



ZOOS BANK

Annual Report 2004



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*M*ission statement

Serving our customers with utmost care and being able to provide full financial services based upon latest technological advancement, and to be reliable, reputable and internationally recognized bank.



D. BATBAYAR
CHAIRMAN OF THE GOVERNING BOARD





SH. CHUDANJII
CEO

Message from CEO

It is my pleasure to make a note that the year of 2004 was a year of great successes and accomplishments for our bank. Financial industry was strong in 2004 on the basis of continual confidence on banking industry and ever increasing banking services, size of deposits and loans.

For 2004, our total assets increased by 36% to MT 56.8 billion while our loan book rose 46% to MT 36.7 billion. Our gross interest income rose to MT 8.2 billion representing an increase of 16% from 2003.

As a result of policy of getting our services close to our customers we have opened branches in Khovd, Umnugobi, Dornod, Zamin-Ud and Zoon Haraa-densely populated provincial towns and introduced new banking products and services that were not available to local residents before. The bank is implementing the lending policy aimed at assisting small and medium sized enterprises through our branches and sub-branches in the provinces as well as supporting Government policy of Developing National Industry. Moreover the bank is successfully implementing lending programs such as Private Sector Development Project by the International Development Association and Mongolian Government, and Housing Project Loan by the Asian Development Bank.

In the reporting year, we introduced new software program-BANKS to all our branches and sub-branches, so that information can be shared flawlessly and efficiently throughout our banking network.

In 2004, the bank joined as a member of Asian Bankers Association, which has over 100 member banks and cooperating actively with the members.

We could not have done it without dedication of our staff and cooperation of continuous support of our faithful customers.

Finally, I would like to express my deepest gratitude to all our customers, domestic and foreign partner organizations, shareholders, management and staff of the bank for their cooperation, confidence, support and dedication.





MONGOLIA 2004 HIGHLIGHTS

During last years, the Mongolian Government has been implementing a stable policy aimed at creation of an environment that enables the socio-economic development of the country. As a result, the preliminary estimates of economic growth showed 10.6 percent. This was immediate outcome of increased foreign and domestic investment into mining, manufacture, services and banking and financial sector last years.

Since Mongolia is heavily dependent on imports of energy sources, the oil price rise in the world market had negative impact on the social and economic life of Mongolia. In 2004, inflation reached 11 percent, its the highest point since 2001. Consumer products price increased owed to supply shock factors. The annual inflation rose above the predictions and expressed by two-digit figure. Supply driven economic shock observed through rise in price of petroleum products since the second half of 2004 necessitated prompt response and principal modifications in the monetary policy.

In 2004, the price of Mongolia's main export commodities such as gold and copper went up in the world market that led to increase of total exports. In comparison with the previous year, total exports rose by 38.5 percent, of which copper concentrate exports by 75.8 percent and gold exports by 73.7 percent, respectively. Oil price rise influenced total imports worth. Total imports grew by 26.3 percent from the previous year, of which mineral products imports by 38.9 percent, and petroleum products imports by 42.1 percent, respectively. Foreign trade deficit declined by 14.5 percent and accounted to USD 158.3 million.

The nominal exchange rate of Togrog against USDollar depreciated by 3.5 percent from the end of the previous year.

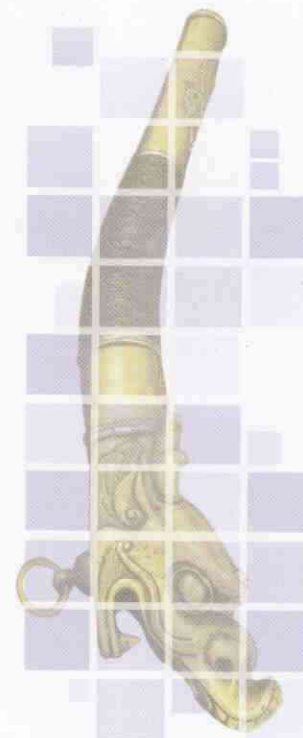
PERFORMANCE OF THE BANKING SYSTEM

As of the end of 2004, 17 banks, 114 non-bank financial institutions (henceforth referred as NBFIs) have provided banking services to their customers through 684 offices, including 89 branches, 578 payment and settlement centers and 13 savings and cash units.

At the end of 2004, 1 bank remained state-owned, 2 had state participation and 14 were privately owned (of which 4 was foreign invested bank). As of the end of 2002, state-owned and state-participated banks held almost 28 percent of all household savings and time deposits and 10 percent of current accounts, however at the end of 2004, savings and time deposits and current accounts decrease 9.5 percent and 8.9 percent respectively.

In comparison with the last year, in 2004 despite the higher inflation rate caused by increase in petrol and diesel fuel prices, gold, copper prices increased in the world market and good weather conditions have resulted in increase in GDP to 10.6 percent. Of this increase in GDP, 4.5 percent is by agriculture sector, 4.2 percent by industrial sector, and 2.0 percent by service sector. Developments in the banking and financial sector have influenced these figures. In the last 4 years total assets of the banking sector is increased by 4.8 times and the equity by 6.3 times.

Growth of banking sector assets in 2004 was high and the main indicator measuring the level of financial intermediation, the ratio of Broad Money (M2) to GDP, increased by 8.6 percent (from its 2002 level) and





decreased by 4.8 (from its 2003 level) to 46.8 percent. This decrease is related to sudden increase in GDP in 2004.

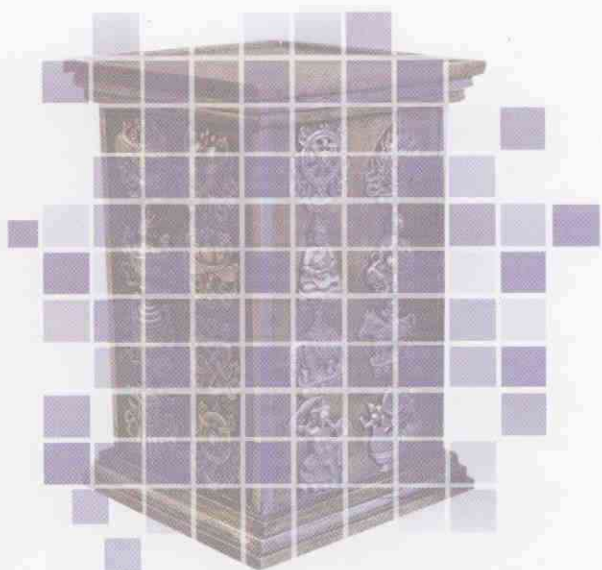
During 2004, banking sector assets escalated by MNT 249.9 billion (30.3 percent) to 1075.8 billion. For the first time it overstepped the trillion mark-up. This represents 59.5 percent of nominal GDP. Asset growth was driven by a rapid increase in saving accounts and time deposits MNT 156.2 billion (42.5 percent) (of which 149.2 was household savings), equity MNT 56.6 billion (51.0 percent), funds attracted from foreign banks and capital accounts MNT 45.0 billion (69.7 percent) respectively.

