UB City Bank Of Mongolia LLC

Audited Financial Statements
31 December 2004

ULAANBAATAR CITY BANK OF MONGOLIA LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS

ULAANBAATAR CITY BANK OF MONGOLIA LLC

CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	:	Ulaanbaatar - 46 Sukhbaatar Street - 16 Mongolia
BOARD OF DIRECTORS	:	D. Erdenebileg D. Badraa D. Bat-Erdene T. Boldkhuu D. Ganhbold
COMPANY SECRETARY	:	A. Erdenetsetseg
AUDITORS	:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY DIRECTORS AND EXECUTIVE

We, D. ERDENEBILEG and D. BADRAA, being two of the directors of ULAANBAATAR CITY BANK OF MONGOLIA LLC ("the Bank"), and B. BATKHUU, being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 3 to 35 are drawn up in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by the Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended.

D. ERDENEBILEG   D. BADRAA   B. BATKHUU

Ulaanbaatar
28 March 2005

REPORT OF THE AUDITORS

To the Board of Directors of Ulaanbaatar City Bank of Mongolia LLC

We have audited the accompanying financial statements of Ulaanbaatar City Bank of Mongolia LLC as at 31 December 2004 set out on pages 3 to 35. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements have been properly drawn up in accordance with applicable International Financial Reporting Standards, and the Guidelines and Regulations issued by Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended.

Ernst & Young Mongolia Audit Co.

Ulaanbaatar

28 MAR 2005

ULAANBAATAR CITY BANK OF MONGOLIA LLC

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	2,066,224	1,833,669
Interest expense	5	(909,837)	(475,753)
Net interest income		1,156,387	1,357,916
Non-interest income	6	384,564	249,398
Operating profit		1,540,951	1,607,314
Operating expenses	7	(1,334,747)	(712,517)
Profit before allowances		206,204	894,797
Allowances	8	(51,755)	(625,690)
Profit before taxation		154,449	269,107
Taxation	9	(80,605)	(127,354)
Net profit for the year		73,844	141,753

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

ULAANBAATAR CITY BANK OF MONGOLIA LLC

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
ASSETS			
Cash and short term funds	10	1,729,030	588,113
Deposits and placements with other banks and financial institutions	11	10,841,662	1,108,714
Investment securities	12	723,774	1,597,997
Loans and advances	13	12,062,518	7,801,867
Other assets	14	1,691,206	459,457
Property, plant and equipment	15	2,776,344	2,344,310
TOTAL ASSETS		29,824,534	13,900,458
LIABILITIES			
Deposits from customers	16	16,643,243	8,498,816
Deposits and placements of other banks and financial institutions	17	6,997,294	-
Other liabilities	18	849,621	209,209
Tax payable		21,659	-
TOTAL LIABILITIES		24,511,817	8,708,025
EQUITY			
Statutory fund	19	5,000,000	5,000,000
Reserve fund		70,838	70,838
Revaluation surplus		122,775	61,565
Retained earnings		118,934	45,090
Social development funds	20	170	14,940
TOTAL EQUITY		5,312,717	5,192,433
TOTAL EQUITY AND LIABILITIES		29,824,534	13,900,458
COMMITMENTS AND OFF BALANCE SHEET ITEMS	25	11,581,331	6,662,260

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

				Non-distributable		Distributable	
	Note	Statutory fund MNT '000	Reserve fund MNT '000	Revaluation surplus * MNT '000	Social development fund MNT '000	Retained earnings MNT '000	Total MNT '000
At 1 January 2003		2,000,000	46,023	61,565	12,042	407,339	2,526,969
Issue of shares		3,000,000	-	-	-	-	3,000,000
Net profit for the year		-	-	-	-	141,753	141,753
Dividends	21	-	-	-	-	(433,387)	(433,387)
Utilised during the year		-	-	-	(42,902)	-	(42,902)
Transfer between reserve		-	24,815	-	45,800	(70,615)	-
At 31 December 2003 As previously stated		5,000,000	70,838	61,565	14,940	45,090	5,192,433
Amount reclassified to property, plant and equipment	15	-	-	61,210	-	-	61,210
At 31 December 2003 Restated		5,000,000	70,838	122,775	14,940	45,090	5,253,643
Net profit for the year		-	-	-	-	73,844	73,844
Utilised during the year		-	-	-	(14,770)	-	(14,770)
Transfer between reserve		-	-	-	-	-	-
At 31 December 2004		5,000,000	70,838	122,775	170	118,934	5,312,717

* Revaluation surplus arises from the revaluation of one of the Bank's buildings carried out by an independent appraiser in 2002.

