



**TRADE & DEVELOPMENT BANK
OF MONGOLIA**

2001
ANNUAL REPORT



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**TRADE & DEVELOPMENT
BANK OF MONGOLIA**

2001 ANNUAL REPORT



The Best Bank of the year 2001, Mongolia
The Banker . . .

**HIGHLIGHTS**

	2001	2000
Indicators	MNT, mln.	MNT, mln.
Total income	16,415.5	16,101.9
Total expenses	7,157.3	4,930.5
Profit before taxation	9,258.2	11,171.4
Taxation	4,359.4	4,573.9
Net profit	4,898.8	6,597.5

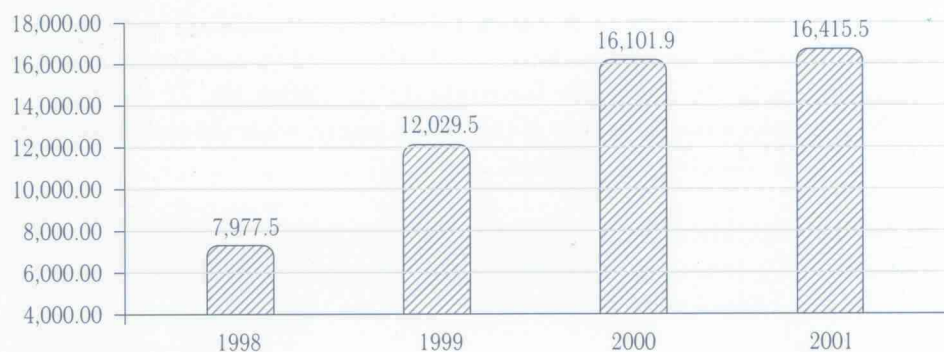
	2001	2000
Balance sheet	MNT, mln.	MNT, mln.
Total assets	111,782.1	97,409.9
Loan and advance /net/	33,347.8	21,005.2
Total deposits from customers	94,164.4	77,980.6
Risk weighted assets	124,474.7	98,585.3

Indicators	2001	2000
Return on equity	68.5%	111.4%
Return on assets	4.4%	6.8%
Total expenses and income ratio	43.6%	30.6%

Prudential ratios	2001.12.31	2000.12.31
1. Tier 1 Capital adequacy ratio $\geq 5\%$	12.7%	27.7%
2. Capital adequacy ratio $\geq 10\%$	15.7%	35.9%
3. Liquidity $\geq 18\%$	62.4%	77.4%
4. Foreign currency exposure $< \pm 40\%$	31.4%	16.3%
5. Single borrower exposure / Capital funds $< 20\%$	20.7%	16.0%
6. Staff loans / Capital funds $< 5\%$	0.5%	0.2%

	2001	2000
Total staff	363	323
Of which:		
Head office	239	211
Branches	124	112

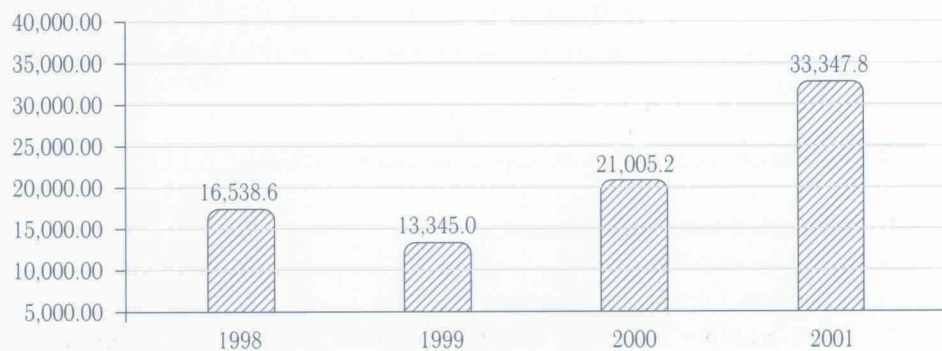
TOTAL INCOME /MNT, million/



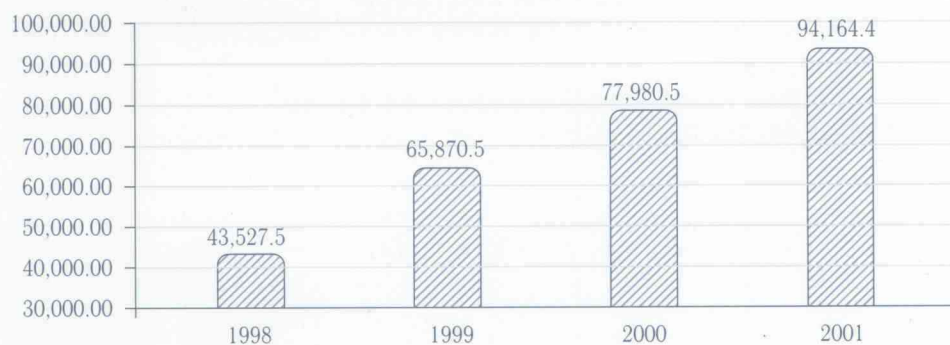
TOTAL ASSETS /MNT, million/



NET LOANS /MNT, million/



TOTAL DEPOSITS FROM CUSTOMERS /MNT, million/



BRIEF HISTORY OF THE BANK

The Trade and Development Bank of Mongolia (TDBM) was established and started its commercial banking operations in 1990, under the Decree No.3/19, issued by the Chairman of the former State Bank in compliance with the Mongolian Government's Resolution No. 71 of 1990. As of today, the Government of Mongolia owns 76 percent of the Bank's equity, while the remaining 24 percent belongs to TDBM's employees and other shareholders.

During the last 11 years, from 1991 to the end of 2001, the Bank's overall turnover reached MNT 33.1 trillion, increasing 30.1 times, and total assets and deposits rose 11.4 and 53.5 times respectively, reaching MNT 111.8 billion and MNT 94.2 billion.

Trade and Development Bank of Mongolia is the largest commercial bank in Mongolia holding the leading position on the financial and banking market in terms of the major indicators such as its contribution to the economy, liquidity position, capital adequacy, service quality and the scale of its operations. As of the end of 2001, the Bank held 33.6 percent of the total assets, 67.0 percent of the total foreign assets, 42.4 percent of deposits and 26.0 percent of total loans outstanding in Mongolia's banking sector.

As of the end of 2001, the Bank employed 363 people and conducted its operations with a rural network of 8 branches, 7 settlement centers and a cashier office. In addition to the Head office, this included 3 branches and 4 settlement centers in Ulaanbaatar; branches in Dornod, Selenge, Darkhan-Uul, Orkhon and Dornogov aimags; settlement centers in Zamiyn Uud soum of Dornogov aimag, Zuunkharaa soum of Selenge aimag and Darkhan soum of Darkhan-Uul aimag; and a cashier office in Altanbulag soum of Selenge aimag.

The Bank is now conducting on-lending project financing operations for its customers under loan facilities extended to the Government of Mongolia by the World Bank and the German Government. Moreover, the Bank is offering accounting and settlement services for inter-governmental loans from China, South Korea and India.

TDB has been awarded with a number of accolades including:

- 1997 - "Reliable Customers' Partner"
- 1999 - "Reliable Tax Payer"
- 1999 - "The Best Company of Year "
- 2000 - "The Best Payer of Social Insurance Contributions"
- 2001 - "The Best Bank of Mongolia in 2001" awarded by "The Banker"
- 2001 - "New market development award" awarded by VISA International for a successful launching of card services over a short term.
- 2001 - "For Mongolia-Award" by Development Kyokushuzan foundation for contributions to the economy
- 2001 - "The Best Payer of Social Insurance Contributions"
- 2001 - "Reliable Tax Payer"



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MESSAGE FROM CEO



S. Monhbat Chief Executive Officer

Dear Ladies and Gentlemen,

I am pleased to present to you the Annual Report of the Trade and Development Bank of Mongolia for 2001.

The past 2001 was a successful year for both the national economy and the Bank.

Despite a relatively low growth of GDP in 2001, there were signs of positive improvements at the macro-economic level, namely the reduction of the budget deficit, a stable exchange rate of MNT against USD, and an increase in foreign reserves.

The emergence of newly established commercial banks and non-bank financial institutions with foreign investments has led to increased competition on the domestic financial market. In spite of this challenge, we have been able to preserve our Bank's reputation and its leading position on the domestic financial market by focusing our attention on the improvements in risk management and liquidity. As of the end of this fiscal year, our

Bank held 33.6 percent of the total banking assets, 67.0 percent of total foreign assets, 42.4 percent of total deposits, and 26.0 percent of net loans in the sector.

The Government of Mongolia proclaimed 2001 as the year for promoting national industries, and this encouraged the Bank to focus its credit policy primarily on support to real sector development, especially in financing of industrial production. Under this policy, the Bank implemented two targeted actions - lowering the interest rates on loans in parallel with the expansion of loan disbursements. As a result, loan disbursements almost doubled, reaching MNT 86.6 billion, compared with the level of 2000. Despite a significant decline in deposit rates on the international market, the Bank has been able to increase its interest rate income by undertaking an expansionary credit policy. On the other hand, interest rates on loans in national and foreign currencies declined by 7.2 points and 1.2 points respectively, compared with the previous year. In line with the Government's policy to promote production and exports, the Bank has also developed a new system aimed to finance gold mines and the copper industry with relatively low interest rates by establishing a system of credit risk ratings.

As mentioned above, the Bank's primary attention was focused on financing industries which contribute significantly to the economy of our country, and operate in such sectors which are supported by the Government's policies. These industries are represented by gold, copper and fluorspar mines, cashmere production, meat exports, flour mills, petroleum imports, energy, transport and communication sectors. Many of them maintain a stable relationship with our Bank. The total loans TDBM disbursed to the industrial sectors in 2001 comprised 62.9 percent of all loans financed by domestic sources.

In 2001, the Bank introduced financial derivatives, such as options, swaps, and forward transactions, which made it possible for our clients and other commercial banks to trade on the international money market. It is also worth noting that our Bank started to purchase gold from business entities, and this type of service should become a good source for future income for the Bank.

Being selected and operating as an implementing agency for SME Credit Programs offered by the Government of the Federal Republic of Germany and by the World Bank's International Development Association, TDBM disbursed medium and long-term loans in the amount of DM 4.7 million to 8 entities, and USD 996.2 thousand to 6 entities in 2001.

As a result of the Bank's focus on improving the quality of the loan portfolio and recovery of non-performing loans, the outstanding non-performing loans declined by 12.3 percent compared with the previous year, while bad loans have been reduced by 39.0 percent.

During the last year, changes in the Bank's internal organizational structure were introduced, in line with market trends and the Bank's future development targets. The Bank also employed newly revised regulations and instructions for conducting gold, forex and credit operations.

The financial statements of the Bank for 2001 were audited by the internationally known company "Ernst & Young."

In 2001, the Bank experienced many remarkable and important events, including the "The Best Bank of Mongolia in 2001" Award granted by "The Banker," and membership in "VISA International." We have been able to arrange in a very short period all necessary actions to launch this card service in Mongolia.

I am pleased to outline this event as recognition of our achievements and the Bank's reputation at both domestic and international levels.

Taking this excellent chance to present achievements of the Bank in 2001, I would like to extend my sincere gratitude to our shareholders, management and staff of the Bank, as well as to our customers for their trust and mutually beneficial cooperation.

Let me express again my sincere wishes to all of you for further strengthening of our achievements through expansion of our cooperation to benefit from each other and overcome difficulties on the way to our common goal "Let's grow together."

Sincerely,



S. Monhbat
Chief Executive Officer

MOTTO**LET'S GROW TOGETHER !****VISION**

Trade & Development Bank of Mongolia will be the leading and most reputable universal commercial private bank in the financial market of Mongolia. This vision of the Bank will be determined by its reliability, customer orientation, competitive products and services, professionalism of its staff and the sustained profitability from its operations.

STRATEGIC GOALS

Maintain and strengthen
market position

Expand market share by imple-
menting market driven innovations

Lessen government
ownership

In order to achieve its vision, the Bank will conduct the following strategies by adapting itself to the changes and developments in the external environment, by strengthening its existing advantages, while searching for new advantages, and lessening its weaknesses:

Strategies

▶ Privatize the Government's share in the Bank in accordance with the overall privatization policy

▶ Improve the Bank's organizational structure to meet its strategic goals

▶ Improve Human Resource Development Policies in line with international standards and conduct staff training to meet the strategic goals of the Bank

▶ Develop the Bank's information technology in line with international standards

▶ Improve the Bank's risk management

▶ Enhance the customer base by attracting more mid-level customers, while retaining reliable and larger customers

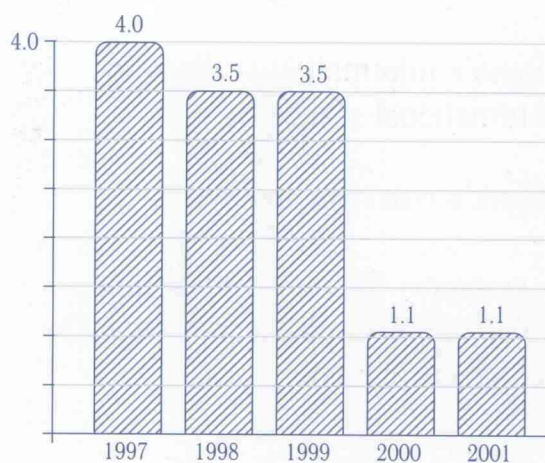
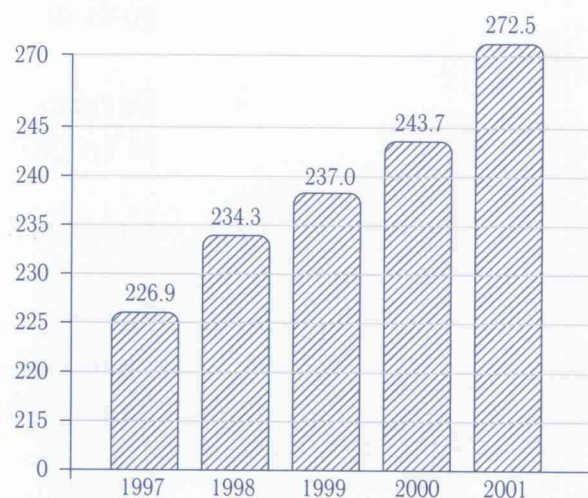
▶ Diversify the Bank's products and services to meet the growing demands of customers

▶ Establish new branches and settlement centers in regions with dynamic economic activities and developed infrastructure