Total banking sector assets were structured as follows: net outstanding loans made up 56.8 percent, domestic and foreign bank deposits 13.7 percent, cash and deposit placed at Bank of Mongolia 11.1 percent. Compared to figures from the previous year, the share of loans increased by 5.4 points and share of other assets were more or less stayed the same.

In 2004, total bank liabilities increased by 27.0 percent, or MNT 193.3 billion, cause by an increase in savings and time deposits of MNT 156.2 billion and funds attracted from foreign banks of MNT 45.0 billion. As for the structure of banking sector liabilities, during the last year share of current accounts and other liabilities decreased and other types of liabilities increased. As a result total liabilities were structured as: savings and time deposits 57.7 percent, current accounts 23.3 percent, funds attracted from domestic banks 12.1 percent, funds attracted from others 4.5 and other liabilities 2.5 percent. Current account liabilities decreased due to changes in Government funding have converted into one uniform government account, and due to this some of the fund was deposited into Bank of Mongolia account.

According to the consolidated balance sheet of the banks, major bulk of funds attracted through demand, savings and time deposits were spent for lending activities and this tendency matches the previous year. There is, however, a change in lending activity, which can be attributed to the segmenting of borrowers and the creation of new types and forms of loans suitable for them. In addition, the introduction of new services and financial products not only helped banks to earn extra incomes, but also allowed them to attract new customers and therefore, financing.

Compared to previous year results, total income, total expenses and pre-tax earnings grew by 40.7, 46.5, and 14.2 percent respectively. The growth in profitability is less than previous year growth in profits. In 2004, the banking sector has accumulated profits worth of MNT 17.3 billion. Over the last 2 years, lending rates based on systemic average and actual interest incomes have been gradually decreasing. Interest paid on deposits is rarely changed, which indicates the intention of banks to maintain their market share. As a result, return on assets in the banking system declined by 1.2 to 3.1 percent.





ZOOS BANK

**ZOOS BANK'S
HEAD OFFICE BUILDING**



The new head office building of Zoos Bank, was nominated and won as one of the TOP 10 constructions of 2003 by Mongolian Architectures Association. The building was built up with international standards and used with quality american and japanese security systems. In addition it has reserve power generator in the instance of power cut . The building was officially opened 20 April, 2004.

Zoos Bank, a private commercial bank, was established in May 18, 1999.

Zoos Bank is growing its activity nationwide and has 370 full time employees in 8 departments and 30 branches. We are more focused on delivering fast and caring services to our customers that based upon their needs and expectations.

Zoos Bank has been successfully implementing projects such as Housing Project Loan, Private Sector Development Project Loan, Micro-finance Project Loan, Employment Generation Project Loan and Agricultural Sector Development Project Loan funded by the World Bank, Asian Development Bank and other international financial institutions that support national poverty reduction programmes.

At the end of 2002, Zoos Bank became an affiliate member of MasterCard International and started issuing debit and credit Mastercard.

Moreover Zoos Bank became the first bank to introduce personal customer adviser (PCA) service to it's customers. The bank also introduced SMS 545 Mobile phone banking for people on the move. Our customers can transfer money through Western Union or SWIFT and open Letter of Credit facility for a business transactions.

In order to meet rapid development of foreign relations of Mongolian economy, the bank is working with foreign financial institutions such as COMMERZBANK and HYPOVEREINSBANK of Germany, NIKOIL IBG BANK of Russia, HSBC BANK of UK and UNION BANK OF CALIFORNIA of USA to facilitate daily cross transactions and remittance.

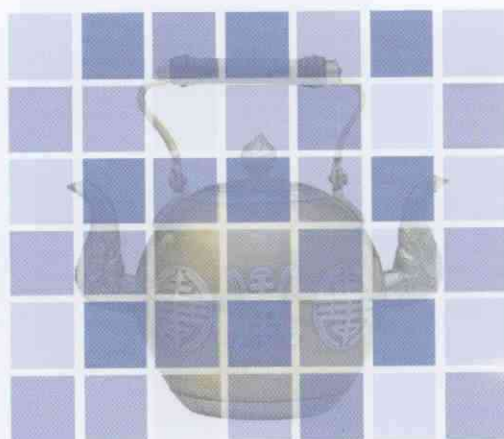
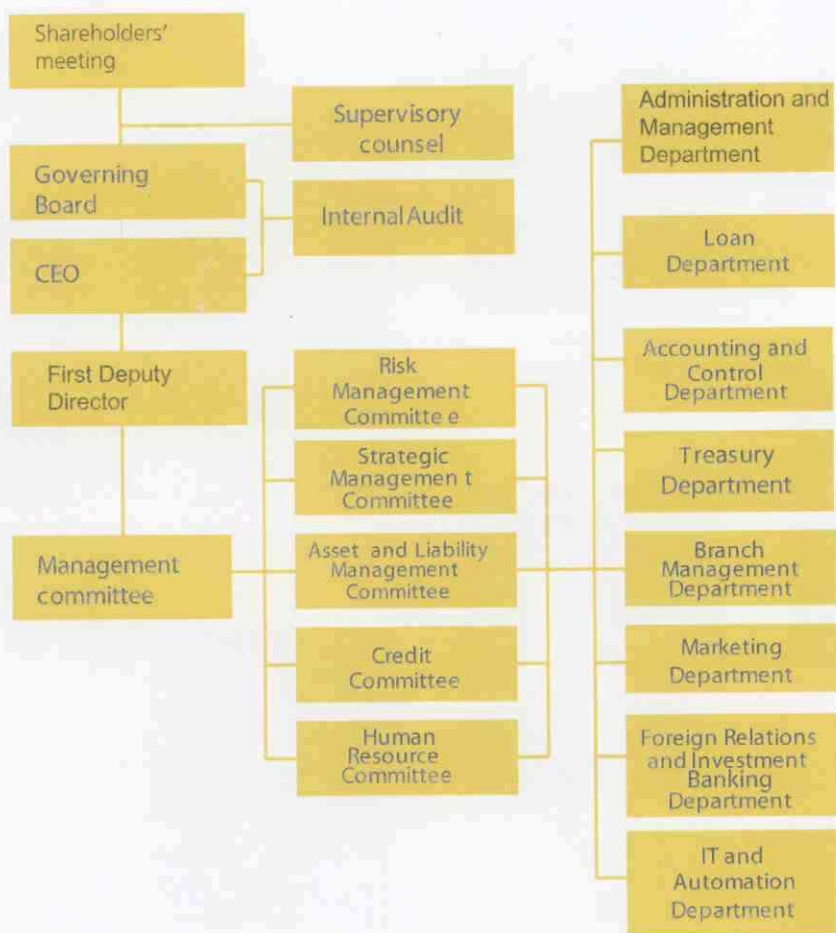
In 2003, Zoos Bank was honored with title of "Leading Bank of Mongolia" by Bank of Mongolia in recognition of its contribution to the Mongolian economy and implementation of the state monetary policy. The bank was awarded "TOP 100 companies of the year" in 2001, 2002, 2003, and "The best marketer", "The best supporting bank of economy" and "Leading Social insurance contributor" in 2004 by the Mongolian National Chamber of Commerce and Industry.