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

ULAANBAATAR CITY BANK OF MONGOLIA LLC

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 MNT '000	2003 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	154,449	269,107
Adjustments for :-		
Depreciation of property, plant and equipment	98,970	79,967
Allowance for loan losses	64,212	614,163
(Writeback)/ allowance for impairment of foreclosed properties	(10,888)	10,898
(Writeback)/ allowance for receivable losses	(1,569)	629
Interest income	(2,066,224)	(1,833,669)
Interest expense	909,837	475,753
Loss on disposal of property, plant and equipment	13,223	10,708
Operating loss before working capital changes	(837,990)	(372,444)
(Increase)/decrease in operating assets:-		
Loans and advances	(4,312,406)	(1,884,136)
Other assets	(1,231,749)	(257,792)
Increase/(decrease) in operating liabilities:-		
Deposits from customers	8,144,427	(631,164)
Deposits and placements of other banks and financial institutions	6,997,294	83,513
Other liabilities	640,412	(507,549)
Cash generated from/ (used in) operations	9,399,988	(3,569,572)
Interest received	2,066,224	1,691,668
Interest paid	(909,837)	(341,200)
Income tax paid	(58,946)	(290,859)
Net cash flow from/ (used in) operating activities	10,497,429	(2,509,963)
CASH FLOW FROM INVESTING ACTIVITIES		
Net decrease in investment securities	874,223	600,884
Purchase of property, plant and equipment	(1,337,182)	(904,018)
Proceeds from disposal of property, plant and equipment	854,165	-
Net cash flow from/ (used in) investing activities	391,206	(303,134)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in statutory fund	-	3,000,000
Social development fund utilised during the year	(14,770)	(42,900)
Dividend paid	-	(433,387)
Net cash flow (used in)/ from financing activities	(14,770)	2,523,713
Net increase / (decrease) in cash and cash equivalents	10,873,865	(289,384)
Cash and cash equivalents brought forward	1,696,827	1,986,211
Cash and cash equivalents carried forward	12,570,692	1,696,827

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

ULAANBAATAR CITY BANK OF MONGOLIA LLC

CASH FLOW STATEMENT (CONTD.)
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 MNT '000	2003 MNT '000
Cash and cash equivalents comprises:		
Cash and short term funds	1,729,030	588,113
Deposits and placement with other banks and financial institutions	10,841,662	1,108,714
	12,570,692	1,696,827

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

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No.19 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the financial year.

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

The financial statements of the Bank for the year ended 31 December 2004 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 March 2005.

2. BASIS OF PRESENTATION

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

The financial statements have been prepared under the historical cost convention except for the measurement of financial assets and liabilities at fair values, where applicable and modified to include the revaluation of property, plant and equipment. The reporting currency used in the financial statements is the Mongolian Togrog, which is denoted by the symbol MNT, shown rounded to the nearest thousand.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge on current events and actions, actual results ultimately may differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

The recognition of interest income is suspended when interest or principal on credit facilities are overdue by more than 90 days. On commencement of suspension, previously accrued interest not received is clawed-back. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accruals basis when the uncertainties surrounding the recoverability are removed and the loan is reclassified as performing.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided. Fee and commission income derived by the Bank relate mainly to money transfer, debit card and credit card service, current account withdrawal, loan processing, and from letters of credit and letters 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. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

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

	2004	2003
United States Dollar	1,209.00	1,168.00
Great Britain Pound	2,320.90	2,073.40
European Euro	1,647.40	1,460.20
Japanese Yen	11.65	10.92

(d) Loans and Advances and Allowance for Loan Impairment

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

Originated loans are stated at amortised cost less allowance for impairment.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

(d) Loans and Advances and Allowance for Loan Impairment

The loan loss allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related allowance for impairment or recognised as an expense in the income statement. Subsequent recoveries are credited to the allowance for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the allowance is credited as a reduction of the allowance for loan losses.

