Retail Banking, Treasury, Human Resources and Information Technology and Management Information Systems.

31. COMPARATIVE FIGURES

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

	As Restated MNT'000	As Previously Stated MNT'000
Assets		
Cash and short term funds	7,832,147	16,738,853
Deposits and placement with other banks and financial institutions	43,664,408	34,757,702

32. CURRENCY

All amounts are in Mongolian Togrog unless otherwise stated.

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.