HIGHLIGHTS IN 2004

- February Sub-branch No 112 was opened in Bayangol district, Ulaanbaatar.
- March Card Center, sub-branch No 113, was established in Chingiltei district, Ulaanbaatar.
- April New head office building was opened.
- May 5th anniversary of Zoos Bank and opening ceremony of new head office building
- June President N.Bagabandi visited Zoos Bank and was given an introduction about the bank.
- July Sub-branch No 114 was opened in Khovd province.
- August Sub-branches No 115 and No 116 were opened in Selenge and Umnugobi provinces.
 - Construction ceremony of employees' apartment building of Zoos Bank started .
 - US Senator Dien Fainshtein visited Zoos Bank with her family and was given an introduction about the bank.
 - Famous sumo wrestler D.Dagvadorj visited Zoos Bank Head office and Card Center and was introduced about their activities.
- September Sub-branch No 118 was established in Khan-Uul district, Ulaanbaatar.
- October Sub-branch No 117 and its settlement unit were established near railway station in Bayangol district, Ulaanbaatar. The men's team of Zoos Bank won the 3rd place at the Annual Volleyball Championship of the Commercial Banks.
- November Zoos Bank joined to Asian Bankers Association CEO Sh.Chudanji was awarded Governments Highest Decoration, Northern Star Sub-branches No 119 and No 120 were opened in Dornod and Dornogobi provinces.
- December Zoos Bank was awarded as a
 - * One of the TOP 10 Banks of Mongolia
 - * The best marketer
 - * The best supporter of Economy



Organizational chart of Zoos Bank





Management team



B. Khatantulkhuur
First Deputy Director



T. Oyunchimeg
Deputy Director



B. Erenchuluun
Director of Internal Audit



L. Idertsogt
Director of Human Resource



B. Erdenetsetseg
Director of Loan



Sh. Altantsetseg
Director of Marketing



P. Selenge
Director of Treasury



D. Byambasuren
Director of Accounting



D. Chinbat
Director of Investment Banking



Kh. Enkhbaatar
Director of IT and Automation



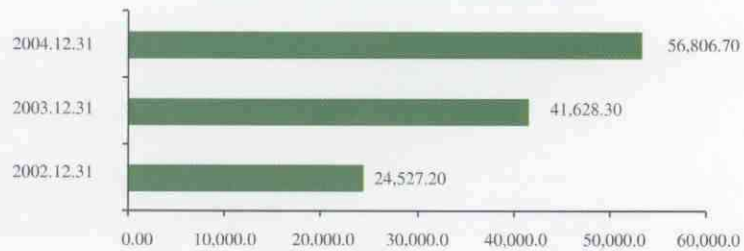


Key Financial Figures for the Years 2004, 2003 and 2002

	in thousands of MNT		
	2004	2003	2002
Assets	56,806,728.4	41,628,271.0	24,527,199.2
Loans (gross)	38,151,048.9	25,784,839.6	18,169,660.9
Liabilities	51,174,874.0	36,900,661.0	21,217,514.1
Equity	5,631,854.4	4,727,610.0	3,309,685.1
Total operating revenues	8,738,819.6	7,471,398.3	4,570,977.4
Operating income	4,603,050.3	4,377,803.6	2,751,697.2
Net income after taxes	464,382.7	673,568.9	502,505.1

Total Assets of MNT 56.8 billion (USD 46.9 million)*

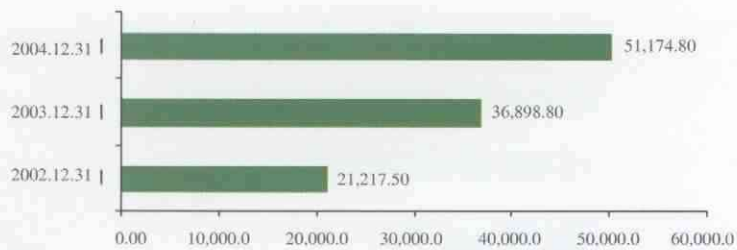
Total Assets



During the last 3 years we have increased our total assets from MNT 14 billion to MNT 56,8 billion which is primarily due to the increase in loan portfolio. During this period fixed assets (net) have grown from MNT 1,65 billion to MNT 5,7 billion. This growth is attributable to the increase in the fixed assets of our subsidiaries. The growth in other assets in 2004, of approximately MNT 0,57 billion, to MNT 2,5 billion at the end of 2004 compared to MNT 430,3 million in December 31, 2002 is primarily due to the increase in interest receivables.

Total Liabilities of MNT 51.1 billion (USD 42.3 million)*

Total Liabilities



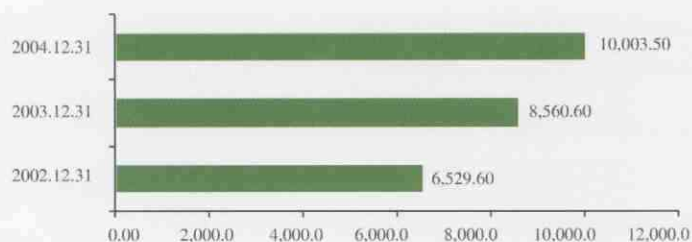
* All figures in USD are according to official rate of Bank of Mongolia as of December 31, 2004.