The maturity of the loan portfolio is presented in Note 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 where 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 loans at maturity.

(e) Taxation

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

(f) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term funds, deposits and placements with other banks and financial institutions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Investment Securities

All investments are initially recognised at cost (which includes transaction costs). Management determines the appropriate classification of its investments at the time of the purchase, being held-to-maturity or available-for-sale.

Investment securities with fixed maturity where management has both the intent and the ability to hold for yield or capital growth to maturity, are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any allowance for impairment.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed or deemed impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned on investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

(h) Property, Plant and Equipment

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

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

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

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.

Depreciation of property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life. The estimated useful lives used by the Bank are as follows:

Buildings	-	2.5%
Furniture, fixtures and vehicles	-	10.0%
Computers	-	20.0%

Assets under construction are not depreciated. Depreciation of these assets begins when the related assets are ready for intended use.

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

(i) Customer Deposits

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

(j) Employee Benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(k) Impairment of Assets

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

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

(l) Financial Instruments

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

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

(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 including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Financial Instruments (contd.)

(ii) Derivative Financial Instruments (contd.)

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income. Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is
b) applied;
the hedge is documented showing that it is expected to be highly effective in
c) offsetting the risk in the hedged item throughout the reporting period; and

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement. Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

4. INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Loans and advances	1,779,652	1,766,073
Bank of Mongolia Treasury bills	107,643	67,596
Deposits and placements with other banks and financial institutions	162,110	-
Interbank market loan	16,819	-
	2,066,224	1,833,669

5. INTEREST EXPENSE

	2004 MNT '000	2003 MNT '000
Time and savings deposits	737,413	461,339
Current account deposits	70,519	3,023
Deposits from other banks and financial institutions	101,905	2,406
Treasury bills	-	8,985
	909,837	475,753

6. NON-INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Fee and commission income:		
Money transfer service charges	1,768	4,811
Current account withdrawals charges	6,809	11,866
Credit cards service charges and fees	9,837	3,266
Commission on letter of credit and guarantee	82,149	29,968
	100,563	49,911
Other income:		
Net realised foreign currencies gain	20,965	1,989
Net unrealised foreign currencies gain	118,884	3,611
Treasury bills gain	-	17,196
Rental income	76,739	117,486
Gain on disposal of property, plant and equipment	28,877	-
Other non-operating income	38,536	59,205
	284,001	199,487
Total non-interest income	384,564	249,398

7. OPERATING EXPENSES

	2004 MNT '000	2003 MNT '000
Salaries and related expenses	438,839	255,641
Depreciation	98,970	79,967
Communication	66,478	26,627
Maintenance of information system	52,208	16,299
Cash collection service	36,379	48,578
Training	17,984	5,101
Service charges to foreign financial institutions	2,770	52
Advertising	109,558	32,371
Entertainment	51,122	7,861
Maintenance of property, plant and equipment	65,542	8,214
Rental of premises	52,488	21,222
Utilities	41,285	53,688
Travelling	14,667	16,290
Transportation and fuel supplies	24,560	11,939
Security expenses	62,206	41,534
Stationery	42,852	18,697
Loans collection expenses	16,156	6,430
Membership and audit expenses	39,800	7,680
Refreshment and uniform expenses	23,543	1,631
Insurance expense	3,436	3,094
Loss on disposal of property, plant and equipment	42,100	10,708
Other operating expenses	31,804	38,893
	1,334,747	712,517

The total number of persons employed by the Bank at the financial year end was made up as follows:

	2004 Number	2003 Number
Directors and head of departments	12	7
Branch managers	7	8
Officers	56	82
Clerks	80	30
	155	127
Of which:		
- Head office	114	69
- Branches	41	58
	155	127