MONGOLIAN ECONOMY IN BRIEF

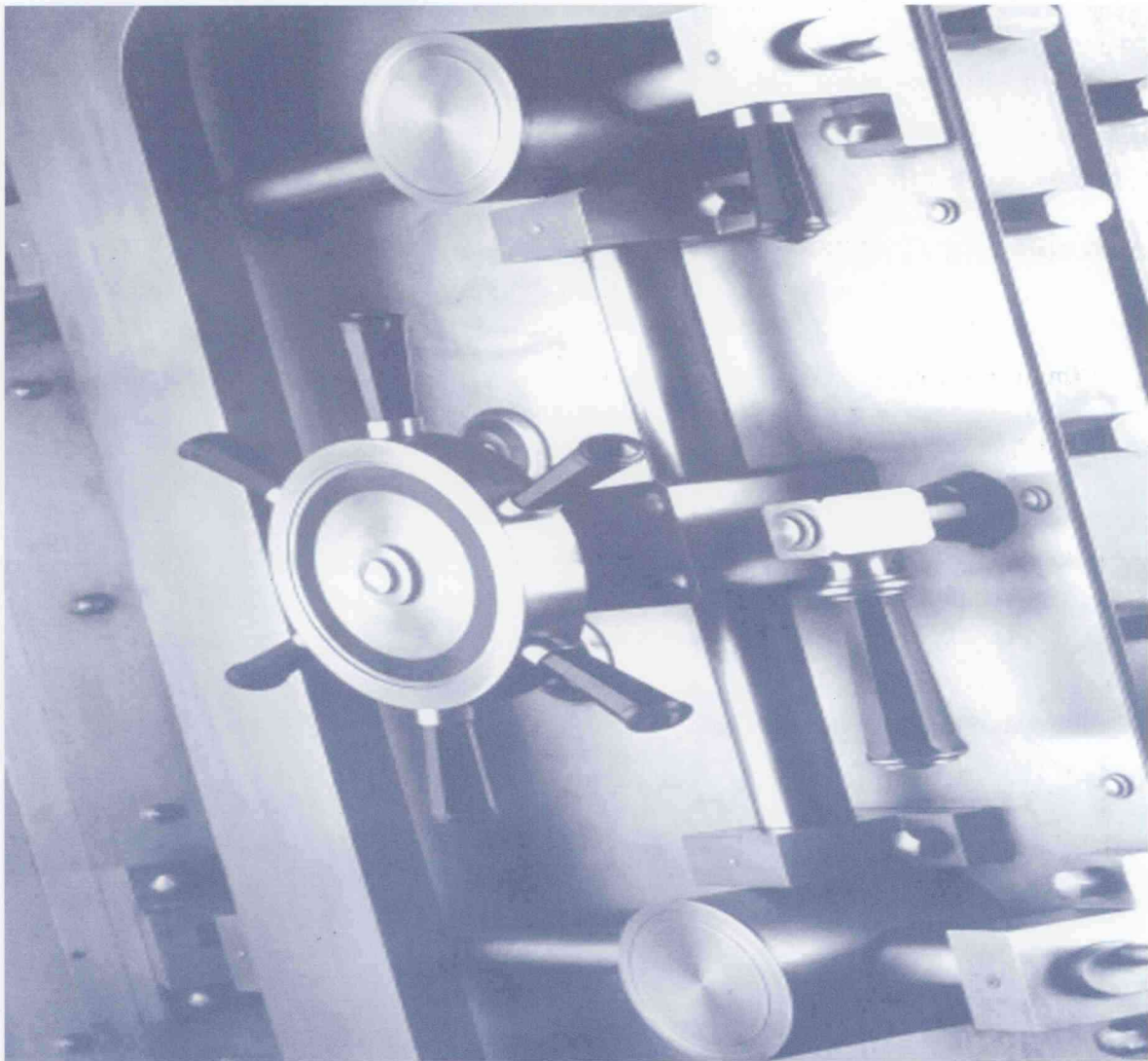
	2001*	2000
GDP /MNT/	MNT 1,130.5 billion	MNT 1,040.0 billion
GDP /USD/	USD 1,029.95 million	USD 950.8 million
GDP growth	1.1 %	1.1 %
Percentage of budget deficit in GDP	14.7 %	6.1 %
Percentage of assets of commercial banks in GDP	29.4 %	21.7 %
Inflation	11.2 %	8.1 %
External trade turnover	USD 940.0 million	USD 1,006.5 million
Export	USD 385.2 million	USD 432.3 million
Import	USD 554.8 million	USD 574.2 million
Livestock	26.1 million	30.1 million
Unemployment rate	4.7 %	4.5 %

* Preliminary estimates

GDP GROWTH /%/

INDUSTRIAL OUTPUT /1995 constant prices, MNT, billion/

INFLATION RATE /%/




THE BANKING SYSTEM





THE BANKING SYSTEM

As of the end of 2001, 15 commercial banks were operating in Mongolia, represented by 6 state-owned and 9 private banks, and 26 non-banking institutions.

The signs of social and economic stabilization in our country and the increasing recovery of public confidence in the banking sector were positive influences to overcoming the banking sector crisis.

In order to develop a healthier and a more competitive financial sector, the Bank of Mongolia conducted a policy of expanding the role of non-bank financial institutions in the financial sector by creating a proper legal environment for their operations. As a result, a number of newly established domestic and non-bank financial institutions, with foreign investment, started their operations.

In addition to this, the Bank of Mongolia has issued licenses to three new commercial banks. This action helped to increase competition in the financial market, and thus created more favorable conditions for business activities.

The establishment of a new banking institution, with foreign investment, was one of the major events in the banking system of Mongolia in 2001. This event is significant because it was the first investment from abroad to come to Mongolia since the establishment of the new banking system of the country.

In order to sustain social and economic development, and especially to promote a healthier banking and financial environment, the Government of Mongolia has submitted to the Parliament guidelines for privatization of directly and indirectly state-owned commercial banks. According to these guidelines, preparatory work has been initiated to carry out the privatization of wholly and partially state-owned commercial banks, and some of this work is nearly completed.

In 2001, the Bank of Mongolia paid close attention to keeping the national currency stable, and by end of the year the exchange rate of Tugrug against US dollar was MNT 1,102. The exchange rate has been stable, at around MNT 1,100 since the end of 2000.

Net foreign exchange reserves at the Bank of Mongolia rose to USD 162.1 million, increasing by 15.2 percent compared with the pervious year, and it now equals 15.2 weeks of Mongolia's import needs.

Compared with the same period of the previous year, savings deposits in the national currency increased by 48.4 percent or MNT 28.6 billion, while foreign currency deposits rose by 40.0 percent or MNT 13.3 billion. Overall, deposits in both national and foreign currencies increased by 45.2 percent over the previous year's level, which reflects an increase of public confidence in banks and the deepening of their financial intermediary functions.

Structure of Banking Assets

As of December 31, 2001, bank reserves consisted of 10.4 percent of the total assets of the banking system, Central Bank Bills - 15.0 percent, foreign assets - 15.7 percent, claims on Government - 9.8 percent, net loans to corporate and individual customers - 38.5 percent and other assets - 10.6 percent.

By the end of 2001, Central Bank Bills held by banks increased by 117.4 percent or by MNT 26.8 billion, bank reserves rose by 8.2 percent or by MNT 2.6 billion, net outstanding loans increased by 135.4 percent or MNT 73.7 billion, other assets grew by 54.1 percent or MNT 12.4 billion compared with same period of the previous year, while foreign assets declined by 1.8 percent or MNT 0.97 billion, and claims on Government decreased by 19.0 percent or MNT 7.6 billion.

2001
ANNUAL REPORT**Assets**

Consolidated balance sheet of commercial banks /MNT, million/

	2001	2000	Change %
Bank reserves	34,606.2	31,996.4	8.2
Central bank bills	49,674.9	22,846.7	117.4
Foreign assets	52,338.6	53,313.0	(1.8)
Claim on Government	32,457.8	40,059.5	(19.0)
Outstanding loans /net/	128,211.4	54,475.9	135.4
Other assets	35,442.1	23,000.6	54.1
Total assets	332,730.9	225,692.1	47.4

Structure of Liabilities and Capital

As of December 31, 2001, the share of the banking sector's liabilities that were current accounts was 26.2 percent, savings deposits - 40.5 percent, foreign liabilities- 2.7 percent, Government deposits- 10.8 percent, and other liabilities- 5.7 percent.

Compared with the same period of the previous year, savings deposits in the national currency increased by 48.4 percent or MNT 28.6 billion, while foreign currency deposits rose by 40.0 percent or MNT 13.3 billion. The doubling of national currency deposits over foreign denominated deposits is evidence that public confidence in the domestic currency is returning.

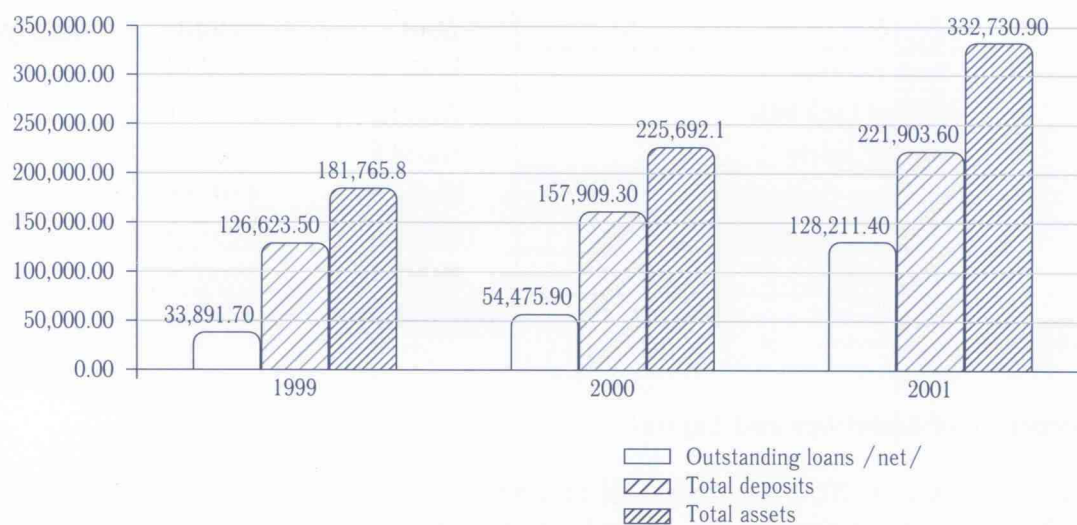
Compared with 2000, the capital of commercial banks has increased by 57.5 percent or MNT 17.2 billion in total, indicating improvement in commercial banks' performance. However, this improvement was largely due to the enforcement of an increase to minimum capital requirements to MNT 2.0 billion from the second half of 2001, and the emergence of new commercial banks.

Liabilities and capital

Consolidated balance sheet of commercial banks /MNT, million/

	2001	2000	Change %
Current accounts	87,296.2	65,223.1	33.8
In domestic currency	46,994.6	29,841.5	57.5
In foreign currency	40,301.5	35,381.5	14.0
Deposits	134,607.4	92,686.2	45.2
In domestic currency	87,590.4	59,004.3	48.4
In foreign currency	47,017.1	33,681.9	40.0
Foreign liabilities	8,823.9	5,866.2	50.4
Deposits of Government	35,926.8	24,607.1	46.0
Other liabilities	18,903.6	7,362.0	157.0
Total liabilities	285,557.9	195,744.5	46.0
Capital funds	47,173.0	29,947.6	57.5
Total liabilities and capital funds	332,730.9	225,692.1	47.4

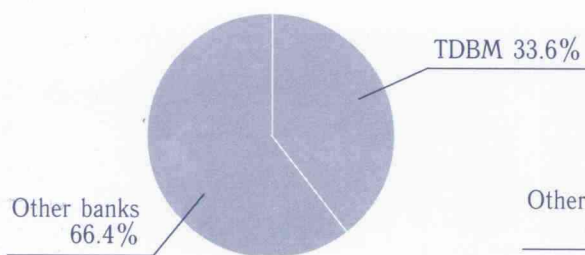
Key figures of the Banking system /MNT, million/



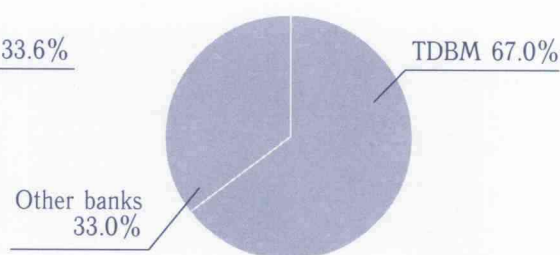
Market share of the Bank as of 31 December 2001 is as follow:

Commercial banks	Total assets (%)	Current and saving accounts (%)	Total outstanding loans /net/ (%)	Foreign assets (%)
Trade & Development bank of Mongolia	33.6	42.4	26.0	67.0
Others	66.4	57.6	74.0	33.0

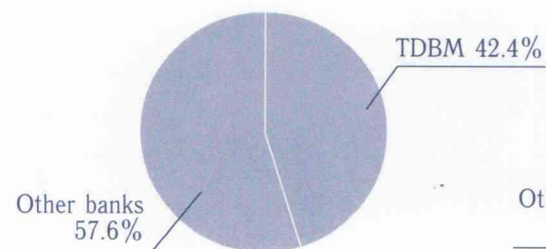
Total assets



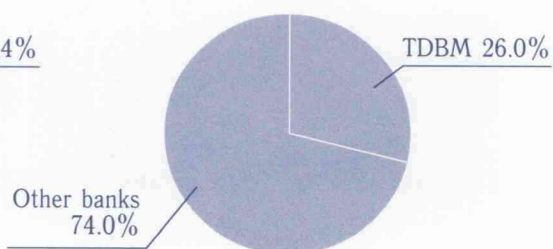
Foreign assets



Current and saving accounts



Outstanding loans



BALANCE SHEET OF THE BANK



“For Mongolia-Award” by Development
Kyokushuzan foundation for contribution to
economy

BALANCE SHEET OF THE BANK

As of the end of the fiscal year of 2001, the Bank's total assets reached MNT 111,782.1 million, increasing by 14.8 percent or MNT 14,372.2 million over the previous year.