Current Accounts of MNT 10.0 billion (USD 8.2 million)*

Current Accounts



Deposits of MNT 25.7 billion (USD 21.2 million)*

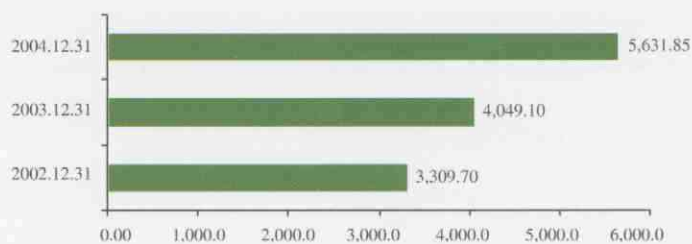
Deposits



We have increased our customer deposits by almost 357% growing to MNT 25,743.8 billion from MNT 5633.4 billion during the 2001-2004 periods. Deposits have grown 21.07% in 2004, 71.9% in 2003 and 19.5% in 2002. We emphasize on growing our branch network which consists of over 20 locations throughout Mongolia.

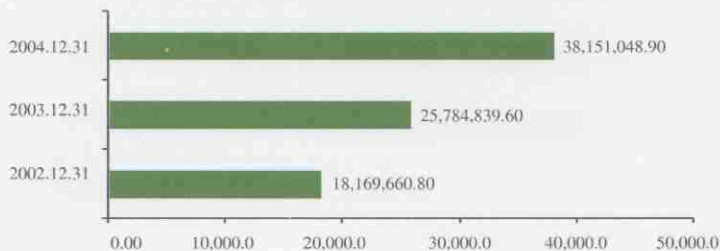
Shareholders' equity increased to MNT 5.6 billion (USD 4.6 million)*

Equity



Outstanding loans

in thousands of MNT



* All figures in USD are according to official rate of Bank of Mongolia as of December 31, 2004.

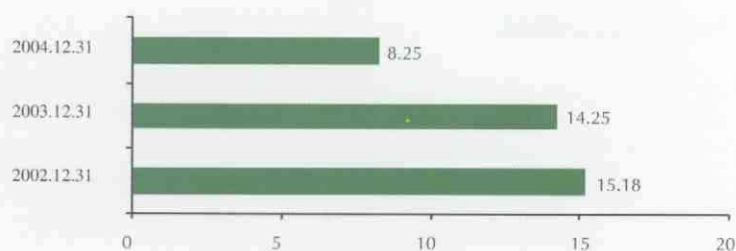




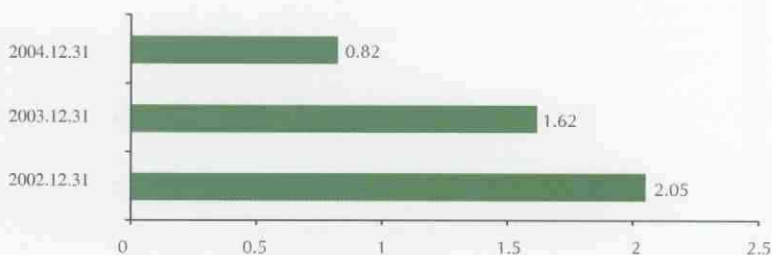
Key Financial Ratios for the Years 2004, 2003 and 2002 (in percent)

	2004	2003	2002
Loans/Assets	67.16	61.94	74.08
Return on equity (1)	8.25	14.25	15.18
Net profit margin (2)	5.31	9.02	11.0
Asset utilization (3)	15.38	17.95	18.64
Equity multiplier (4)	10.09	8.81	7.41
Return on assets (5)	0.82	1.62	2.05
Net interest margin (6)	7.10	9.49	14.77
Non-interest margin (7)	-3.91	-5.67	-9.75
Special transactions affecting net income/Total assets (8)	2.37	2.20	2.97

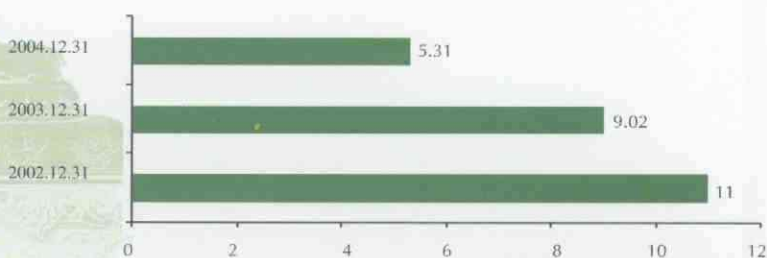
Return on Equity (in percent)



Return on Assets (in percent)



Net profit margin (in percent)





Compliance of Bank of Mongolia Prudential Ratios (in percent)

	2004	2003	2002
Capital adequacy ratio	11.22	14.26	16.28
Foreign currency exposure	32.30	30.10	-2.50
Liquidity ratio	19.60	28.89	21.41
One single borrower exposure/Equity	17.70	15.86	17.0

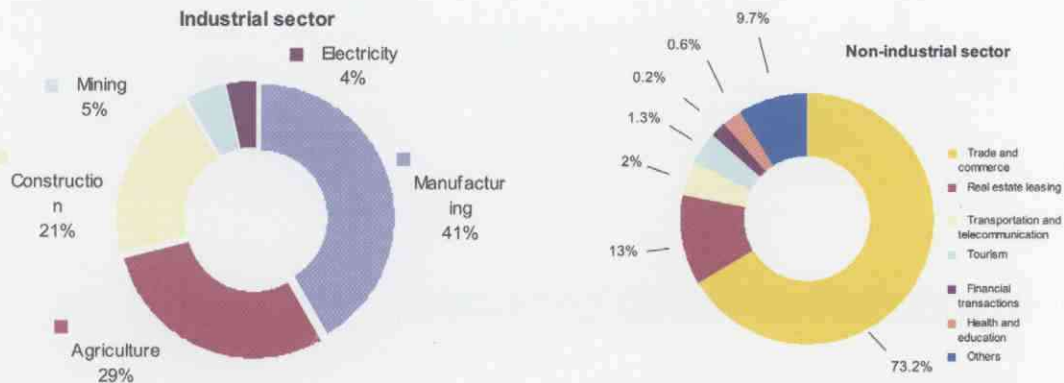
- 1 The capital adequacy ratio set by BOM shall be equal or greater than 10 percent.
- 2 For one single currency the amount of increase or decrease shall not exceed 20 percent.
For a basket of currencies the amount of increase or decrease shall not exceed 40 percent.
- 3 The liquidity ratio shall be equal or greater than 18 percent.
- 4 The total value of loans provided to one person or group of related persons shall not exceed 20 percent of the equity of the bank.