8. ALLOWANCES

	2004 MNT '000	2003 MNT '000
Allowance for loan losses	64,212	614,163
(Writeback)/allowance for impairment of foreclosed properties	(10,888)	10,898
(Writeback)/allowance for impairment of other assets	(1,569)	629
	51,755	625,690

9. TAXATION

	2004 MNT '000	2003 MNT '000
Current income tax:		
Based on results for the year	80,605	127,354

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of banks is 15% for the first MNT100 million of taxable income, and 30% (2003 : 40%) on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. The allowance for loan losses is deductible for income tax 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 for the years ended 31 December is as follows:

	2004 MNT '000	2003 MNT '000
Profit before taxation	154,449	269,107
Tax at statutory income tax rate of 30% (2003: 40%)	46,335	107,643
Effect of income subject to lower income tax rate	(15,000)	(25,000)
Effect of expenses not allowable for tax purposes	49,270	44,711
Tax expense for the year	80,605	127,354

Deferred tax is not provided for in the current and previous financial years as there are no temporary differences.

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

10. CASH AND SHORT TERM FUNDS

	2004 MNT '000	2003 MNT '000
Cash in hand represented by:		
Local currency	354,647	403,849
Foreign currencies	1,374,383	184,264
	1,729,030	588,113

11. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Current accounts with Bank of Mongolia	1,718,262	765,127
Placements with other banks and financial institutions	9,123,400	343,587
	10,841,662	1,108,714

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 currencies current accounts maintained with foreign financial institutions and short term deposits with local banks.

The foreign currency saving deposits are generally denominated in United States Dollar ("USD") and bear interest at annual rates ranging from 9.5% to 10% (2003 : Nil) per annum. The local currency saving deposits bear interest at an annual rate of 15.5% per annum.

12. INVESTMENT SECURITIES

	2004 MNT '000	2003 MNT '000
Securities held-to-maturity:		
Bank of Mongolia Treasury bills	732,000	1,600,000
Accretion of discounts	(8,226)	(2,003)
	723,774	1,597,997

Bank of Mongolia Treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount to the fair value of the bills upon maturity. The effective interest rates of these bills range from 14% to 16% (2003 : 11% to 12%) per annum.

13. LOANS AND ADVANCES

	2004 MNT '000	2003 MNT '000
Term loans	13,195,802	8,889,900
Staff loans	2,036	6,246
Gross loans and advances	13,197,838	8,896,146
Allowance for loan losses		
- specific	(1,018,724)	(1,026,945)
- general	(116,596)	(67,334)
Net loans and advances	12,062,518	7,801,867

Maturity structure	2004 MNT '000	2003 MNT '000
Maturing within one year	13,081,838	8,896,146
One year to five years	116,000	-
	13,197,838	8,896,146

Included in loans and advances is accrued interest totalling MNT176.3 million (2003: MNT232.1 million).

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

	2004 MNT '000	2003 MNT '000
Electricity and energy	1,267,936	200,000
Processing related industries	2,175,810	1,049,538
Construction	2,799,800	2,021,702
Trading	4,809,266	4,154,716
Others	2,145,026	1,470,190
	13,197,838	8,896,146

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

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	1,930,646	503,226
NPLs during the year - gross	2,111,253	1,718,560
Recoveries/regularised during the year	(1,408,803)	(291,140)
Amount written off	(1,271,063)	-
Gross balance at end of year	1,362,033	1,930,646
Allowance for loan losses	(1,018,724)	(1,026,677)
Net balance at end of year	343,309	903,969
Gross NPLs ratio as a percentage of gross loans and advances	10.3%	21.7%
Net NPLs ratio as a percentage of net loans and advances	2.8%	11.6%

13. LOANS AND ADVANCES (CONTD.)

Movements in the allowance for loan losses are as follows:

	2004 MNT '000	2003 MNT '000
Specific Allowance		
Balance at beginning of year	1,026,677	371,686
Allowance made during the year	809,944	804,585
Amount written back in respect of recoveries	(835,519)	(166,630)
Transfer from general allowance	17,622	17,036
Balance at end of year	1,018,724	1,026,677
General Allowance		
Balance at beginning of year	67,334	62,767
Allowance made during the year	318,711	133,616
Amount written back in respect of recoveries	(251,827)	(112,013)
Transfer to specific allowance	(17,622)	(17,036)
Balance at end of year	116,596	67,334

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for foreign currency loans amounting to MNT9,484 million (2003: MNT1,082 million). Interest rate ranges from 11.4% to 32.7% per annum (2003 : 20.4 % to 35.9% per annum).