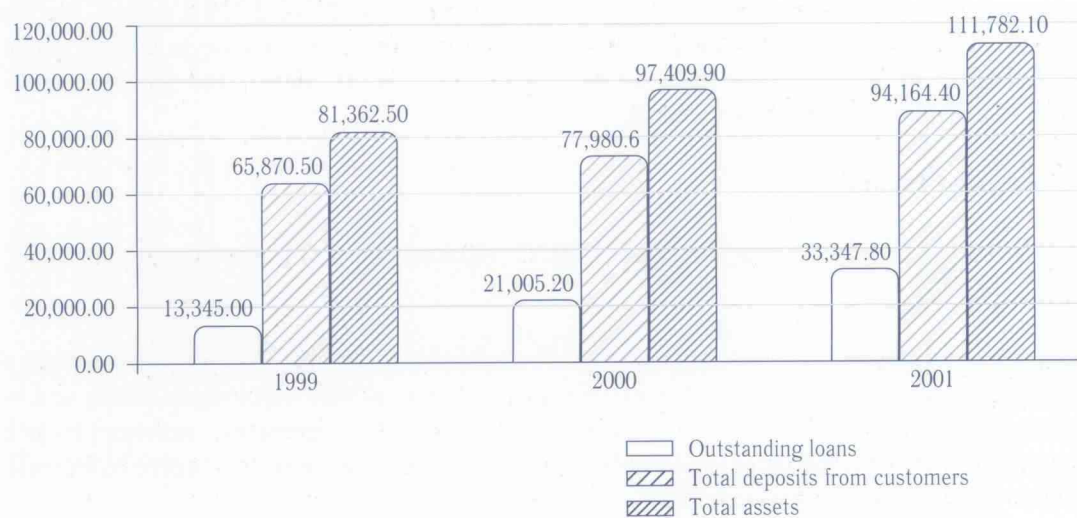
In order to improve asset management and support the business sector, the Bank raised the share of loans in its total assets. As a result, loans outstanding as of the end of 2001 increased by 59.0 percent or MNT 12,342.6 million compared with the same period of the previous year.

Due to the decline in deposit interest rates on the international market in 2001, the Bank has maintained a policy to improve its return on assets by allocating its assets into higher income assets such as Government securities and Central Bank Bills, while meeting the liquidity requirements set by the Central Bank. As a result of this policy, the Bank's assets in securities increased by 63.3 percent, reaching MNT 26,761.4 million, while foreign assets were reported at MNT 35,078.1 million, declining by 10.0 percent from the level in the previous year.

Savings and deposits of customers increased by 20.75 percent or MNT 16,183.8 million over 2000. The reduction of other liabilities of the Bank in 2001 was due to the payment of MNT 564.7 million in taxes.

	2001	2000	Change
	MNT '000	MNT '000	%
Assets			
Cash and short term funds	7,911,306	13,074,746	(39.5)
Deposits and placements with other financial institutions	35,078,078	38,921,400	(10.0)
Investment in securities	26,761,404	16,390,466	63.3
Loans and advances /net/	33,347,800	21,005,164	59.0
Government bonds	395,594	866,749	(54.3)
Other assets	837,075	379,974	120.3
Property, plant and equipment	7,450,861	6,771,411	10.03
Total assets	111,782,118	97,409,910	14.8
Liabilities			
Deposits from customers	94,164,393	77,980,552	20.75
Deposits and placements of other financial institutions	2,632,157	1,501,424	75.3
Loans from foreign financial institutions	3,659,213	3,549,352	3.1
Divident payable	410,880	-	-
Other liabilities	81,568	633,985	(87.1)
Total capital fund	10,833,907	13,744,597	(21.2)
Total liabilities and capital fund	111,782,118	97,409,910	14.8

Key figures of the balance sheet /MNT, million/



Financial Results

In 2001, TDBM recorded total income of MNT 16,415.5 million and total expenses of MNT 7,157.3 million. Income tax payments reached MNT 4,359.4 million and profit after taxation amounted to MNT 4,898.8 million.

Key figures of financial results

	2001	2000	Change
	/MNT, mln/	/MNT, mln/	%
Total income	16,415.5	16,101.9	1.9
Total expenses	7,157.3	4,930.5	45.2
Profit before taxation	9,258.2	11,171.4	(17.2)
Taxation	4,359.4	4,573.9	(4.7)
Profit after taxation	4,898.8	6,597.5	(25.8)

Total Income

In 2001, the Bank's total income reached MNT 16,415.5 million, an increase of 1.9 percent or MNT 313.6 million over the level of 2000.

Total expenses

In the reporting year, total expenses increased by 45.2 percent or MNT 2,226.8 million, reaching MNT 7,157.3 million. Increase in total expenses was caused mainly by an increase in interest payments by MNT 1,081.7 million, an additional provisioning of MNT 427.0 million, and an increase in human resource expenses of MNT 584.7 million.

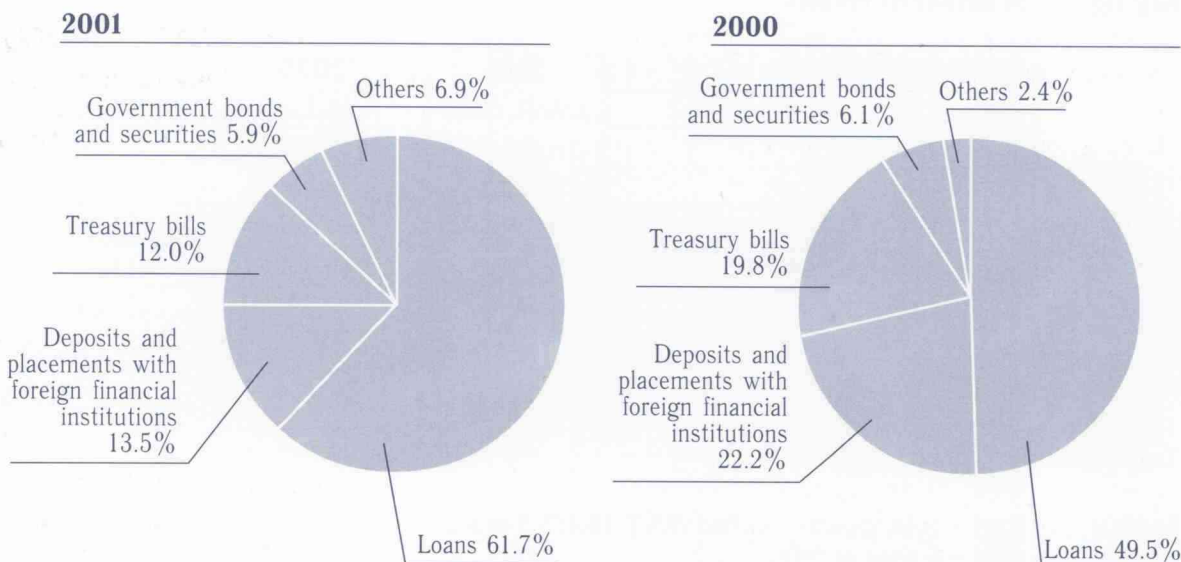
Net Interest Income

The Bank's net interest income decreased by MNT 440.4 million or 5.2 percent, reaching MNT 8092.3 million in 2001.

USD deposit rates on the international market declined and competition on the domestic financial market intensified, as a result of the establishment of new private commercial banks and non-bank financial institutions, and interest rates on loans and treasury bills decreased. Although these negative factors have narrowed the Bank's net interest margin, the Bank managed to increase its interest income by expanding its loan disbursements.

In the reporting year, the bank's lending rate in local and foreign currencies decreased by 7.2 points and 1.2 points respectively, deposit rates on the foreign market declined by 3.5 points and the treasury bill rate decreased by 4.4 points compared with average rates in 2000.

Interest income structure



Interest Expense

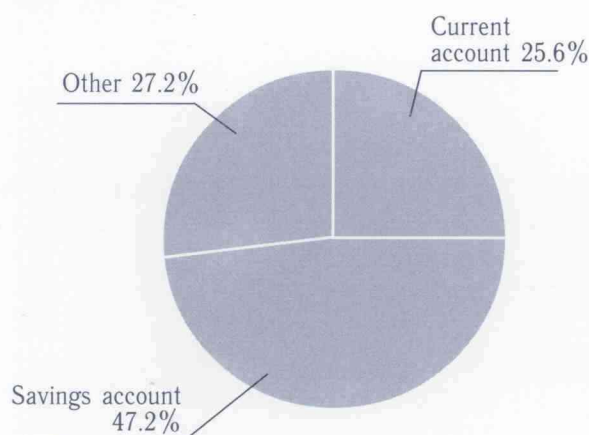
As a result of an increased number of customers and higher balances on their deposits, interest expenses increased by 70.8 percent or MNT 1,081.7 million compared with the previous year.

In the reporting year, the balance on current and savings accounts increased by 20.75 percent or MNT 16.2 billion.

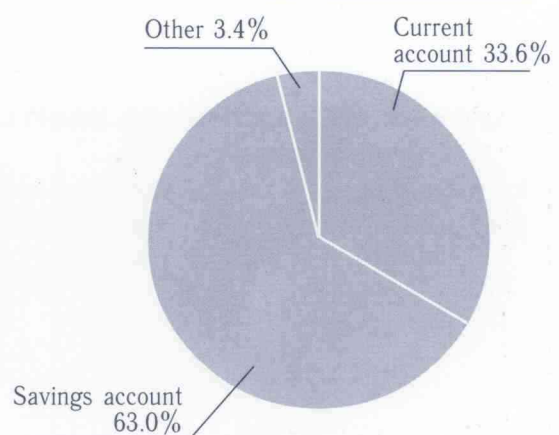
The increase in other expenses in 2001 was due to the recording of "internal interest" payments on branch financial statements of MNT 631.2 million on the deposits held with the Head office.

Interest expense structure

2001



2000



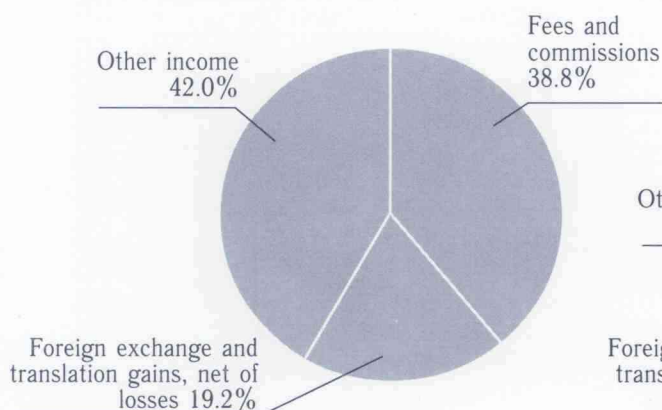
Non Interest Income

In the reporting year, the Bank's non-interest income reduced by 5.4 percent or MNT 327.7 million compared with the previous year. The decrease in non-interest income was caused mainly by a decline in other income of MNT 543.3 million.

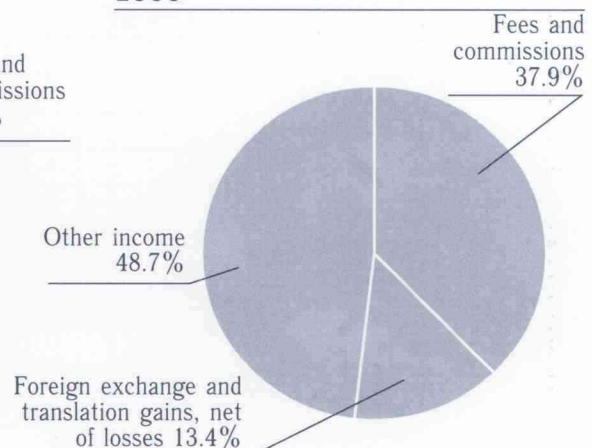
Although non-interest income has declined, the Bank has been able to make a profit of MNT 1.1 billion as a result of intensified foreign exchange operations.

Non interest income structure

2001



2000



Operating Expense

In 2001, the Bank's operating expenses increased by 21.5 percent or MNT 718.1 million. This increase was associated with recruitment of new staff for the expansion of the Bank's services and operations.

Provisions

Provisions were recorded at MNT 491.6 million, an increase of MNT 427.0 million compared with the previous year.

CAPITAL FUNDS, RETURN ON EQUITY

In 2001, the Bank's capital funds were reduced by 21.2 percent or MNT 2,910.7 million, due to a decline in retained earnings by 37.5 percent or MNT 3,410.7 million compared with 2000.

	2001	2000
	MNT'000	MNT'000
Statutory fund	2,000,000	1,500,000
Reserves	3,152,619	3,152,619
Retained earnings	5,681,288	9,091,978
Total capital funds	10,833,907	13,744,597

As of the end of 2001, the bank's capital adequacy ratio and risk weighted capital ratio were 12.7 percent and 15.7 percent respectively. The Central Bank's capital adequacy ratio minimum requirement was 10%.

	2001	2000
	MNT'000	MNT'000
Tier 1 capital	7,681,288	10,591,978
Tier 2 capital	1,798,025	1,672,150
Total capital	9,479,313	12,264,128
Risk weighted assets	124,474,675	98,585,255

	2001	2000
Core capital ratio	12.7	27.9
Risk weighted capital ratio	15.7	32.3

Key financial performance figures

	2001	2000
Return on equity	68.5%	111.4%
Return on assets	4.4%	6.8%
Total expense and income ratio	43.6%	30.6%

Compared to a year earlier, the Bank's ROA, ROE and the ratio of total expenses to total income were 4.4 percent, 68.5 percent and 43.6 percent respectively.

Deposits from Customers

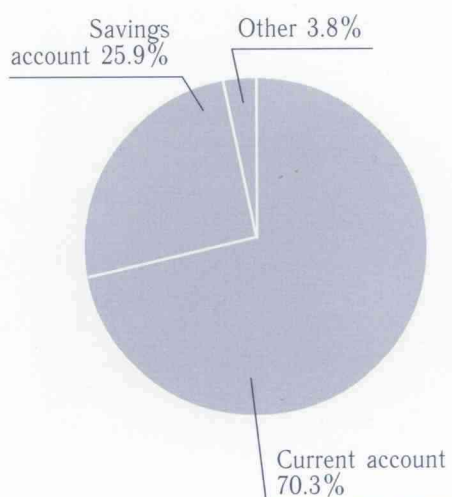
The Bank's deposits from customers increased by 20.8 percent or MNT 16,183.8 million, compared with the previous year, reaching MNT 94,164.4 million.

At the end of 2001, deposits were comprised of the following: 70.32 percent - current accounts of corporate and individual customers, 11.27 percent - personal savings, 14.58 percent - time deposits of individuals, and 3.83 percent - other deposits.