Non-current loans/Total loans (in percent)





Loan Structure



Number of Borrowers as of December 31, 2004

Amount (in million of MNT)	Central branch	Branches in Ulan Bator	Branches in rural areas
Over 50	49	15	12
15 - 50	52	81	80
5 - 15	235	185	731
0 - 5	281	432	3867

Projects Implemented in Zoos Bank

Institution/Project name	Project amount (in thousands of US-\$)	Loan purpose	Number of Borrowers
Asian Development Bank			
Housing loan	10,000	Improvement of housing situation	160
Agricultural sector development project	1,100	Development of agricultural sector	196
Employment generation project	1,000	Increase of employment	111
World Bank			
Private sector development project	7,350	Development of private sector	7
Microfinance development project	570	Support of small sized enterprises	94
Mongolian financial capacity development project	385	Commercial bank risk management, Banking software, Training	

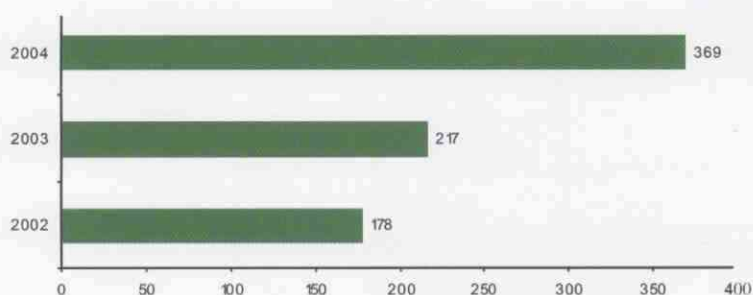




Our loan growth, over the past three years has been extremely strong. Loans by the end of 2004 have increased by 253.8% compared to 2001 due to rapid expansion in the financial market. In 2004 loans have increased by 48% compared to the previous year. The significant growth of our loan portfolio is associated with business expansion in Mongolia.

In addition to 20 types all financial products already offered the bank introduced new products such as new credit card services, vehicle financing and housing loans. Compared with previous year, the total amount of loans increased by 26 percent, outstanding loans increased by 48 percent and number of borrowers increased by 1.9 percent from the previous year.

Employees



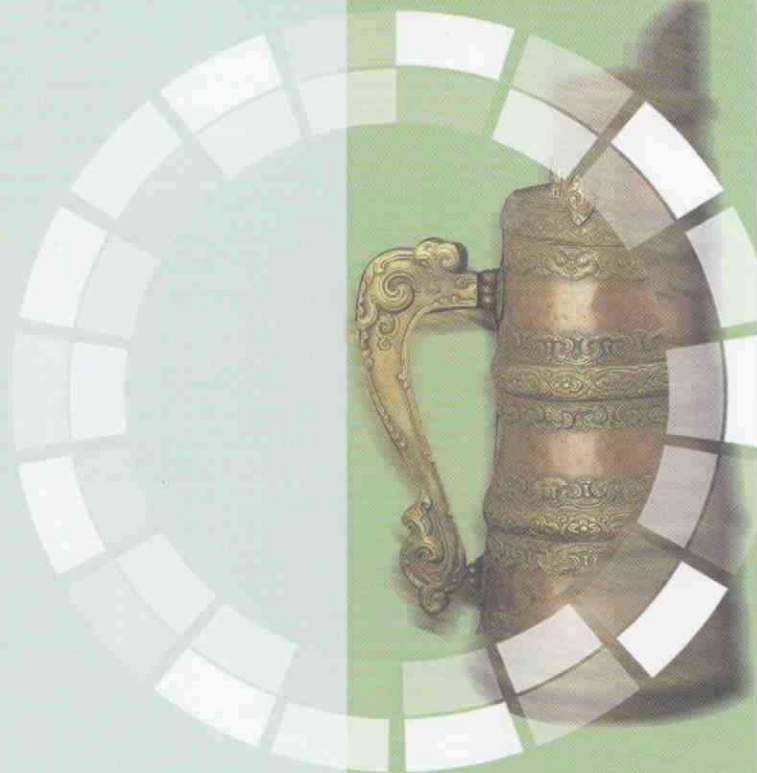
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ZOOS BANK



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To the Shareholders and
Board of Directors of ZOOS BANK

**REPORT OF INDEPENDENT
AUDITORS**

We have audited the accompanying balance sheet of ZOOS BANK of Mongolia as of December 31, 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Auditing Standards, Auditing Law of Mongolia, Accounting Law of Mongolia and rules and regulations of Bank of Mongolia. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of the ZOOS Bank as of December 31, 2004, and results of its operations and cash flows for the year ended in accordance with International Financial Reporting Standards, rules and regulations of Bank of Mongolia.

INTER-AUDIT Co,ltd

January 27, 2005



BALANCE SHEETS AT DECEMBER 31, 2004

(In thousands of MNT)

	2003	2004
Assets		
Cash and cash equivalents	8,744,946.40	10,026,662.60
Loans to customers	25,088,181.70	36,741,320.00
Securities	2,401,607.70	1,061,194.50
Property and equipments	4,342,007.10	5,766,241.20
Other real estate	480,744.00	703,332.50
Other assets	570,784.10	2,507,977.50
Total assets	41,628,271.00	56,806,728.30
Liabilities		
Current accounts	8,579,521.80	10,003,518.50
Deposits	21,263,774.80	26,470,375.00
Dues to other financial institutions	5,545,652.30	7,440,720.00
Other liabilities	1,511,712.10	7,259,660.40
Total liabilities	36,900,661.00	51,174,873.90
Shareholders' equity		
Share capital:		
- common shares	3,049,075.80	4,157,287.80
- preferred shares	1,000,000.00	1,000,000.00
Retained earnings	673,568.90	464,382.70
Total shareholders' equity	4,727,610.00	5,631,854.40
Total liabilities, shareholders' equity	41,628,271.00	56,806,728.30

INCOME STATEMENT

(In thousands of MNT/)

	2003	2004
Total interest income	7,044,005.3	8,171,757.8
Total interest expenses	3,093,594.7	4,135,769.3
Net interest income	3,950,410.6	4,035,988.5
Provision for possible loan losses	485,159.8	1,108,358.0
Operating profit	3,465,250.8	2,927,630.5
Non-interest income	1,167,532.0	567,061.8
Operating expenses	3,528,214.0	2,790,309.6
Profit before taxation	1,104,568.8	704,382.7
Taxes	431,000.0	240,000.0
Profit (or loss) after taxation	673,568.8	464,382.7

STATEMENT OF CHANGES IN EQUITY

(In thousands of MNT/)

	Beginning balance	Increase	Decrease	Ending balance
Common stock	3,049,075.8	1,108,212.1		5,157,287.9
Preferred stock	1,000,000.0			1,000,000.0
Reserve fund	4,965.2	5,218.6		10,183.9
Retained earnings	673,568.9	464,382.7	673,568.9	464,382.7
Total equity	4,727,609.9	1,577,813.4	673,568.9	5,631,854.4