Loans and advances amounting to approximately MNT11,836 million at 31 December 2004 (2003 : MNT6,966 million) were classified as normal and provided with a 1% loss reserve. Furthermore, loans amounting to MNT1,362 million (2003 : MNT1,931 million) were classified as NPLs as at year end and allowances of MNT1,019 million (2003 : MNT1,027 million) have been allocated against these NPLs.

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

14. OTHER ASSETS

	2004 MNT '000	2003 MNT '000
Foreclosed properties	9,771	225,816
Less: Allowance for impairment of foreclosed properties	(98)	(10,986)
	9,673	214,830
Other receivables	1,442,077	73,920
Less: Allowance for impairment of other assets	(34,778)	(36,384)
	1,407,299	37,536
Prepaid expenses	175,630	49,294
Inventory	96,837	117,160
Precious metals	1,767	1,767
Tax recoverable	-	38,870
	1,691,206	459,457

The carrying values of the foreclosed properties are based on directors' valuations, taking into consideration estimates of recovery rates and features of these properties in current conditions.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings MNT'000	Office Equipment and Vehicles MNT'000	Computers MNT'000	Renovation MNT'000	Total MNT'000
At cost/valuation					
Balance at beginning of year	977,990	340,654	118,115	-	1,436,759
Additions	105,178	303,275	141,891	21,109	571,453
Reclassification	61,210	-	-	-	61,210
Disposals	(785,231)	(190,830)	(30,580)	-	(1,006,641)
Balance at end of year	359,147	453,099	229,426	21,109	1,062,781
Representing:					
At cost	164,147	453,099	229,426	21,109	867,781
At valuation	195,000	-	-	-	195,000
	359,147	453,099	229,426	21,109	1,062,781
Accumulated depreciation					
Balance at beginning of year	33,495	103,847	75,378	-	212,720
Charge for the year	22,356	40,721	35,471	422	98,970
Disposals	(40,078)	(71,515)	(27,660)	-	(139,253)
Balance at end of year	15,773	73,053	83,189	422	172,437
Net Book Value					
At 31 December 2004					
At cost	158,124	380,046	146,237	20,687	705,094
At valuation	185,250	-	-	-	185,250
	343,374	380,046	146,237	20,687	890,344
Add : Capital Work-in-Progress					1,886,000
					2,776,344

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT'000	Office Equipment and Vehicles MNT'000	Computers MNT'000	Renovation MNT'000	Total MNT'000
Net Book Value					
At 31 December 2003					
At cost	826,631	236,807	42,737	-	1,106,175
At valuation	117,864	-	-	-	117,864
	944,495	236,807	42,737	-	1,224,039
Add : Capital Work-in-Progress					1,120,271
					2,344,310
Depreciation charge for 2003	23,794	34,234	21,939	-	79,967

In the previous year, expenditure on major building restoration and repair work was charged against revaluation surplus. The Directors are now of the opinion that this expenditure should rightly be on enhancement of the building and have accordingly reclassified this to property, plant and equipment.

Details of the latest independent professional valuations of property, plant and equipment at 31 December 2004 valued by the Directors are as follows:

Date of Valuation	Description of Property	Valuation Amount MNT'000	Basis of Valuation
25 December 2002	Building	195,000	Market value

Had the revalued building been carried at historical cost, the net book value of the building that would have been included in the financial statements of the Bank as at 31 December 2004 would have been MNT68.7 million (2003 : MNT70.4 million).