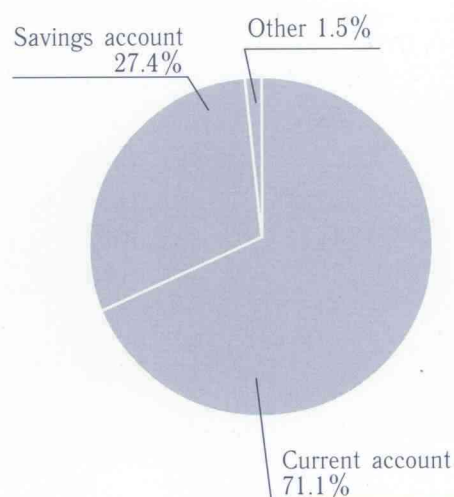
In the fiscal year of 2001, the Bank reduced its interest rates on tugrug time and savings deposits, while keeping those in US dollars unchanged. Despite this reduction, the Bank was able to increase deposits from customers by 13.8 percent or MNT 2.96 billion compared with the end of 2000.

Structure of deposits from customers

2001



2000



Prudential Ratios

During this reporting year, the Bank continuously met all six prudential ratios, set by the Bank of Mongolia for commercial banks. As of the end of 2001, these ratios were met by the Bank as shown in the table below:

№	Prudential ratios	2001.12.31
1.	Tier 1 Capital adequacy ratio $\geq 5\%$	12.7%
2.	Capital adequacy ratio $\geq 10\%$	15.7%
3.	Liquidity $\geq 18\%$	62.4%
4.	Foreign currency exposure $< +40\%$	31.4%
5.	Single borrower exposure / Capital funds $< 20\%$	20.7%
6.	Staff loans / Capital funds $< 5\%$	0.5%

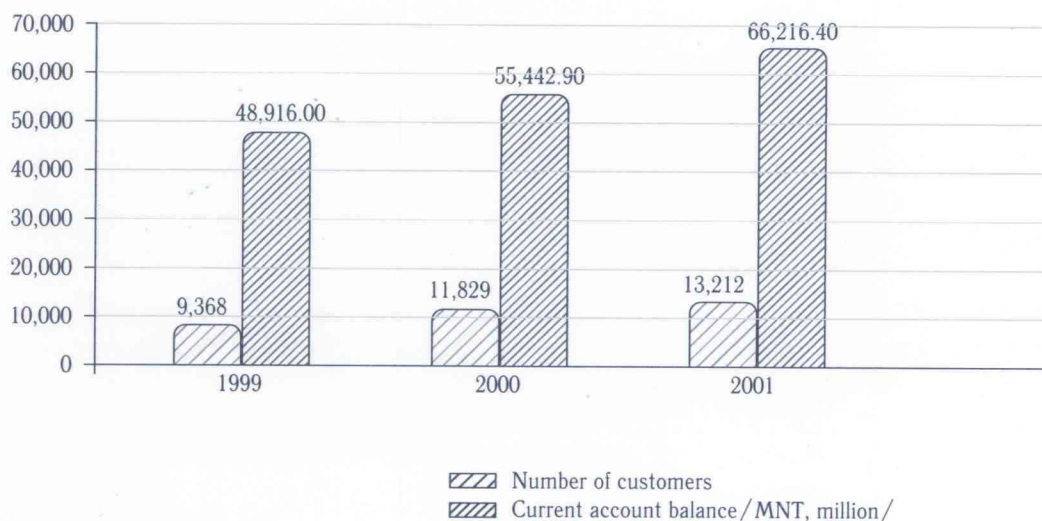
PRODUCTS AND SERVICES

In 2001, the banking sector of Mongolia was relatively stable while the competition within the sector increased considerably. In 2001, several foreign and domestically invested commercial banks and non-bank financial institutions were established and started their operations. In response, the Bank took initial steps to improve its managerial and organizational structure which resulted in a strengthened dominance in local markets. This was accomplished by focusing on strengthening financial and risk management, and maintaining intensive staff training policies.

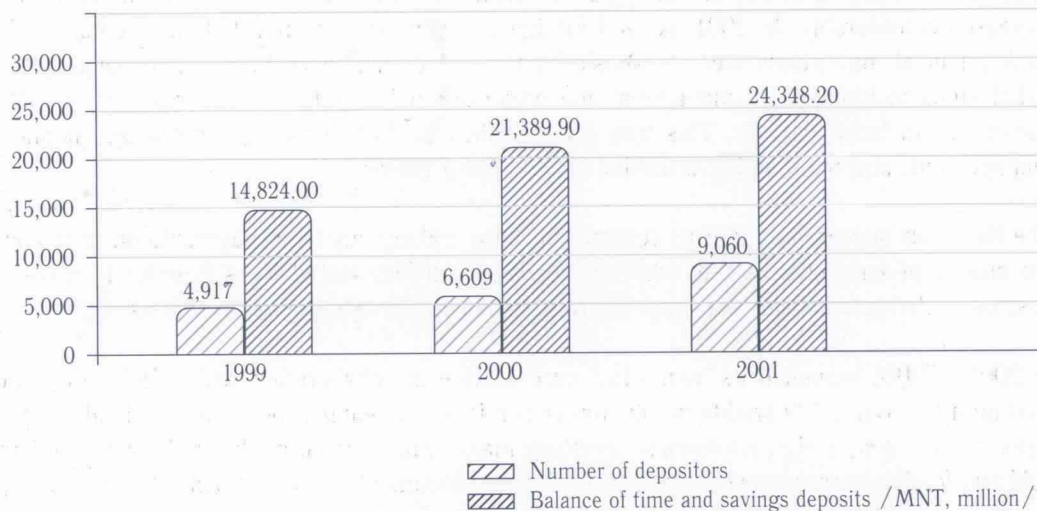
The Bank has successfully met its responsibility for making customer payments on time and improving the quality of services provided, while reducing certain fees and charges in order to support customer business activities, attract more new customers and retain existing customers as well.

In 2001, TDBM launched its own VISA card service in collaboration with VISA International, while continuing to render its traditional customer services, including deposit taking, lending, payment services in local and foreign currencies, servicing major international credit cards and travelers' cheques, gold and foreign currency exchanges, trade finance, documentary credits, collections, safe deposit boxes and the international money transfer service – MoneyGram.

CUSTOMERS



DEPOSITORS



As of the end of 2001, the number of corporate customers reached 10,189, individual customers 3023, and depositors 9060, which represents an increase of 8.0 percent or 784, 25.0 percent or 599 and 37.0 percent or 2451 respectively.

Besides extending financial services to 22,272 customers through more than 25,000 current and deposit accounts, the Bank carried out foreign transactions for its customers through 141 banks in 30 countries using the SWIFT network.

CREDIT ACTIVITIES

Credit policies

The decision of the Government of Mongolia to proclaim 2001 as the year for promoting national industries encouraged the Bank to focus its credit policy on financing the real sector, especially in support of industrial production and the manufacturing sector. In line with this policy, the Bank has focused on two goals in its policy actions - lowering interest rates on loans while increasing loan disbursements. As a result, the Bank's loan disbursements have almost doubled, reaching MNT 86.6 billion, while repayment of loans increased by 83.6 percent, reaching MNT 75.1 billion, and net loans rose by 58.8 percent, reaching MNT 33.3 billion compared with those in 2000.

The Bank lowered its rates on loans in local and foreign currencies by 7.2 and 1.2 points respectively. In line with the Government's policy to promote production and exports, the Bank has also developed a new system aimed at financing gold mines and the copper industry with relatively low interest rates by establishing credit risk ratings on these companies.

As a result of specific attention and actions to enhance credit risk management, to improve credit monitoring and control, timely repayment of loans, recovery of non-performing loans, and to improve the loan portfolio, the Bank has been able to reduce its non-performing loans by 12.3 percent or MNT 804.3 million, including a 39 percent decline in bad loans.

As mentioned above, the Bank's primary attention was focused on financing industries which contribute significantly to the economy of our country, and operate in such sectors which are supported by Government policies. These industries are represented by gold, copper and fluorspar mines, cashmere production, meat exports, flour mills, petroleum imports, energy, transport and communication sectors, and many of them maintain a stable relationship with our Bank.

In 2001, the Bank disbursed loans to eight borrowers in the total amount of DEM 4.7 million under a bilateral Credit Program concluded between the Government of Mongolia and the Government of the Federal Republic of Germany in 1995, for development of SMEs.

In addition, the Bank disbursed medium and long-term loans to six borrowers in the amount of USD 996,200 under the Private Sector Development Credit extended by the International Development Association of the World Bank to the Government of Mongolia in 1999.

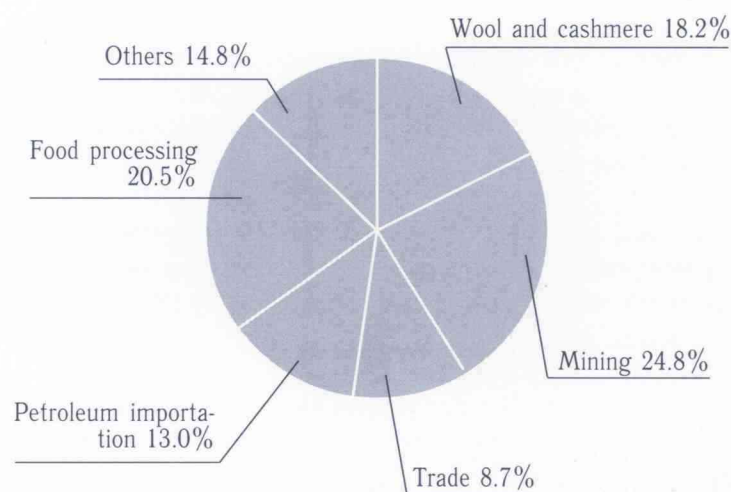
While on-lending these loans from international financial institutions to the Bank's customers, the Bank aimed to support investments in the production and services sector, and accordingly, employ the lowest possible interest rate on the local market.

As of the end of 2001, the annual interest rates on SME development loans from KfW were set at 7.75 percent, while rates on the World Bank's IDA financed foreign exchange loans for private sector development were fixed at 10.5 percent.

Loan portfolio

In 2001, the Bank disbursed loans totaling MNT 86.6 billion, of which MNT 86.4 billion were financed from the Bank's own resources, and 62.9 percent of this was extended to the industrial sector. Out of the total credits extended to the industrial sector, 29.7 percent was channeled to wool, cashmere, meat and wood processing industries, 66.0 percent to mining companies, 3.4 percent to construction, and the rest to the agricultural sector.

STRUCTURE OF LOANS OUTSTANDING As of 31 December 2001



Compared with a year earlier, the Bank's loan disbursement increased by 84.2 percent, while loan repayments increased by 83.6 percent, reaching MNT 75.1 billion.

Provision for loan losses

/MNT, million/

	2001	2000	Absolute changes
Non-performing loans	5,664.4	6,468.7	(804.3)
Provision for loan losses	4,743.7	6,669.6	(1,925.9)
Ratio of provision in the non-performing loans	0.838	1.03	

By the end of 2001, the Bank's non-performing loans and provisions for loan losses were reported at MNT 5,664.4 million and MNT 4,743.7 million respectively. The ratio of provisions to non-performing loans was 0.838 percent.

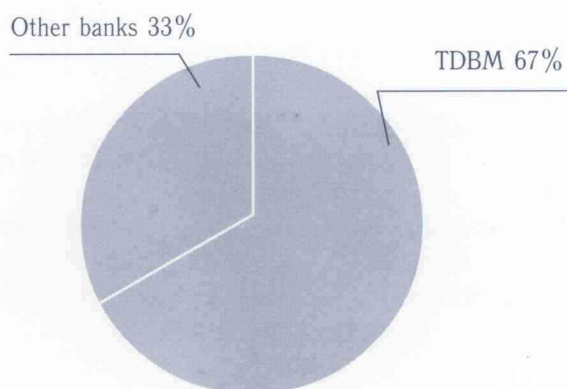
As a result of our specific attention and actions to improve the loan portfolio, and to enforce loan repayments, the Bank was able to collect MNT 2.8 billion from bad loans, and accordingly the quality of the Bank's loan portfolio improved over the previous year.



INTERNATIONAL BANKING OPERATIONS

In 2001, the Bank was able to keep a leading position in Mongolia in terms of its international banking operations. As of the end of 2001, the Bank shared 67.0 percent of the total foreign assets held by commercial banks.

FOREIGN ASSETS MARKET SHARE OF TDBM



In the past fiscal year, the Bank offered its customers international banking services and products such as documentary credits, collections, guarantees, international bank transfers and foreign currency exchange. Total income from international operations reached USD 1.8 million.

In order to meet customer transaction needs, the Bank joined SWIFT SITA in 2001, and as a result of this action the Bank was able to operate in a 24 hour on-line mode and to conduct a non-stop exchange of data. Moreover, this measure allowed us to save local communication expenses.

In 2001, the Bank was able to process international transfers for its customers in a more timely manner, and accordingly the number of foreign transfers increased by 17.8 percent. However, earnings from these services decreased due to a significant reduction in fees and charges.

In 2001, by setting up a direct payment arrangement with Russian and Chinese banks, payment delays caused by intermediating banks and incomplete delivery of payment instructions were eliminated.

In order to strengthen the Bank's position in the market, attract new customers and provide our customers with more choices and opportunities, the Bank has reduced its charges on foreign transfer services 20 - 40 percent.

As of 31 December 2001, the Bank's foreign assets were reported at USD 35 million, which represents a reduction of 9.8 percent over the previous year. This reduction was caused by the Bank's policy to place its deposits in higher earning assets such as loans and Central Bank bills, due to the sharp decline in deposit rates on international foreign exchange markets.



Foreign Relations

In 2001, the Bank conducted a policy to expand its foreign relations, strengthen its traditional ties and reputation among international banking and financial institutions.

During 2001, the Bank maintained direct correspondent relationships with 141 foreign banks in 30 countries, and managed its international transactions through 31 nostro accounts held with 25 banks from 12 countries.

Because of the introduction of the Euro in international banking transactions, the Bank transferred its accounts in national currencies held with some European banks into Euro accounts, starting from 1999. The Bank became the first commercial bank in Mongolia to provide Euro banknotes.

In 2001, delegates from large foreign banks, such as HSBC, City Bank, Commerz and Drezdner made business visits to TDBM, and as a result, some collaboration agreements were made.

In order to improve the settlement of customer foreign transfers and broaden the Bank's foreign relations, we have requested a nostro account with Citibank of USA, Savings Bank of Russia and the Korea Exchange Bank. By the end of 2001, the Bank had already begun transactions through its account with Korea Exchange Bank.