CASH FLOW STATEMENT

as of December 31, 2004
(In thousands of MNT)

	Part	Group
Cash flow from operating activities		
Income before tax		464,382.7
A. Adjustment		-6,052.2
1/ Depreciation expenses (+)	62,477.8	
2/ Provisions of possible loan losses (+)	-68,530.00	
3/ Interest income (-)		
4/ Interest expenses (+)		
Operating income before working capital changes		458,330.5
Changes in operating assets		-2,785,956.6
1.1/ Increase /decrease/ in loan portfolio	-2,398,114.5	
1.2/ Increase /decrease/ in short term investment		
1.3/ Increase /decrease/ in other real estate owned	-242,701.56	
1.4/ Increase /decrease/ in other assets	-145,140.5	
Changes in operating liabilities		5,093,070.1
2.1/ Increase /decrease/ in current accounts and deposits	2,205,487.60	
2.2/ Increase /decrease/ in dues to other non banking institutions	5,230,344.60	
2.3/ Increase /decrease/ in dues to other banks and financial institutions	-1,662,231.7	
2.4/ Increase /decrease/ in other liabilities	-680,530.4	
Cash flow from operating activities		2,765,444.0
E. Other adjustment		-240,000.1
1/ Interests received (+)		
2/ Interests paid (-)		
3/ Income tax (-)	-240,000.0	
4/ Loan charge-off (-)		
Net cash flow from operating activities		2,525,444.0
Cash flow from investment		
1. Purchase of long-term investment (-)	-998,719.10	
2. Purchase of fixed assets (-)	-492,417.70	
3. Trade of long-term investment (+)		
4. Trade of fixed assets(+)		
6. Company buy-outs		
7. Dividend income (+)		
Net cash flow from investment		-1,491,136.8
Cash flow from financial activities		
1. Securities		
2. Purchase of securities (-)		
3. Loans received (+)		
4. Loans paid (-)		
5. Increase /decrease/ in equity (-)		
6. Dividends distributed		
Net cash flow from financial activities		1,034,307.2
Total cash flow		8,992,355.4
Beginning balance of cash and cash equivalents		10,026,662.6
Ending balance of cash and cash equivalents		





Notes to the Financial Statements

About financial statement of Zoos Bank as of December 31, 2004

Zoos Bank is a private commercial bank, which obtained permission to conduct banking activity by resolution of the Governor of the Bank of Mongolia on April 06, 1999.

The Bank has 8 divisions, 2 departments and more than 360 employees in all its 23 branches in Ulaanbaatar city and rural provinces. The bank offers banking products and services such as cash or non cash flow, current accounts, deposits, loans, foreign exchange and transfer, card service to a legal person/individuals, business entity or an organization within the limits/framework of Banking Law of Mongolia, Company Law of Mongolia and other acts of legislation.

The audited financial statements may only belong to Zoos Bank and its numerical indicators expressed as MNT national currency.

1. Basis of Preparation

The purpose of preparation of this financial statement is to present fairly bank capital, sources, the current state, the accepted income and expenditure results, and cash flow in order to provide reliable information relevant to the decision-making needs of users in accordance with Accounting Law of Mongolia, Banking Law of Mongolia, Company Law of Mongolia and International Accounting Standards /IAS/.

The preparation of financial statements, assessing the accounting principles has complied in conformity with related standards and acts, complied with the requirements of the Bank of Mongolia and other applicable banking regulations.

2. Significant Accounting Policies

The combination of any activity related to records of Accounting policies documents, records and principles, recommended practices and regulations approved by an appropriate legal person, shall be followed when financial statements are introduced and developed.

In the reporting year, the bank has chosen methods and guidelines following accounting policies and principles to prepare these financial statements and accounting.

b. Income and expenses

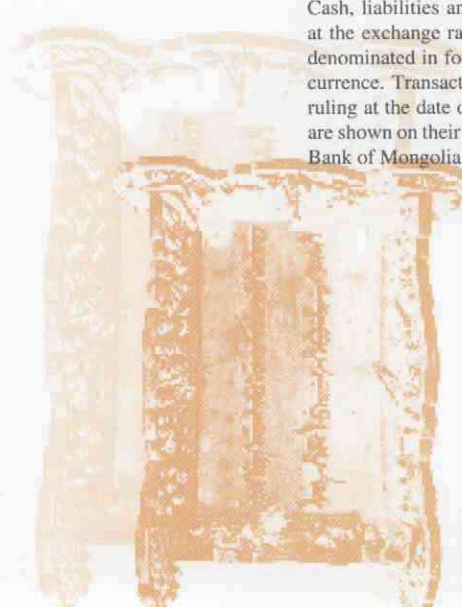
Interest and other income and expenses were based on the accrual method. The accrual of interest income on loan receivables more than 90 days past due is discontinued. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Expenses are recognized only when they occur and are recorded in the accounting records.

c. Taxation

Incomes and expenses related to profits as defined by the purpose of the financial statement shall be paid to the state budget by tax grade in accordance with Mongolian Economic Entity and Organization's Income Tax Law.

d. Foreign currency

Cash, liabilities and other convertible assets denominated in foreign currencies are translated into MNT at the exchange rates ruling by the Bank of Mongolia at the balance sheet date. Non-cash and liabilities denominated in foreign currencies are translated into MNT at the exchange rates ruling at the date of occurrence. Transactions denominated in foreign currencies are translated into MNT at the exchange rates ruling at the date of transactions. The resulting hereby recorded on the balance sheet. National currencies are shown on their par value. Foreign currencies are translated into MNT at the exchange rates ruling by the Bank of Mongolia at the date of recording.





e. **Securities**

Securities are classified by type and thereby recorded in the account stated at valuation cost and lowest cost in the market. Risk provisions shall be set up in accordance with the regulation approved by the Bank of Mongolia. Bills received from other organizations, and shares purchased as well as bills of the Bank of Mongolia are recorded in this account. Records may contain account of lowering price of bills.

f. **Loans**

Loans are classified by purpose, time and type of currency and recorded in the balance sheet by their par/nominal value. Provision of probable loan losses should be set up according to the joint order of the president of the Bank of Mongolia and Minister of Finance and Economy ref;459/ 207 which refers to class loan structure by month.

g. **Fixed assets and its financing**

The fixed assets are classified by purpose and form and recorded as two indicators such as accumulated depreciation of life time and historic cost in the balance sheet.

h. **Intangible assets**

Computer programs that used in deposit, loan and card accounting, anthem and movie of the bank are recorded as intangible assets in the balance sheet.

i. **Other real estate owned**

j. **Other assets**

In this chapter, receivables, payments in advance, travel advances, inventory, and accrued receivables on loan interests are classified and registered by own accounts.

k. **Deposits of customers and other financial institutions**

Deposits of customers are initially recognized at cost. Subsequently, for time deposits with terms over one month, amounts due are stated at amortized cost and any differences between net proceeds and the redemption value is recognized in the profit and loss account over the term of the deposits using the effective yield method.

l. **Other payables**

Accrued expenses of deposit interest, salary, commissions, taxation, payment, fee, and insurance payables are classified by category valued as estimated or recognized amount in the record.

m. **Equity**

The amount of investment /shares/ to the paid up capital of the bank by its founders are classified as common and preferred shares, operation result or net changes on equity / gain, loss/ is classified as periodic and non periodic and recorded by their par/nominal value.