16. DEPOSITS FROM CUSTOMERS

	2004 MNT '000	2003 MNT '000
Current account deposits		
- related parties	21,472	806,065
- others	7,764,219	3,773,951
Time deposits	7,215,706	3,139,912
Savings deposits	1,485,804	695,375
Other deposits	156,042	83,513
	16,643,243	8,498,816

(i) The maturity structure of current, time and savings deposits is as follows:

	2004 MNT '000	2003 MNT '000
Due within six months	12,586,113	5,841,000
Six months to one year	3,196,618	2,574,728
One year to two years	704,470	-
	16,487,201	8,415,728

(ii) The current, time and saving deposits are sourced from the following customers:

	2004 MNT '000	2003 MNT '000
Government bodies	4,009,022	3,675,504
Business enterprises	2,449,211	1,239,175
Individuals	9,988,934	3,479,019
	16,447,168	8,393,699

Current account deposits and other deposits generally bear no interest. However, for depositors maintaining current account balance above a prescribed limit, interest is provided at rates of approximately 1% and 3% (2003 : Nil) per annum for foreign currency and local currency accounts respectively.

Foreign currency time deposits bear interest rates ranging from 6.00% to 9.84% (2003 : 7.20% to 11.40%) per annum, while for local currency time deposits interest rates range from 13.20% to 19.20% (2003 : 14.40% to 21.60%) per annum.

Savings deposits are interest bearing and may be withdrawn upon demand. Foreign currency savings deposits bear interest rates of approximately 4.8% (2003 : 4.8%) per annum, while local currency saving deposits at interest rates ranging from 6% to 7.2% (2003 : approximately 6%) per annum.

16. DEPOSITS FROM CUSTOMERS

Included in other deposits are "Bichil" financial development fund obtained from World Bank on 5 June 2003. This represents project loan disbursed through the Bank to final borrowers and will be fully repaid by 5 June 2005. The balance of the fund as at year end amount to MNT44.5 million (2003 : MNT83.5 million). It bore interest at an annual rate of 5% per annum.

The Bank obtained placement of funds amounting to MNT120 million from the Ministry of Industry and Trade's Small & Medium Size Enterprise Development Fund for a period of two years. The balance as at year end amount to MNT100.2 million (2003 : Nil).

17. DEPOSITS AND PLACEMENTS OF OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Interbank market loan	499,849	-
Foreign currency current account deposits	5,447,445	-
Local currency current account deposits	1,050,000	-
	6,997,294	-

The market loan from a local commercial banks bear interest at an annual rate of 16.8%.

Foreign currency and local currency current deposits are placed by local commercial banks. The foreign currency current accounts are denominated in United States Dollar ("USD") and bear interest at annual rates ranging from 7% to 15.5% per annum. Local currency current account deposits bear interest at annual rates ranging from 16.8% to 21% per annum.

18. OTHER LIABILITIES

	2004 MNT '000	2003 MNT '000
Delay on clearing settlement	597,724	10,255
Other payables	251,897	198,954
	849,621	209,209

19. STATUTORY FUND

	Amount	
	2004	2003
	MNT '000	MNT '000
At 1 January	5,000,000	2,000,000
Issued during the year	-	3,000,000
At 31 December	5,000,000	5,000,000

20. SOCIAL DEVELOPMENT FUNDS

Social development fund represents funds allocated for the purposes of employees' social and welfare expenses. There is no distribution of retained earnings (2003 : MNT45.8 million) to the social development fund by the Bank during the year.

21. DIVIDENDS

	2004	2003
	MNT '000	MNT '000
Paid:		
Final dividend in respect of financial year ended 2002	-	433,387

22. FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks 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 financial 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 MNT10.8 billion (2003: MNT1.1 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.

22. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total. These limits also comply with the minimum requirements of the Bank of Mongolia. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of the foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

The Bank's concentration of assets, liabilities and off balance sheet items are as follows:

	Local Currency MNT'000	Foreign Currencies USD MNT'000	EURO MNT'000	Others MNT'000	TOTAL MNT'000
As at 31 December 2004					
Assets					
Cash and short term funds	354,646	1,257,839	90,734	25,811	1,729,030
Deposits and placements with other banks and financial institutions	4,311,950	624,092	92,530	5,813,090	10,841,662
Investment securities - Held-to-maturity	723,774	-	-	-	723,774
Loans and advances	2,578,035	9,484,483	-	-	12,062,518
Other assets	1,446,433	244,773	-	-	1,691,206
	9,414,838	11,611,187	183,264	5,838,901	27,048,190
Liabilities					
Deposits from customers	4,063,823	12,498,852	79,221	1,347	16,643,243
Deposits and placements of other banks and financial institutions	1,050,000	5,947,294	-	-	6,997,294
Other liabilities	759,235	89,466	920	-	849,621
Tax payable	21,659	-	-	-	21,659
	5,894,717	18,535,612	80,141	1,347	24,511,817
Net position	3,520,121	(6,924,425)	103,123	5,837,554	2,536,373
Commitments and other off balance sheet items	11,581,331	-	-	-	11,581,331

22. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Currency risk (contd.)

As at 31 December 2003	Local Currency MNT'000	Foreign Currencies USD MNT'000	EURO MNT'000	Others MNT'000	TOTAL MNT'000
Assets					
Cash and short term funds	404,491	140,215	33,656	9,751	588,113
Deposits and placements of other banks and financial institutions	684,855	409,427	6,125	8,307	1,108,714
Investment securities					
- Held-to-maturity	1,597,997	-	-	-	1,597,997
Loans and advances	6,720,069	1,081,798	-	-	7,801,867
Other assets	459,457	-	-	-	459,457
	9,866,869	1,631,440	39,781	18,058	11,556,148
Liabilities					
Deposits from customers	7,574,986	895,642	26,932	1,256	8,498,816
Other liabilities	104,092	103,285	1,832	-	209,209
	7,679,078	998,927	28,764	1,256	8,708,025
Net position	2,187,791	632,513	11,017	16,802	2,848,123
Commitments and other off balance sheet items	6,662,260	-	-	-	6,662,260

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. The following table analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

22. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Liquidity Risk (contd.)

The contractual maturites of banking assets and liabilities for the year ended 31 December 2004 are as follows (MNT'000):

As at 31 December 2004	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and short term funds	1,729,030	-	-	-	-	1,729,030
Deposits and placements with other banks and financial institutions	10,841,662	-	-	-	-	10,841,662
Investment securities						
- Held-to-maturity	723,774	-	-	-	-	723,774
Loans and advances	8,500	8,634,500	3,303,518	116,000	-	12,062,518
Other assets	1,691,206	-	-	-	-	1,691,206
	14,994,172	8,634,500	3,303,518	116,000	-	27,048,190
Liabilities						
Deposits from customers	10,268,071	2,318,042	3,352,660	704,470	-	16,643,243
Deposits and placements of other banks and financial institutions	6,997,294	-	-	-	-	6,997,294
Other liabilities	849,621	-	-	-	-	849,621
Tax payable	21,659	-	-	-	-	21,659
	18,136,645	2,318,042	3,352,660	704,470	-	24,511,817
Net liquidity gap	(3,142,473)	6,316,458	(49,142)	(588,470)	-	2,536,373
Accumulated gap	(3,142,473)	3,173,985	3,124,843	2,536,373	2,536,373	5,072,746

22. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

Liquidity Risk (contd.)

The contractual maturites of banking assets and liabilities for the year ended 31 December 2003 are as follows (MNT'000):

As at 31 December 2003	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	588,113	-	-	-	-	588,113
Deposits and placements with other banks and financial institutions	1,108,714	-	-	-	-	1,108,714
Investment securities						
- Held-to-maturity	1,597,997	-	-	-	-	1,597,997
Loans and advances	799,820	5,677,335	1,324,712	-	-	7,801,867
Other assets	459,457	-	-	-	-	459,457
	4,554,101	5,677,335	1,324,712	-	-	11,556,148
Liabilities						
Deposits from customers	5,275,390	565,184	2,658,242	-	-	8,498,816
Deposits and placements of other banks and financial institutions	-	-	-	-	-	-
Other liabilities	209,209	-	-	-	-	209,209
	5,484,599	565,184	2,658,242	-	-	8,708,025
Net liquidity gap	(930,498)	5,112,151	(1,333,530)	-	-	2,848,123
Accumulated gap	(930,498)	4,181,653	2,848,123	2,848,123	2,848,123	5,696,246