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Correspondent accounts in foreign banks

	Banks		Accounts	SWIFT code
USD	THE AGRICULTURAL BANK OF CHINA	ERLIAN	1.48211E+12	ABOCCNBJ050
	AMERICAN EXPRESS BANK LTD.	NEW YORK	716332	AEIB US 33
	BANK FOR FOREIGN TRADE (VNESHTORG)	MOSCOW	301128408000000000 63	VTBRRUMM
	BANK OF CHINA	BEIJING	8.00339E+13	BKCHCNBJ
	THE BANK OF TOKYO-MITSUBISHI LTD	TOKYO	653-0453625	BOTKJPJT
	BANKGESELLSCHAFT BERLIN AG,	BERLIN	00 91094963	BEBEDEBB
	BANQUE COMMERCIALE POUR L'EUROPE			
	DU NORD - EUROBANK	PARIS	-493775	EUROFRPP
	BNP PARIBAS SA	PARIS/HONG KONG	00001083822031USD	BNPAFRPF/HKHH
	CREDIT LYONNAIS S.A.	NEW YORK	01-11231-0001-00	CRLYUS33
	CREDIT SUISSE FIRST BOSTON	ZURICH	0835-0993850-74-002	CRESCHZZ80A
	DEUTSCHE BANK AG	FRANKFURT AM MAIN	100 9552530 0005	DEUTDEFF
	DRESDNER BANK AG	FRANKFURT AM MAIN	499/08104402/00/400	DRESDEFF
	HSBC BANK PLC LONDON(MIDLAND BANK)	LONDON	69145064	MIDLGB22
	HSBC BANK USA	NEW YORK	304298	MRMDUS33
	INTERNATIONAL MOSCOW BANK	MOSCOW	001201442 USD 400302	IMBKRUMM
	JP MORGAN CHASE	NEW YORK	001-1-614823	CHASUS33
	THE KOREA EXCHANGE BANK	SEOUL	963-THR-287011	KOEXKRSE
	NORDIA MERITA BANK PLC,	HELSINKI	2.0006E+13	MRITFIHH
	NATEXIS BANQUES POPULAIRES	PARIS/SINGAPORE	1295690201	BFCEFRPP/SGSG
JPY	NATIONAL BANK OF HUNGARY (FORMER			
	MAGYAR NEMZETI BANK)	BUDAPEST	2.11103E+12	MANEHUHB
	UNION BANK OF CALIFORNIA INTERNATIONAL	NEW YORK	91-243394-1121	BOFCUS33NYK
GBP	AMERICAN EXPRESS BANK LTD.	TOKYO	245-313000719	AEIB JP JX
	THE BANK OF TOKYO-MITSUBISHI LTD	TOKYO	653-0439924	BOTKJPJT
EUR	HSBC BANK PLC LONDON(MIDLAND BANK)	LONDON	334567	MIDLGB22
	NATIONAL WESTMINSTER BANK	LONDON	4.4E+12	NWBKGB2L
CHF	BANKGESELLSCHAFT BERLIN AG,	BERLIN	9808786010	BEBEDEBB
	BANQUE COMMERCIALE POUR L'EUROPE			
	DU NORD - EUROBANK	PARIS	00 548011	EUROFRPP
	COMMERZBANK AG	FRANKFURT AM MAIN	400878500801 EUR	COBADEFF
	CREDITANSTALT AG,	VIENNA	0101-15004/00	CABVATWW
	DEUTSCHE BANK AG	FRANKFURT AM MAIN	50070010/95525301000	DEUTDEFF
	DRESDNER BANK AG	FRANKFURT AM MAIN	499/08104402/11/888	DRESDEFF
CNY	THE AGRICULTURAL BANK OF CHINA	ELRIAN	7.10101E+14	ABOCCNBJ050
CHF	CREDIT SUISSE FIRST BOSTON	ZURICH	0835-0993850-73-000	CRESCHZZ80A
	UBS AG, ZURICH	ZURICH	02300000087421050000L	UBSWCHZH



GOLD AND SECURITY TRADING

The Bank was granted a license for gold trading by the Bank of Mongolia in 2000, and now it is the only commercial bank in Mongolia licensed to purchase and sell gold, keep deposits in gold with the Bank and/or open deposits in gold with other banks.

In 2001, the Bank bought 3.2 tons of fine gold from 15 gold mining companies and sold it to the Bank of Mongolia, which represents 23.4 percent of the total gold bought by the Bank of Mongolia during the year. In 2001, gold trading reached MNT 31.9 billion, and accordingly the VAT and the royalty paid by the Bank reached MNT 2.9 billion and MNT 0.7 billion respectively.

In 2001, the Bank of Mongolia issued bills totaling MNT 461.8 billion for 7, 14, 28 and 91 day maturities, which were sold to commercial banks. TDBM purchased 58.9 percent of these bills, equaling MNT 272.2 billion, while MNT 23.4 billion were bought from other commercial banks on the secondary market. Until now, the Bank has been recognized as the largest buyer of Central Bank bills among all commercial banks of Mongolia. As of the end of 2001, the outstanding balance on these bills was reported at MNT 21.8 billion. The average interest rate on Central Bank bills was 8.6 percent, and the Bank earned MNT 1.2 billion from these tradings in 2001.

During 2001, the Government of Mongolia issued bonds in the amount of MNT 40.0 billion for 30, 60, 90 and 120 day maturities, and sold them through the Mongolian Stock Exchange. TDBM purchased 53.5 percent of this amount, which was equal to MNT 21.4 billion and earned income of MNT 633.8 million.

FOREIGN EXCHANGE

As a result of the introduction of financial derivatives like swap, forward and options in major currency pairs, our customers, individuals and other commercial banks now can conduct trading on the international forex market. The introduction of these financial derivatives has broadened financial services for our customers and brought an additional source of income for the Bank.

As the biggest bank in the country, TDBM has the technical and financial capability to provide these services to its customers and other domestic commercial banks. In order to minimize risks which may arise from these tradings, deposits are used as collateral and the Bank manages to close daily open positions. Therefore, these tradings do not contain any exchange rate exposures.

As a result of improvements in conditions and the quality of FX trading services, daily turnover increased sharply as the number of individual customers, financial institutions and corporate entities increased. The total turnover on FX trading for 2001 increased 190 times over 2000. This made it possible for revenue from these operations to increase and the trend is for further growth.

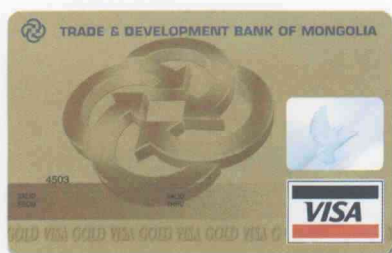
Proprietary trading of the Bank is very limited. Overnight positions are allowed within the trading desk limit set semiannually by ALC and approved by the CEO of the Bank, using VAR methodology.



NEW PRODUCTS AND SERVICES

In order to meet the growing demand of customers and depositors, and provide them with competitive products and services, the Bank began the issuance of VISA cards in cooperation with the internationally reputable company "VISA International" in 2001.

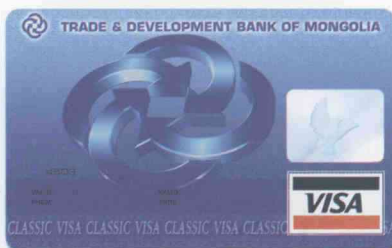
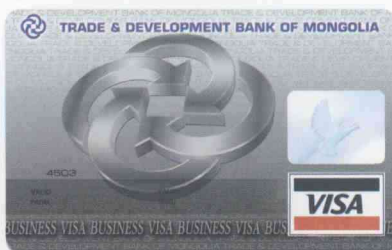
"VISA" cards



TDBM became a member of VISA International in February 2001 and issued 4 types of VISA cards in December 2001. Our cardholders are now able to receive services from 200 merchant organizations and 5 automatic teller machines (ATMs) in Mongolia as well as 22 million merchant organizations and 630,000 ATMs in foreign countries.

The Bank put into operation ATMs for the first time in Mongolia, and thus introduced a complex service with payment cards.

Fees and charges on our VISA card services are lower than those of other banks. Although this service is at an initial stage, the number of cardholders is increasing very fast, and it is recognized as the most reliable, flexible and best suited service for the future.



In recognition of the Bank's efforts to introduce "VISA" cards in a very short period of time, the VISA International company awarded the Bank with the "New Market Development Award."



BRANCH ACTIVITIES

The year of 2001 was one of increased competition in new markets and expansion of the Bank's activities, especially in rural areas, where other commercial banks have established a number of new branches.

During the fiscal year of 2001, the Bank increased its focus on a policy of providing rural customers with banking products and services best suited to their needs. As a result, there has been more support to rural development and the loan disbursement from branches increased 3.3 times.

In 2001, in order to increase the client base, the Bank established two new settlement centers, one in the Bayangol district of Ulaanbaatar, and the other in Darkhan soum of Darkhan-Uul aimag. In addition, branch No. 808 in Dornogobi aimag has been allowed to offer loan services, which helped the branch to attract new customers.

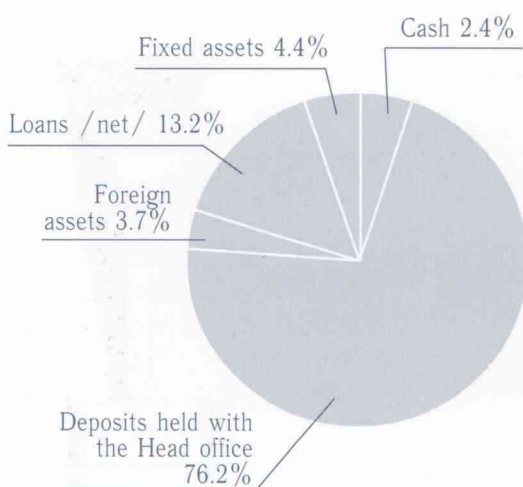
At the end of 2001, in addition to the Head Office, TDBM offered its products and services through a network of 8 branches, 7 settlement centers and 1 cashier office. With this relatively large network, we have been able to work closer with our customers, increase our client base and enhance our position in the domestic market.

Total assets of our branches, as of December 31, 2001, reached MNT 27.2 billion, increasing 12.8 percent over the previous year and representing 23.8 percent of the Bank's total assets.

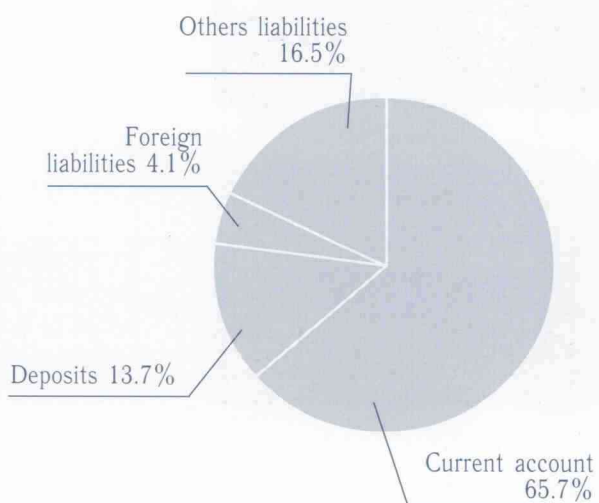
As of the end of 2001, liabilities of the branches were comprised of the following: current accounts - 65.7 percent, savings and time deposits - 13.7 percent, foreign liabilities - 4.1 percent.

Assets of branches were comprised of: cash - 2.4 percent, deposits held with the Head Office - 76.2 percent, foreign assets - 3.7 percent, loans outstanding - 13.2 percent, fixed assets - 4.4 percent.

ASSETS STRUCTURE OF BRANCHES



LIABILITIES STRUCTURE OF BRANCHES



In the fiscal year of 2001, our branch offices achieved some improvements in meeting the minimum reserve requirements, in allocation of deposits to lower risk assets, tightening of controls over loan disbursements and repayments, and increasing the profitability of their operations.

In 2001, the total volume of transactions of branch offices reached MNT 4,744.3 billion and income increased to MNT 3,384.9 million, while expenditures were reported at MNT 1,229.2 million. As a result, profit before taxation reached MNT 2,152.0 million, which represents an increase of 15.9 percent or MNT 296.6 million compared with the previous year. The expenditures and total income rose by 15.8 percent or MNT 168.1 million and 16.1 percent or MNT 468.3 million respectively over the previous year.

PERSONNEL POLICY, ORGANIZATIONAL STRUCTURE

The high level of education and professionalism of our staff is the main reason for the success of the Bank. Major attention has been devoted to human resource development measures by recruiting talented people, increasing the share of core business staff, conducting extensive training, and improving labor compensation and working conditions for our staff. We want to see our staff highly committed to benefit from and to undertake personal responsibility for the final results of the Bank's operations.

Because of the increasing scale and number of Bank products and services, 59 new staff was recruited, bringing the total number of employees of the Bank to 363 by the end of 2001. The recruitment policy of the Bank calls for the selection of candidates which can best suit the specific needs and requirements of each new job, promotion, or rotation of staff.

	2001	2000
Total staff	363	323
Of which:		
Head office	239	211
Branches	124	112

Training

Comprehensive training programs were carried out in 2001, during which 153 employees were involved in training courses and seminars organized abroad and locally in the fields of banking and finance and foreign language. In collaboration with the Training Center of the Bank of Mongolia, the Bank initiated a seminar on international settlement procedures for the staff of other commercial banks in Mongolia. In addition, a seminar on "How to identify fake USD notes" and "the nature of the EURO" was carried out in 2001, involving approximately 100 customers of the Bank.

