

Additional disclosure to loan portfolio related notes of audited financial statements for 2004

The Bank provisions for loan losses every month in accordance with its internal loan loss provisioning policy. The policy was adopted from the central bank imposed industry provisioning regulation. The Bank policy practices more conservative classification requirements to its micro loans due to the vulnerability of microborrowers against their business downturn and overall economic changes as opposed to the SME borrowers. The provisioning percentages were used to classify the Bank's portfolio is as follows.

PROVISIONING POLICY

Loan status	Micro loan	SME loan by overdue days	Argicultural loan	Allowance Percent
Current	-	-	-	1%
Past Due	1-30 days	1-90 days	1-60 days	5%
Substandard	31-60 days	91-180 days	61-120 days	4%
Doubtful	61-90 days	181-270 days	121-180 days	75%
Bad	More than 91 days	More than 271 days	More than 181 days	100%
Restructured				40%

The allowance for loan loss as of 31 December 2003 is as follows.

***ALLOWANCE FOR LOAN LOSS
AS FOR 31 DEC 2004***

Loan status	Outstanding loan portfolio				Share of total	Allowance for loan loss	
	Micro loan	SME loan	Argicultural	Total		Percent	Amount
Current	16,683,371.5	3,026,128.3	394,283.9	20,103,783.6	99%	1%	201,037.8
Past Due	35,426.5	85,767.0	8,233.4	129,427.0	1%	5%	6,471.3
Substandard	15,219.5	5,496.5	999.7	21,715.7	0%	40%	8,686.3
Doubtful	11,033.9	256.1	3,269.7	14,559.7	0%	75%	10,919.8
Bad	36,495.8	2,300.6	900.0	39,696.5	0%	100%	39,696.5
Restructured	4,374.1	-	-	4,374.1	0%	40%	1,749.6
Total	16,785,921.4	3,119,948.5	407,686.7	20,313,556.5	100%		268,561.3

Historic trend shows that loan loss provisioning had enough coverage over the write offs.

	2002	2003	2004
A Average reserve (000'MNT)	(49,760)	(120,784)	(267,338)
B Write offs (000'MNT)	(2,162)	(13,109)	(167,134)
C Coverage (A/B)	23.0	9.2	1.6

*Dugersuren Bat-Ochir
Finance and Accounting Division Director*

Additional disclosure to loan portfolio related notes of audited financial statements for 2004

Restructuring or renegotiating is done on case by case basis. A loan can be restructured only if a borrower faces temporary cash flow problem which would have reasonable evidence of future recovery. Proposal to restructure a loan is prepared by a credit officer and the final decision is made at HQ by Risk Management Committee comprised of Senior Managers. Restructured loans are reported to Board as well.

Before writing off the, loan work out actions are taken first by the respective branches where the loan was disbursed and second by the work out unit of the HQ. If all the attempts are failed the proposal to write off is presented to HQ. For loans with outstanding balance of less than US\$ 3,500, the decision to write off the loan is made by Risk Management Committee of the Bank which is composed of all senior management team. The decision for loans above US\$ 3,500 is made by Board of the Bank.

RELATED-PARTY LOANS

Borrower	Principle balance outstanding	Loan term	Status
General manager	126,021	8-61 months	Current
Board member	95,405	1-28 months	Current
Staff loans	<u>499,824</u>	1-60 months	1 loan restructured & is current after restructuring
Total	<u>721,250</u>		

Loans to staff and managers are disbursed within the limit pre-approved by the Board. All insider loans are reported every month to the Central Bank and every quarter to the Board. Loan request review, disbursement and monitoring procedures are the same as to those applied to the other borrowers without any exceptional treatment.

Dugersuren Bat-Ochir
Finance and Accounting Division Director