3. Figures of Financial Statement

1. Cash and cash equivalents

As of reporting day, cash and placements/deposits with the bank consist of cash on hand and deposits with foreign and domestic banks as well as the Bank of Mongolia.

/In thousands of MNT/

No	Items	In MNT	In USD	Total amount
1	Cash	1,282,908.70	1,814,365.90	3,097,274.60
2	Deposits with BOM	1 28,204.50	298,019.40	426,223.90
3	Deposits with domestic banks	1,084,540.80	2,906,194.20	3,990,735.00
4	Deposits with foreign banks		1,319,025.20	1,319,025.20
5	Deposits with non-bank financial institutions	1,193,403.90		1,193,403.90
	Total	3,689,057.90	6,337,604.70	10,026,662.60

2. Securities

Bill of the Bank of Mongolia, shares of "Tushig daatgal", "Aganist", "Alfa Omega" have been recorded in this chapter.

/In thousands of MNT/

No	Items	Nominal value	Provisions	Net value
1	Bill of BOM	998,719.10		998,719.10
2	Investment security	63,106.50	631.1	62,475.40
	Total	1,061,825.60	631.1	1,061,194.50

3. Loans

Outstanding loans recognized in the financial statements have fitted to the related accounting records and statements. Provision of probable loan losses was established by loan classification as of the reporting day.

/In thousands of MNT/

No	Classification	Outstanding loans	Percentage	Provisions of probable loan losses
1	Performing loan	36,006,428.80	94.3	360,064.30
2	Non-performing loan	2,144,620.10	5.7	1,049,664.30
	In-Arrears	718,766.20	1.9	35,938.30
	Substandard	538,304.20	1.4	215,321.70
	Doubtful	356,580.30	0.9	267,435.20
	Loss	530,969.40	1.5	530,969.40
3	Total	38,151,048.90	100	1,409,728.90





4. Other real estate owned

The Following properties are confiscated from "Munkh-Onich" LLC, "Ikon" LLC, "Altankhurd" LLC and "Uguumur Mandal" LLC for debt/repayment of principal loans and interests.

/In thousands of MNT/
As of December 31, 2004

Real Estate Owned	Price	Outstanding loans	Accumulated interest	Provisions
Building of "Munkh-Onich" LLC	76,999.70			38,999.70
48-household apartments	4,282.80			4,282.80
Building of "Ikon" LLC	159,910.30			1,599.10
Building of "Altankhurd" LLC	280,353.10		3,766.4	2,803.50
Building of "Uguumur Mandal" LLC	229,190.10			2,291.90
Property in Uvs province	4,289.10			1,715.60
Total amount	755,025.10		3,766.4	51,692.60

5. Fixed assets/ Property, plant and equipment

Buildings, furniture and fixtures and computers are stated at historical cost, depreciation calculated on the straight line basis that takes account of the proposed length of lifetime.

/In thousands of MNT/

Fixed Assets	First value	Life time /year/	Depreciation	Last value
Buildings	3,579,581.20	40	84,278.20	3,495,303.00
Computers, Equipments and cars	949,960.70	10	140,606.60	809,354.10
Furniture	1,279,326.30	5	137,586.10	1,141,740.20
Total amount	5,808,868.20		362,470.90	5,446,397.30
Fixed assets financing	319,843.90			

6. Intangible assets

Computer programs, anthem and movie of the bank are recorded as amount of MNT 225,053.5. It is not proper to record these items in the tangible assets chapter.

7. Other assets

/In thousands of MNT/

No	Items	Amount	Percentage
1	Receivables	256,035.10	10.2
2	Provisions of probable risks	-251,435.50	-10
3	Payment in advance	1,778,687.20	70.9
4	Travel advances	75.1	0
5	Materials	136,304.30	5.4
6	Accumulated interest	563,288.00	22.5
7	Other	25,023.30	1
	Total	2,507,977.50	100





8. Current accounts

Current account balance as of reporting day increased by 16.5% and reached MNT 1,424.0 million.

/In thousands of MNT/

2004.12.31	2003.12.31	Changes	Percentage
10,003,518.50	8,579,521.8	1,423,996.7	16.5

9. Deposits

Demand deposits increased by MNT 1,133.4 million, time deposits increased by MNT 4,073.8 million.

/In thousands of MNT/

Type	2004.12.31	2003.12.31	Changes	Percentage
Demand deposit	2,238,574.90	1,105,154.20	1,133,420.70	2.02 times
Time deposit	23,505,200.10	20,158,620.60	4,073,779.50	120.2
Total	26,470,975.00	21,263,774.80	5,207,200.20	124.5

10. Loans from banks and financial institutions

Loans from BOM /MNT 3,209.2 million/, Agricultural Bank /USD 2.0 million/, XasBank /USD 1.0 million/ and Post Bank /USD 0.5 million/ are recorded in the balance sheet.

/In thousands of MNT/

Items	2004.12.31	2003.12.31
Loans from BOM	3,209,220.0	1,000,000.0
Deposits of other banks	4,231,500.0	4,440,565.3
Total	7,440,720.0	55,440,565.3

11. Other loans

/In thousands of MNT/

Types	2004.12.31
Letter of Credit	275,850.5
Project loan financing	6,026,381.9
Total	6,302,232.4

12. Other payables

Goods purchased on credit, service payable, accrued payable on loan interests, payables on tax, payables on social and health insurance commission, fee, inter-branch account, and delay of clearing transfer are recorded in this chapter. Payables are valued by the recognized amount of payment.