Management committee



D. Khurelbaatar
Acting vice president and director of
operations department

B. Saran
Senior vice president

S. Monhbat
Chief Executive Officer

D. Hulan
Vice president

A. Gansukh
Director of administration and
personnel department

Executive Board of Directors



Upper row: From left

R. Enkhbat
Director of credit
department

U. Gerelmaa
Director of international
banking department

P. Munhsaihan
Director of research,
marketing department

U. Khishgee
Director of internal
auditing department

Ts. Bold
Director of information
technology department

R. Oyunbileg
Director of
branch #804

D. Batkhuu
Director of supply
maintenance department

Lower row: From left

A. Gansukh
Director of
administration and
personnel department

D. Yanjmaa
Director of central
accounting department

B. Saran
Senior vice president

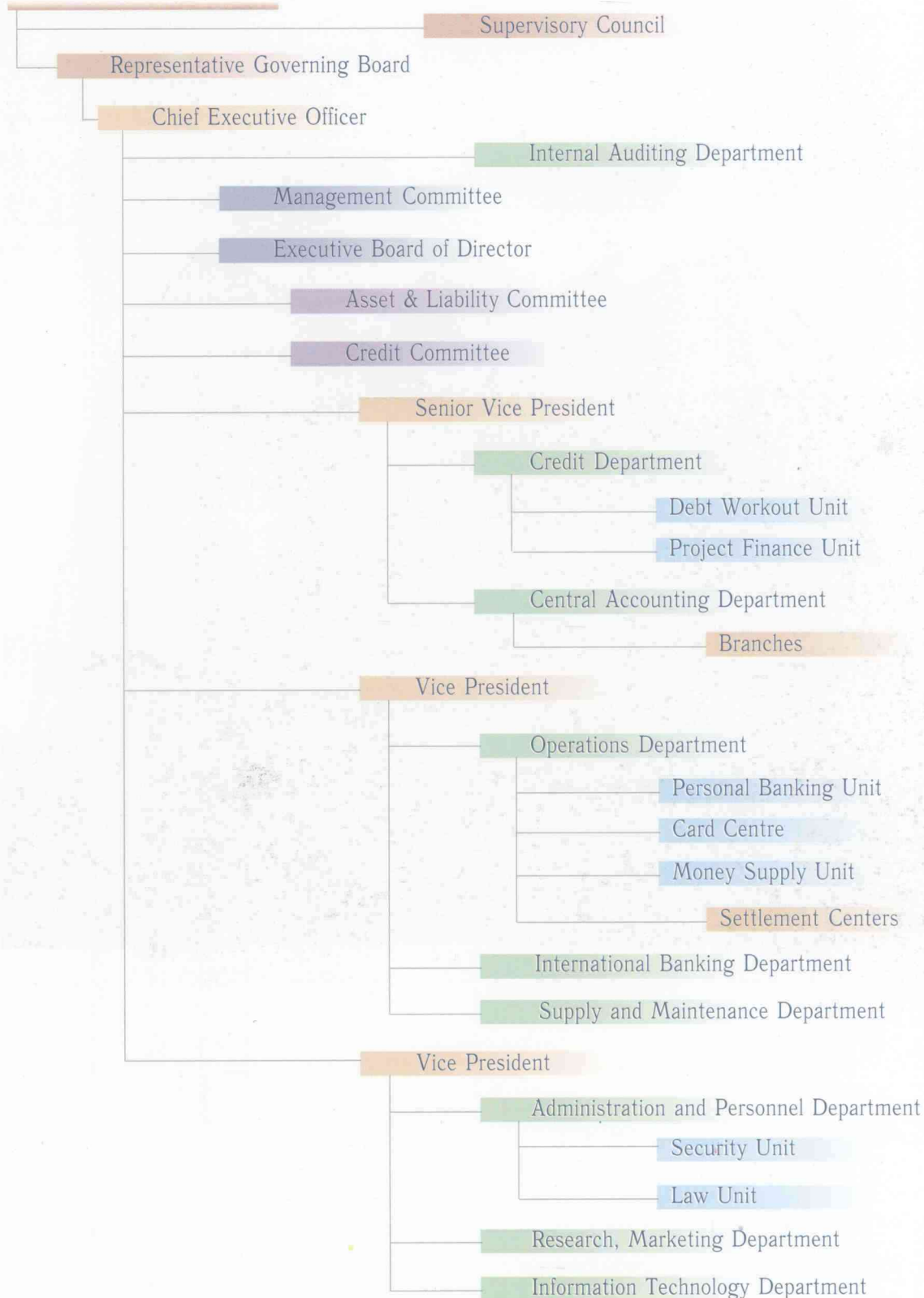
D. Hulan
Vice president

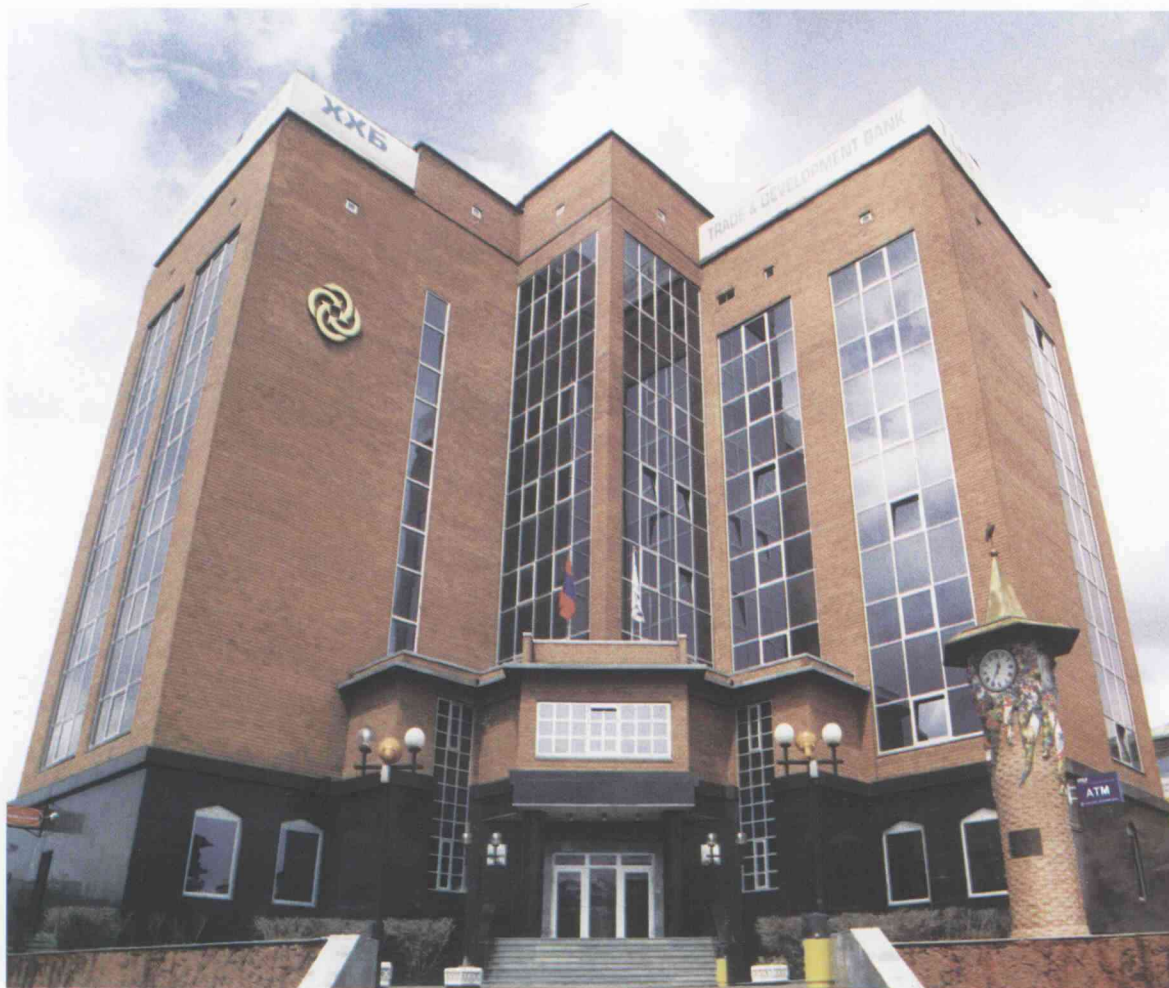
D. Khurelbaatar
Acting vice president and director of
operations department

ORGANIZATIONAL STRUCTURE

/ As of December 31, 2001 /

Shareholders' meeting







BANK NETWORK

HEAD OFFICE

Khudaldaany gudamj-7
Ulaanbaatar-11, Mongolia
Tel: 976-11-327028
Fax: 976-11-311618
www.tdbm.mn

Branch # 801

Dornod aimag, Choibalsan
suum, Mongolia
Tel: (01582) 23009.
Fax: (01582) 23632

Branch # 802

Selenge aimag, Suhbaatar
suum, Mongolia
Tel: (01362) 22007
Fax: (01362) 23076

Branch # 803

Darhan uul aimag, Darhan
suum, Mongolia
Tel: (01372) 33726
Fax: (01372) 37761

Branch # 804

Peace avenue 11-A,
Ulaanbaatar, Mongolia
Tel: 312679.
Fax: 312661

Branch # 805

Zamchitii gudamj-36
Ulaanbaatar, Mongolia
Tel: 944867.
Fax: 944818

Branch # 806

Chinggis avenue
Ulaanbaatar, Mongolia
Tel: 341335. Fax: 341295

Branch # 807

Orkhon aimag, Bayan Undur
suum, Mongolia
Tel: (01352) 25135
Fax: (01352) 25155

Branch # 808

Dornogobi aimag, Sainshand
suum, Mongolia
Yrac: (01522) 2298
Факс: (01522) 22298

Settlement center#1

Buyant Ukhua, Airport,
Ulaanbaatar, Mongolia
Tel: 379714.
Fax: 379714

Settlement center#2

Khudaldaany gudamj-7
Ulaanbaatar-11, Mongolia
Tel: 312356. Fax: 312356

Settlement center#3

Baga toirog-17,
Ulaanbaatar, Mongolia
Tel: 313833.
Fax: 311994

Settlement center in Zamiin

Uud
Mongolia
Tel: (015245) 21133
Fax: (015245) 21168

Settlement center in Zuun

Haraa
Mongolia
Tel: (023647) 43903
Fax: (023647) 43903

Settlement center#6

Ard Ayush avenue,
Ulaanbaatar, Mongolia
Tel: 361968. Fax: 361975

Settlement center in

Darkhan-Uul aimag,
Darkhan suum, Mongolia
Tel: (01372) 23835

Notes



Head office



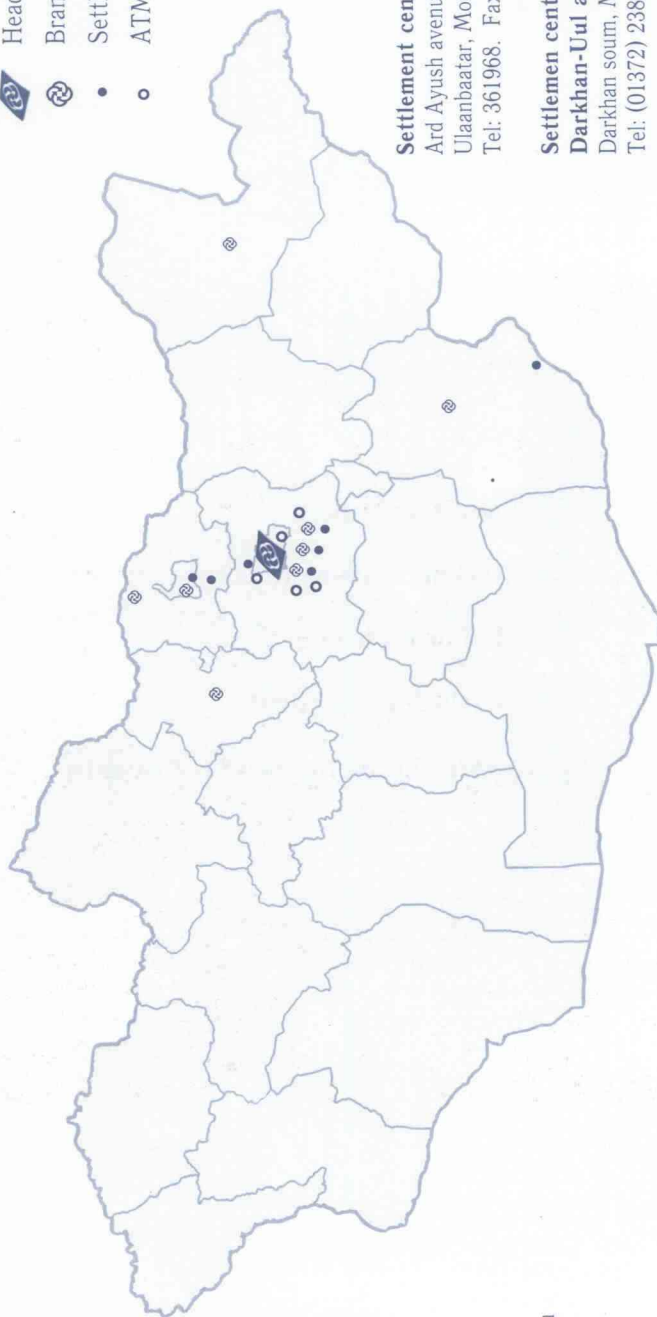
Branches



Settlement centers



ATM's





AUDITORS' REPORT

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■ **Certified Public Accountants**
Suite 300, Ikh Toiruu 14
Khoroo 10, Sukhbaatar duureg
Ulaanbaatar 210620, Mongolia

■ Phone: (976-11) 350 137
Fax: (976-11) 350 070
www.ey.com

AUDITORS' REPORT

To Trade & Development Bank of Mongolia

We have audited the financial statements of Trade & Development Bank of Mongolia on pages 42 to 66.

Respective responsibilities of directors and auditors

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

Specifically, the financial statements of Trade & Development Bank of Mongolia have been prepared to comply with International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, on the basis set out in the financial statements, present fairly the financial position of the Bank as at 31 December 2001 and of the profit or loss for the year to that date.

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Board to ensure that the financial statements comply with the requirements set out in note 1 and note 2 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, other irregularities or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 1 and note 2.