22. FINANCIAL 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 2004 and 2003 for monetary financial instruments are as follows:

	2004		2003	
	Local Currency %	**Foreign Currencies** %	**Local Currency** %	**Foreign Currencies** %
Interest earning assets				
Deposits and placements with other banks and financial institutions	15.5	9.5 - 10	-	-
Bank of Mongolia Treasury bills	14.0 - 16.0	-	11.0 -12.0	-
Loans and advances	11.4 - 32.7	26.6	20.4 - 35.9	14.4
Interest bearing liabilities				
Deposits from customers	3.0 - 19.2	1.0 - 9.84	0 - 21.6	0 - 11.4
Deposits and placements of other banks and financial institutions	16.8 - 21.0	7.0 - 15.5	-	-

23. 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.

One of the Bank's major shareholders is controlled by the City Government of Ulaanbaatar. A number of banking transactions are entered into with parties related to the City Government in the normal course of business. These transactions were carried out on commercial terms and the Bank is merely acting as clearing agent for these related parties for transfer of funds to the Bank of Mongolia. As the clearing accounts are generally non-interest bearing, no further disclosure is made in respect of these transaction. Other significant related party transactions as at the year end are listed below.

	2004 MNT '000	2003 MNT '000
Rental of premises paid to City Government	28,730	8,400
Sale of property, plant and equipment to City Government	14,000	-

Directors' Remuneration

The executive members of the Board of Directors received remuneration totalling MNT7.3 million (2003 : Nil). The non-executive members did not receive any fees during the year (2003 : Nil).

24. CAPITAL ADEQUACY

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

	2004	2003
Core capital ratio	27.50%	45.08%
Risk weighted capital ratio	28.15%	45.62%
Tier I capital		
Statutory fund	5,000,000	5,000,000
Reserve fund	70,838	70,838
Retained earnings	118,934	45,090
Total Tier I Capital	5,189,772	5,115,928
Tier II capital		
Revaluation surplus	122,775	61,565
Social development fund	170	14,940
Total capital base	5,312,547	5,177,493

24. CAPITAL ADEQUACY

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

	2004 MNT '000		2003 MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	4,171,068	-	2,951,237	-
10	-	-	-	-
20	9,123,400	1,824,680	343,587	68,717
50	10,116	5,058	26,807	13,404
100	17,042,982	17,042,982	11,266,591	11,266,591
Total	30,347,566	18,872,720	14,588,222	11,348,712

25. COMMITMENTS AND OFF BALANCE SHEET ITEMS

a) Financial Commitments and Off Balance Sheet Items

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

	2004 MNT '000	2003 MNT '000
Loans collateral	10,289,802	6,472,870
Guarantees granted	10,081	26,774
Interest suspended	1,277,314	112,995
Other off balance sheet items	4,134	49,621
	11,581,331	6,662,260

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 2004, the Bank has 1 open position (2003: Nil) on foreign currency exchange forward contracts amounting to MNT4.8 billion (2003: Nil).

c) Capital commitments

As at 31 December 2004 and 2003, the Directors have not authorised any capital commitment of significance.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rate commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2004 and 2003 are short term in nature with maturities of less than one year. The estimated fair values of those financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheet.

27. 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		
Loan and advances	7,801,867	7,569,780
Other assets	459,457	691,543
Liabilities		
Other payables	230,813	245,753
Social development funds	14,940	-

The comparative figures presented in the financial statements are audited by a firm of auditors other than Ernst & Young Mongolia Audit Company.

28. CURRENCY

All amounts are in Mongolian Togrog unless otherwise stated.

29. 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.