/In thousands of MNT/

Types	2004.12.31	Percentage
Payables	54,902.5	5.7
Accumulated interest payables	887,956.8	92.7
Clearing provisional account	14,568.7	1.6
Total	957,428.0	100



13. Equity

Equity capital is composed of common shares, preferred shares, profit and reserve fund. Equity capital is recorded as its par/nominal value. In the reporting year, equity capital has increased by MNT 1108.2, reaching MNT 5157.3 by shareholders, showing that it meets the requirements of paid in capital of commercial bank as defined by the bank of Mongolia.

/In thousands of MNT/

Shareholders	Common Stock	Preferred Stock	Total
"Oi Mod"JSC	2,013,960.50	762,000.00	2,775,960.50
"Mon Agro"JSC	78,524.40	86,000.00	164,524.40
D.Batbayar	1,016,206.00	152,000.00	1,168,206.00
K.Yoshida	200,096.10		200,096.10
U.Dorjderem	506,151.00		506,151.00
N.Altantsetseg	342,349.80		342,349.80
Total	4,157,287.80	1,000,000.00	5,157,287.80

/In thousands of MNT/

Items	2004.12.31	2003.12.31	Changes
Stock	5,157,287.80	4,049,075.80	1,108,212.00
Retained earnings	464,382.70	673,568.90	-209,186.20
Provisions	4,965.30	4,965.30	0
Social Development Fund	5,218.60	146.2	5,072.40
Total	5,631,854.40	4,727,756.20	904,098.20

14. Income, expenditure and output

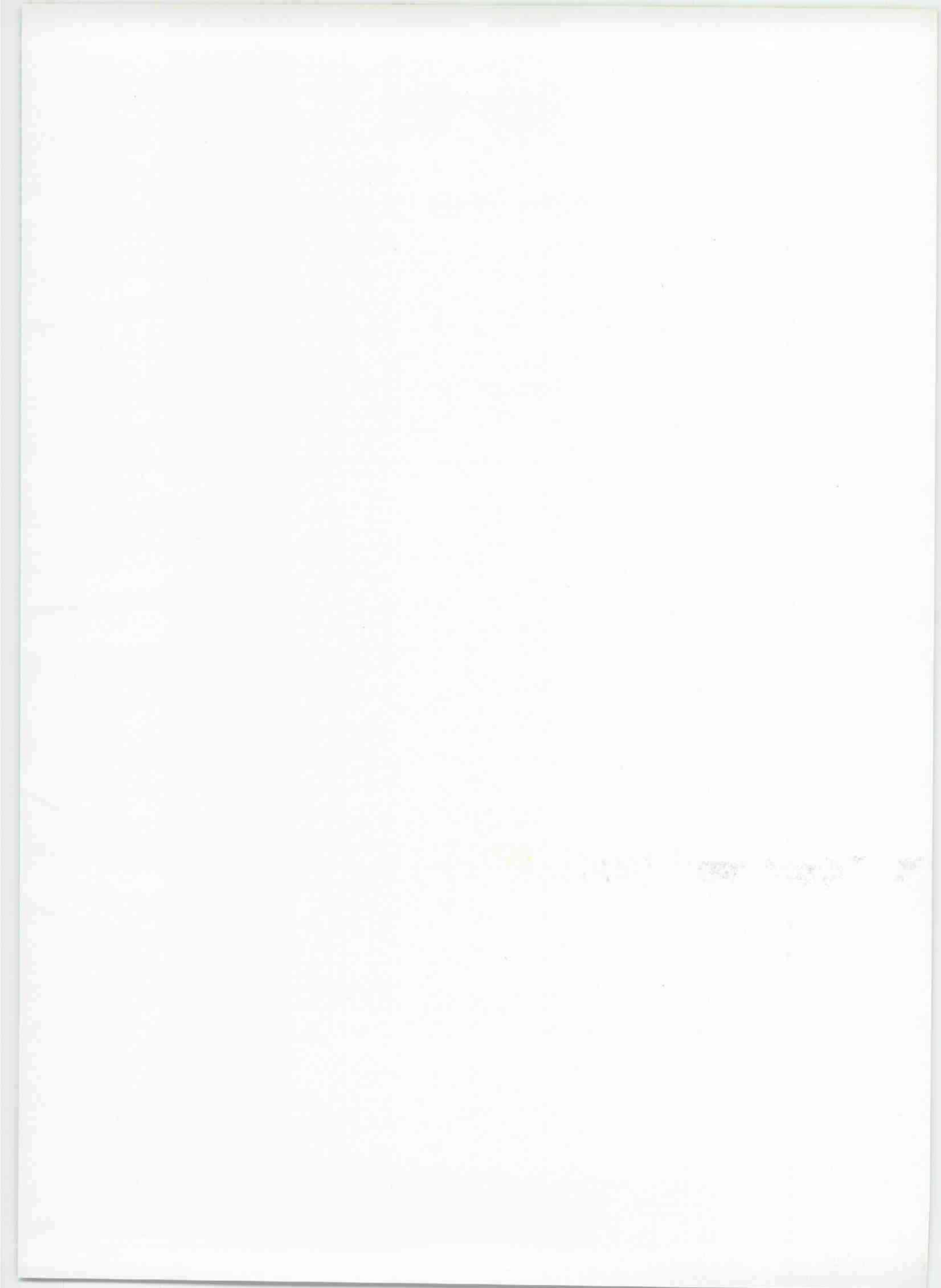
In the fiscal year of 2004, the bank's interest income reached MNT 8,091.9 million. Income from Bank of Mongolia's bonds and transactions with other commercial banks reached MNT 79.8 million, MNT 90.3 million from foreign currency exchange, MNT 289.0 million from commission fee, 218.0 million from other and with total income of 8738.8 million. MNT 4,135.8 million incurred for interest expenses, MNT 2,695.mln incurred for non-interest expenses, MNT 1,108.3 million incurred for depreciation expenses, 94.4 million incurred for non-operating expenses and with total expense of MNT 8,034.4 million incurred. The total revenue recorded before tax of MNT 704.4 million, of which income taxes of MNT 240.0 million were paid to the state budget and made net profit of MNT 464.4 million.

15. Prudential ratios

As of reporting day, Zoos Bank has fulfilled the requirements set forth by the Bank of Mongolia and it had demonstrated prudential ratios such as capital adequacy ratio, liquidity ratio and foreign currency exposure at a certain level.

Indicators	2003.12.31	2004.12.31
Capital adequacy ratio \geq 10%	14.26%	11.22%
Liquidity ratio \geq 18%	28.89%	19.60%
Foreign currency exposure \pm 20%		32.30%
Equity/Loan \leq \pm 20%	18.30%	15.30%
Single borrower exposure $<$ 20%	15.86%	17.17%
Insider exposure $<$ 20%	9.16%	7.06%







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