Opinion

In our opinion, the financial statements on pages 42 to 66 present fairly, in all material respects, the financial position of Trade & Development Bank of Mongolia as at 31 December 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Enkh + Yang Mangel Audit

19 February 2002

Ulaanbaatar

TRADE AND DEVELOPMENT BANK OF MONGOLIA
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 MNT '000	2000 MNT '000
Interest and similar income	3	10,701,397	10,060,103
Interest expense and similar charges	4	(2,609,070)	(1,527,351)
Net interest income		8,092,327	8,532,752
Fees and commissions	5	2,220,251	2,291,840
Foreign exchange and translation gains, net of losses	6	1,094,483	807,277
Other operating income	7	2,399,391	2,942,680
Non interest income		5,714,125	6,041,797
Operating profit		13,806,452	14,574,549
Operating expense	8	(4,056,684)	(3,338,571)
Profit before provisions		9,749,768	11,235,978
Provisions	9	(491,602)	(64,569)
Profit before taxation		9,258,166	11,171,409
Taxation	10	(4,359,394)	(4,573,948)
Profit after taxation		4,898,772	6,597,461
Retained profits brought forward		9,091,978	5,420,846
Profit available for distribution		13,990,750	12,018,307
Dividends	11	(7,850,600)	(2,581,079)
Transfer to Social Development Fund		(458,862)	(345,250)
Retained profits carried forward		5,681,288	9,091,978

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	2001 MNT '000	2000 MNT '000
ASSETS			
Cash and short term funds	12	7,911,306	13,074,746
Deposits and placements with other financial institutions	13	35,078,078	38,921,400
Investment in securities	14	26,761,404	16,390,466
Loans and advances	15	33,347,800	21,005,164
Government bonds	16	395,594	866,749
Other assets	17	793,539	379,974
Tax receivable		43,536	-
Property, plant and equipment	18	7,450,861	6,771,411
TOTAL ASSETS		111,782,118	97,409,910
LIABILITIES AND CAPITAL FUNDS			
Deposits from customers	19	94,164,393	77,980,552
Deposits and placements of other financial institutions	20	2,632,157	1,501,424
Loans from foreign financial institutions	21	3,659,213	3,549,352
Dividend payable		410,880	-
Other liabilities	22	81,568	69,267
Taxes payable		-	564,718
TOTAL LIABILITIES		100,948,211	83,665,313
CAPITAL FUNDS			
Statutory fund	23	2,000,000	1,500,000
Reserves	24	3,152,619	3,152,619
Retained earnings	25	5,681,288	9,091,978
TOTAL CAPITAL FUNDS		10,833,907	13,744,597
TOTAL LIABILITIES AND CAPITAL FUNDS		111,782,118	97,409,910
COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ITEMS			
	28	80,677,920	17,574,677

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 MNT '000	2000 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	9,258,166	11,171,409
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	399,066	352,431
Property, plant and equipment written off	345,796	180,201
Provisions	444,830	64,569
Recoveries on loan provision	(1,788,227)	(2,217,313)
Gain on disposal of property, plant and equipment	-	(642)
Operating profit before working capital changes	8,659,631	9,550,655
<i>(Increase) / Decrease in operating assets:-</i>		
Loans and advances	(10,978,967)	(5,442,820)
Other assets	(418,821)	48,060
<i>Increase (decrease) in operating liabilities</i>		
Deposits from customers	16,183,841	12,110,058
'Deposits and placements of other financial institutions	1,130,733	893,764
Other liabilities	12,301	(11,533)
Cash generated from operations	14,588,718	17,148,184
Income tax paid	(4,967,648)	(4,842,952)
Net cash flow from operating activities	9,621,070	12,305,232
CASH FLOW FROM INVESTING ACTIVITIES		
Net (increase) / decrease in investment securities	(10,381,958)	1,364,037
Repayment of long term government bonds	467,159	491,241
Disposal of property, plant and equipment	-	38,484
Purchase of property, plant and equipment	(1,424,312)	(826,470)
Net cash flow from investing activities	(11,339,111)	1,067,292
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase / (decrease) in loans from foreign financial institutions	109,861	352,720
Increase in paid-up share capital	500,000	-
Social Development Fund contribution	(458,862)	(345,250)
Dividend paid	(7,439,720)	(3,215,795)
Net cash flow from financing activities	(7,288,721)	(3,208,325)
Net (decrease) / increase in cash and cash equivalents	(9,006,762)	10,164,199
Cash and cash equivalents brought forward	51,996,146	41,831,947
'Cash and cash equivalents carried forward (note 27)	42,989,384	51,996,146

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2001

1. BASIS OF PREPARATION

The Bank's financial statements have been prepared so as to present fairly the financial position of the Bank, and its profits or loss, cash flows and total recognized gains or losses, and in accordance with applicable International Accounting Standards ("IAS"). These financial statements have also complied with the Commercial Banks Financial Statement Reporting Rules and the Unified Accounting Principles issued by the Central Bank - the Bank of Mongolia.

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

Trade and Development Bank of Mongolia constitutes a single business, all conducted in Mongolia. The Bank has no branches or operations abroad. Accordingly, no further analysis into business or geographical segments is appropriate in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised on an accruals basis.

The recognition of interest income is suspended when the probability of recoverability of either the principal or interest is ascertained as doubtful. In accordance with the requirements of Bank of Mongolia, interest is suspended when repayments are in arrears for 3 months. On commencement of suspension, previously accrued interest not received is claw-backed. 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.

(b) Fee income and commissions

Fee income and commissions are accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Foreign Currencies

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

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

The official exchange rates used at the end of the year are:-

	2001	2000
US Dollar ("USD")	1,102.00	1,097.00
Deutsche Mark ("DEM")	505.60	514.67
Pound Sterling ("GBP")	1,599.50	1,615.11
Euro ("Euro")	988.90	1,006.61
Japanese Yen ("JPY")	8.50	9.74
Swiss Francs ("CHF")	674.30	659.53
French Francs ("FRF")	150.80	153.46

(d) Provision for Loan Loss

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

The provision for loan loss has complied with the requirements of the Bank of Mongolia.

(e) Maturity of loans and advances

The maturity of the loan portfolio is presented in Note 15 which shows the remaining period of loans from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Mongolia except for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolia marketplace, short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by a classification based on contractual terms.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Property, Plant and Equipment**

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

The estimate useful lives used by the Bank is as follows :-

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

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

(g) Assets under lease

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms. Such leased assets are subject to depreciation consistent with that for depreciable assets which are owned.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statement as incurred.

(h) Investment securities

Bank of Mongolia bills are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date on a straight line basis. Other investment securities such as Government securities, bills of exchange and shares in companies are stated at cost and provision is made when the Directors consider that there is a permanent diminution in value of such investments, in accordance with Bank of Mongolia's regulation.

(i) Use of estimates

The preparation of financial statements in conformity with IAS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

3. INTEREST AND SIMILAR INCOME

	2001 MNT '000	2000 MNT '000
Loans and advances	6,601,887	4,980,076
Deposits and placements with foreign financial institutions	1,440,733	2,234,208
Treasury bills	1,283,064	1,991,137
Government bonds and securities	633,853	616,184
Others	741,860	238,498
	<u>10,701,397</u>	<u>10,060,103</u>

4. INTEREST EXPENSE AND SIMILAR CHARGES

	2001 MNT '000	2000 MNT '000
Current account deposits	667,754	512,430
Time and saving account deposits	1,231,222	962,917
Others	710,094	52,004
	<u>2,609,070</u>	<u>1,527,351</u>

5. FEES AND COMMISSIONS

	2001 MNT '000	2000 MNT '000
Current account withdrawals	897,950	970,838
Bank drafts	535,399	611,150
Corporate credit cards	124,037	109,833
Others	662,865	600,019
	<u>2,220,251</u>	<u>2,291,840</u>

Others include fees and commission earned from cheques issued and telegraphic transfers.

**6. FOREIGN EXCHANGE AND TRANSLATION GAINS, NET OF LOSSES**

	2001 MNT '000	2000 MNT '000
Net foreign currency transaction gains	1,003,260	765,226
Net foreign currency translation gains	91,223	42,051
	<u>1,094,483</u>	<u>807,277</u>

7. OTHER OPERATING INCOME

	2001 MNT '000	2000 MNT '000
Trading income	130,069	53,486
Rental income	116,745	136,055
Recovery of previously written off loans	2,063,944	2,469,522
Other income	88,633	283,617
	<u>2,399,391</u>	<u>2,942,680</u>

8. OPERATING EXPENSE

	2001 MNT '000	2000 MNT '000
Salaries and retirement benefits, and provision for staff welfare and bonus	1,736,771	1,168,081
Depreciation	427,033	365,195
Property, plant and equipment written off	46,978	180,201
Travelling	79,394	85,793
Rental of premises	56,320	37,954
Entertainment	66,565	65,943
Advertising	71,666	84,471
Research expenses (note 21)	-	185,779
Apartments written off	298,818	-
Other operating expenses	1,273,139	1,165,154
	<u>4,056,684</u>	<u>3,338,571</u>

8. OPERATING EXPENSE (CONT'D)

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

	2001 Number	2000 Number
Directors and heads of departments	26	29
Officers	304	259
Clerks etc.	33	35
	<u>363</u>	<u>323</u>
Of which:		
- Head office	239	211
- Branches	124	112
	<u>363</u>	<u>323</u>

9. PROVISIONS

	2001 MNT '000	2000 MNT '000
Provision for loan losses	424,558	-
Provision for owned premises	5,256	14,571
Provision for other receivable	-	46,318
Provision for diminution in value of investment	15,016	3,680
Provision for contingent guarantees	46,772	-
	<u>491,602</u>	<u>64,569</u>

10. TAXATION

	2001 MNT '000	2000 MNT '000
Current income tax	3,937,682	4,573,948
Underprovision of prior year taxation	421,712	-
	<u>4,359,394</u>	<u>4,573,948</u>

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, in accordance with the regulations of the tax authorities. The tax rate is 15% for taxable profits up to MNT 100 million and 40% for taxable profits in excess of MNT 100 million.

11. DIVIDENDS

	2001 MNT '000	2000 MNT '000
Paid:		
Ordinary dividend in respect of financial year ending 2000	6,138,600	2,581,079
Interim dividend in respect of financial year ending 2001	1,712,000	-
	<u>7,850,600</u>	<u>2,581,079</u>

Pursuant to the order by the Government of Mongolia, a certain portion of the dividends distributed by the Bank to the Government is required to be channelled to the taxation authorities. This amount is determined as a set percentage of the Bank taxable profits less the taxation charge. The Bank is liable for this amount and needs to declare adequate dividends to meet this liability.

During the year, the Bank was required to pay MNT 1,301 million to the taxation authorities as part of the distribution to the Government.

12. CASH AND SHORT TERM FUNDS

	2001 MNT '000	2000 MNT '000
Balances with Bank of Mongolia	2,400,845	8,479,774
Cash and balances with other banks	5,510,461	4,594,972
	<u>7,911,306</u>	<u>13,074,746</u>

Balances are maintained with Bank of Mongolia in accordance with Bank of Mongolia requirements and bear interest at annual rates ranging from 2.21% to 3.12%.

13. DEPOSITS AND PLACEMENTS WITH OTHER FINANCIAL INSTITUTIONS

	2001 MNT '000	2000 MNT '000
Foreign financial institutions	35,078,078	38,921,400

This represents foreign currency current accounts maintained with foreign financial institutions. Current accounts with foreign financial institutions are generally denominated in US Dollars and bear interest at annual rates ranging from 0.25% to 6.08% (2000 : 1.8% to 6.1%).

14. INVESTMENT IN SECURITIES

	2001 MNT '000	2000 MNT '000
Bank of Mongolia bills	21,814,987	12,823,000
Government securities	3,498,252	3,540,388
Stocks	111,941	111,941
Bills of exchange	1,233,480	-
Corporate bonds	150,000	-
	26,808,660	16,475,329
Accretion of discounts	48,627	-
Provision for diminution in value of investment securities	(95,883)	(84,863)
	26,761,404	16,390,466

Bank of Mongolia bills are non interest bearing short term bills with maturities of less than one month, and are issued at a discount to the fair value of the bills upon maturity. Government securities are issued by the Ministry of Finance of Mongolia, with maturities of generally one to three months. Annual interest rates are in the range of 6.8% to 15.7% (2000 : 10% to 17%). The bills of exchange are issued by local companies with maturities of between 1 to 3 months. Included in these balances are accrued interest totalling MNT 77.7 million (2000 : MNT 26.8 million).

Stocks represent an investment in a company quoted on the Mongolian stock exchange. The Bank had purchased 11% stake in the company so as to recover past due loans from the company. The market value of the stock as at 31 December 2001 amounts to MNT 26 million, and provisions of MNT 96 million have been set aside against possible diminution in value of this investment.

15. LOANS AND ADVANCES

	2001 MNT '000	2000 MNT '000
Short term loans	35,779,094	24,849,719
Term loans	2,247,924	2,796,378
Staff loans	35,131	18,365
Loans to stakeholders and related parties	29,320	10,348
Gross loans and advances	38,091,469	27,674,810
Provisions		
- specific provision	(4,364,323)	(6,416,175)
- general provision	(379,346)	(253,471)
	(4,743,669)	(6,669,646)
Net loans and advances	33,347,800	21,005,164
Maturity structure		
Maturing within 1 year	31,491,566	24,156,064
One year to five years	3,876,979	722,368
Over 5 years	2,722,924	2,796,378
	38,091,469	27,674,810

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

	2001 MNT '000	2000 MNT '000
Cashmere	6,946,295	5,118,504
Mining related	9,448,662	6,040,725
Trade	3,306,432	1,399,572
Petroleum importation	4,916,052	4,107,922
Food processing	7,823,500	3,033,100
Others	5,650,528	7,974,987
	38,091,469	27,674,810

Others include companies in industries such as energy, construction and real estate.

15. LOANS AND ADVANCES (CONT'D)

Non-performing loans are as follows:-

	2001 MNT '000	2000 MNT '000
Gross non performing loans as at 31 December	5,664,416	6,468,674
As a percentage of gross loans and advances	15 %	23%
Total net non-performing loans	1,300,093	52,499
As a percentage of total net loans	3.9 %	0.3%

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

	2001 MNT '000	2000 MNT '000
Specific Provisions		
Balance as at 1 January	6,416,175	8,620,659
Charge for the year less write backs	391,564	-
Transferred to general provisions	(80,734)	-
Recoveries	(1,788,227)	(2,212,991)
Written off	(574,455)	(24,827)
Exchange difference	-	33,334
Balance as at 31 December	4,364,323	6,416,175
General Provisions		
Balance as at 1 January	253,471	180,967
Charge for the year less write backs	32,994	-
Transferred from specific provisions	80,734	-
Recoveries	-	(4,322)
Exchange difference	12,147	76,826
Balance as at 31 December	379,346	253,471

Included in loans and advances is accrued interest totalling **MNT 875 million.**

15. LOANS AND ADVANCES (CONT'D)

The Bank's balance sheet credit exposures as at 31 December 2001 amounted to MNT 38.1 billion, of which MNT 5.7 billion are due on accounts which have been classified as non-performing loans ("NPL").

Specific and general provisions of MNT 4.7 billion have been allocated against the NPLs, which represents a coverage ratio of 77% of the total NPL amount.

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

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

16. GOVERNMENT BONDS

	2001 MNT '000	2000 MNT '000
As at 1 January	866,749	1,317,419
Redemption payment	(467,159)	(450,670)
As at 31 December	399,590	866,749
Provision for possible losses	(3,996)	-
	395,594	866,749

These government bonds, issued in July 1997 was a result of the conversion of certain directed and inherited loans. The maturity period of these bonds is currently uncertain, as the payment terms are still being negotiated between the Bank and the Mongolian Government.

Interest on these bonds is negotiated between the Bank and the Government at regular intervals, generally at every quarter or half yearly. Interest is accrued by the Bank on successful negotiation of interest rate for a particular period. However, the Government has agreed and subsequently paid the interest for the first half of the year only and has represented that it will not pay the interest for the second half of the year.

For 2001, the interest received on these bonds amounted to MNT 37 million.

**17. OTHER ASSETS**

	2001 MNT '000	2000 MNT '000
Foreclosed properties	529,381	26,072
Prepaid expenses	63,625	107,547
Inventory	134,867	122,253
Gold and other precious metals	22,026	21,372
Other receivables	43,640	25,530
Apartments purchased for staff	-	77,200
	<u>793,539</u>	<u>379,974</u>

Foreclosed properties are disclosed net of provisions totalling MNT 2.4 billion (2000 : MNT 1.9 billion). These provisions are based on guidelines by the Bank of Mongolia in the current financial year.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Office Equipment and Vehicles	Computers	Construc- tion in Progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Net Book Value					
At 1 January 2001	5,308,099	868,018	368,554	226,740	6,771,411
Additions	206,719	16,856	115,816	1,079,865	1,419,256
Disposals	-	-	-	-	-
Transfers	353,274	130,183	695,084	(1,199,444)	(20,903)
Expensed off	(324,470)	(784)	(58)	(20,484)	(345,796)
Depreciation charge on assets b/f	(137,215)	(122,347)	(113,545)	-	(373,107)
At 31 December 2001	5,406,407	891,926	1,065,851	86,677	7,450,861
At 31 December 2001					
Cost	5,713,442	1,411,481	1,401,177	86,677	8,612,777
Accumulated depreciation b/f	(169,102)	(387,997)	(234,380)	-	(791,479)
Accumulated depreciation on disposal / written off	570	2,833	25,226	-	28,629
Depreciation charge for the year	(138,503)	(134,391)	(126,172)	-	(399,066)
	5,406,407	891,926	1,065,851	86,677	7,450,861
At 31 December 2000					
Cost	5,477,201	1,256,015	602,934	226,740	7,562,890
Accumulated depreciation b/f	(22,317)	(286,457)	(132,931)	-	(441,705)
Accumulated depreciation on disposal / written off	-	16,018	1,674	-	17,692
Depreciation charge for the year	(135,159)	(117,593)	(99,679)	-	(352,431)
Adjustment	(11,626)	35	(3,444)	-	(15,035)
	5,308,099	868,018	368,554	226,740	6,771,411

19. DEPOSITS OF CUSTOMERS

	2001 MNT '000	2000 MNT '000
Current accounts	66,216,379	55,442,890
Savings deposits	10,615,333	9,613,218
Time deposits	13,732,869	11,776,106
Other deposits	3,599,812	1,148,338
	<u>94,164,393</u>	<u>77,980,552</u>

Current account generally bears no interest, however for depositors maintaining a balance above a prescribed limit, interest is provided at annual rates of approximately 1% and 3% (2000 : 1% and 3%) for foreign currency and local currency current accounts respectively.

Foreign currency saving deposits bear interest at an annual rate of approximately 1.8% (2000 : 1.8%), while local currency saving deposits at approximately 6.0% (2000 : 9.6%).

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate ranging from approximately 3.6% to 5.4% (2000 : 3.6% to 5.4%), while for local currency time deposits, at a range of approximately 13.2% to 14.4% (2000 : 13.2% to 21.6%).

**20. DEPOSITS AND PLACEMENTS OF
OTHER FINANCIAL INSTITUTIONS**

	2001 MNT '000	2000 MNT '000
Foreign currency demand deposits	2,611,486	1,469,564
Foreign currency cheques for selling	20,671	31,860
	<u>2,632,157</u>	<u>1,501,424</u>

Foreign currency demand deposits are placed by local commercial banks, and generally bear no interest. However, interest is provided for depositors maintaining a balance above a prescribed limit at an annual rate of 1%.

21. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2001	2000
	MNT '000	MNT '000
Loans from international organisations	3,659,213	3,549,352

Included here are borrowings from three institutions, namely a German government bank - Kreditanstalt fuer Wiederaufbau ("KfW") obtained via the Bank of Mongolia, the International Development Association ("IDA") and the World Bank ("WB")/IDA under the Private Sector Development Credit program, both of the latter obtained via the Ministry of Finance. As at 31 December 2001, the KfW loan balance amounts to DEM 4.7 million or MNT 2.4 billion (2000 : DEM 4.7 million or MNT 2.4 billion), the IDA loan balance amounts to USD 581 thousand or MNT 640 million (2000 : USD 581 thousand or MNT 637 million), while the World Bank loan balance amounts to USD 582 thousand or approximately MNT 641 million (2000 : USD 448 thousand or approximately MNT 492 million).

The KfW loan is used to provide financing to various customers at preferential interest rates. As at 31 December 2001, the loan balance of these ultimate borrowers amounted to DEM 4.5 million (MNT 2.3 billion).

The interest rate of the KfW loan is fixed at an annual rate of 1.75% for the Bank, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. Principal payments on this loan commenced in December 2001, and the final date of repayment in December 2007.

The IDA loan was utilised to finance the Twinning Agreement with Norwegian Banking Resources Ltd ("NBR"), whereby NBR will transfer operational knowledge and technical skills to the Bank. As at 31 December 2001, this twinning program has been satisfactorily completed, the total cost of which amounted to USD 581 thousand, or approximately MNT 570 million, of which MNT 145 million and MNT 241 million have been expensed off in 1999 and 1998 respectively, classified as research expenses (note 8). The remaining balance of MNT 186 million was expensed off in 2000, to amortise the cost to the benefits derived from the program to their respective years. Principal payments on this loan will commence in August 2007, and the final date of repayment in February 2037.

The WB loan is channelled to various borrowers under the Private Sector Development Credit programme. The interest on the loans are variable and calculated on the LIBOR 6 month USD rate + 3% p.a. on commercial bank's risk. The interest level is fixed on 3 month base, set on LIBOR rate of the first date of June, December, September and March of each following year. These fixed rates are determined by the Counterpart Working Group at the Ministry of Finance and Economy and the commercial bank's participating in the implementation of the credit programme.

22. OTHER LIABILITIES

	2001	2000
	MNT '000	MNT '000
Foreign remittance under request	11,801	16,915
Delay on clearing settlement	992	383
Other payable	68,775	51,969
	81,568	69,267

23. STATUTORY FUND

	2001	2000
	MNT '000	MNT '000
As at 1 January	1,500,000	1,500,000
Issued during the year	500,000	-
As at 31 December	2,000,000	1,500,000

According to banking regulations existing as at 31 December 2001, all commercial banks are required to maintain a minimum statutory fund of MNT 2 billion. During the financial year, the Bank increased its statutory fund by MNT 500 million by issuing 500 thousand ordinary shares of MNT 1,000 each. Out of the additional 500,000 ordinary shares, 470,000 shares were sold to the government of Mongolia and 30,000 shares were sold to other shareholders.

The statutory fund is 76% owned by the Mongolian Government and 24% by other shareholders.

24. RESERVES

	2001	2000
	MNT '000	MNT '000
As at 1 January	3,152,619	3,217,672
Adjustment	-	(65,053)
As at 31 December	3,152,619	3,152,619

25. RETAINED EARNINGS

	2001 MNT '000	2000 MNT '000
As at 1 January	9,091,978	5,420,846
Net increase for the year	4,898,772	6,597,461
Dividends	(7,850,600)	(2,581,079)
Transfer to Social Development Fund	(458,862)	(345,250)
As at 31 December	<u>5,681,288</u>	<u>9,091,978</u>

26. STATEMENT OF RECONCILIATION OF CAPITAL FUNDS

	2001 MNT '000	2000 MNT '000
Capital funds at 1 January	13,744,597	10,138,518
Profit for the year	4,898,772	6,597,461
Adjustment	-	(65,053)
Increase in statutory funds	500,000	-
Transfer to Social Development Fund	(458,862)	(345,250)
	<u>18,684,507</u>	<u>16,325,676</u>
Dividends	(7,850,600)	(2,581,079)
Capital funds at 31 December	<u>10,833,907</u>	<u>13,744,597</u>

27. CASH AND CASH EQUIVALENTS

	2001 MNT '000	2000 MNT '000
Cash and cash equivalents are represented by the following items in the balance sheet		
Cash and short term funds	7,911,306	13,074,746
Deposits and placement with other financial institutions	35,078,078	38,921,400
	<u>42,989,384</u>	<u>51,996,146</u>

28. COMMITMENTS AND CONTINGENCIES

a) Financial commitments, contingencies 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.

	2001	2000
	MNT '000	MNT '000
Outstanding letter of credits	10,887,901	2,703,571
Guarantees granted	275,500	309,736
Other off balance sheet items	69,514,519	14,561,370
	<u>80,677,920</u>	<u>17,574,677</u>

As at 31 December 2001, all the Bank's outstanding letter of credits and guarantees issued are fully collateralised, mainly by cash, and therefore not subject to credit risk.

The Bank has entered into foreign exchange forward and option contracts during the year. As at 31 December 2001, the position of the Bank in relation to the foreign exchange forward and option contracts are worth MNT 81.3 billion and MNT 2.1 billion respectively. However, these contracts are fully hedged as at the year end, and thus is not exposed to market risk for any these contracts or any of its off balance sheet items.

The Bank is responsible for servicing a portfolio of loans amounting to MNT 3.2 billion as of 31 December 2001, disclosed as other off balance sheet items. These loans were owned by the Mongolian Government and payable to various foreign governments. The Bank has not been assigned legal responsibility for these assets and liabilities and therefore they are not reflected in the accompanying balance sheet.

Included in the other off balance sheet items held by the Bank are loan collateral amounting to MNT 55.3 billion, written off loans amounting to MNT 6.0 billion and cheque notes worth MNT 3.1 billion as at 31 December 2001. The remaining amounts in the other off balance sheet items relate to bills of customers received from abroad and unpaid at maturity. The Bank does not have any payment obligations on these bills.

b) Capital Commitments

As at 31 December 2001 and 2000, the Directors have not authorised any capital commitments of significance.



29. CAPITAL ADEQUACY

The Bank of Mongolia requires commercial banks to maintain a capital adequacy ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. As at 31 December 2001, the Bank has a core capital ratio of 12.7% (2000 : 27.9%) and risk weighted capital ratio of 15.7% (2000 : 32.3%), as computed below:

	2001 MNT '000
Tier I capital	
Statutory fund	2,000,000
Profit and loss account	5,681,288
Total Tier I Capital	7,681,288
Tier II capital	
Revaluation reserve (discount of 55% applied)	1,418,679
General reserve for bad and doubtful debts	379,346
Total capital/capital base	9,479,313

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

	2001 MNT '000
%	
0	32,830,570
10	-
20	38,718,827
50	244,821
100	52,680,457
Total	124,474,675
Core capital ratio	12.69%
Risk weighted capital ratio	15.66%
Core capital ratio - 2000	27.91%
Risk weighted capital ratio - 2000	32.32%

30. TRANSACTIONS WITH RELATED PARTIES

The transactions with related parties of the bank in 2001 relate solely to loans to a director and staff.

	MNT'000
Total Loans to Director	29,320
Total Loans to Staff	35,131
Gross Related Party Loans	64,451
General Provision	(636)
Net Related Party Loans as at 31 December 2001	63,815

31. ASSET AND LIABILITY DENOMINATED IN FOREIGN CURRENCY

	31 DECEMBER 2001 ('MNT' 000)		
	MNT	Foreign Currency	Total
Assets			
Cash and short term funds	3,887,346	4,023,960	7,911,306
Deposits and placements with other financial institutions	-	35,078,078	35,078,078
Investment in securities	25,527,924	1,233,480	26,761,404
Loans and advances	12,373,249	20,974,551	33,347,800
Government bonds	395,594	-	395,594
Other assets	318,850	474,689	793,539
Tax receivable	43,536	-	43,536
Property, plant and equipment	7,450,861	-	7,450,861
Total assets	49,997,360	61,784,758	111,782,118
Liabilities			
Deposits from customers	40,379,548	53,784,845	94,164,393
Deposits and placements of other financial institutions	-	2,632,157	2,632,157
Loans from foreign financial institutions	-	3,659,213	3,659,213
Dividend payable	410,880	-	410,880
Other liabilities	49,096	32,472	81,568
Tax payable	-	-	-
Total liabilities	40,839,524	60,108,687	100,948,211
Statutory funds	2,000,000	-	2,000,000
Reserves	3,152,619	-	3,152,619
Retained earnings	5,681,288	-	5,681,288
Total capital funds	10,833,907	-	10,833,907
Total liabilities and capital funds	51,673,431	60,108,687	111,782,118



32. MATURITY OF ASSETS AND LIABILITIES

The maturity of banking assets and liabilities for the year ended 31 December 2001 is as follows :

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and short term funds	7,911,306	-	-	-	-	7,911,306
Deposits and placements with other financial institutions	35,078,078	-	-	-	-	35,078,078
Investment in securities	26,595,346	150,000	-	16,058	-	26,761,404
Loans and advances	5,091,242	10,462,476	14,939,009	1,745,773	1,109,300	33,347,800
Government bonds	-	-	395,594	-	-	395,594
Other assets	793,539	-	-	-	-	793,539
Tax receivable	43,536	-	-	-	-	43,536
Property, plant and equipment	-	-	-	-	7,450,861	7,450,861
	<u>75,513,047</u>	<u>10,612,476</u>	<u>15,334,603</u>	<u>1,761,831</u>	<u>8,560,161</u>	<u>111,782,118</u>
Liabilities						
Deposits from customers	79,549,993	5,656,900	5,197,900	3,759,600	-	94,164,393
Deposits and placements of other financial institutions	2,632,157	-	-	-	-	2,632,157
Loans from foreign financial institutions	104,300	56,100	93,500	1,973,600	1,431,713	3,659,213
Dividend payable	410,880	-	-	-	-	410,880
Other liabilities	81,568	-	-	-	-	81,568
	<u>82,778,898</u>	<u>5,713,000</u>	<u>5,291,400</u>	<u>5,733,200</u>	<u>1,431,713</u>	<u>100,948,211</u>
Net position	(7,265,851)	4,899,476	10,043,203	(3,971,369)	7,128,448	10,833,907
Accumulated gap	(7,265,851)	(2,366,375)	7,676,828	3,705,459	10,833,907	

33. SIGNIFICANT EVENT DURING THE YEAR

Pursuant to the "Privatisation Guidelines for 2001-2004" approved by the State Ih Hural, the Government of Mongolia adopted the "Privatisation Program for 2001" in February 2001. Within the framework of this Program, the Government approved the sale of 76% of the Bank's total shares through a competitive tender.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation, based on information available for 2001.

35. 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.

