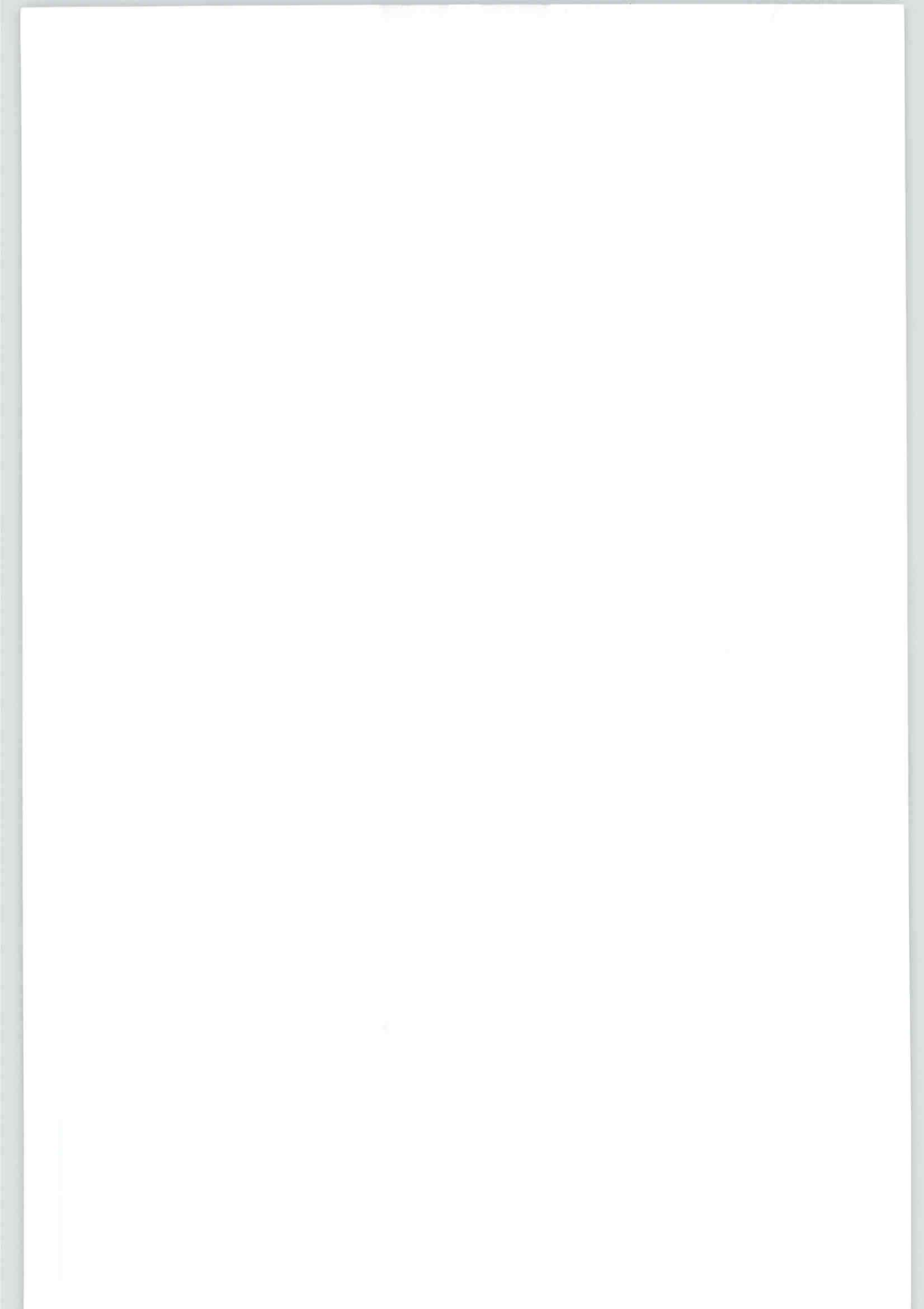




ANNUAL REPORT 2004



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MONGOLIA

AREA	1,565,000 sq km (604,250 sq mi)
POPULATION	2,750,000
CAPITAL	ULAANBAATAR
RELIGION	TIBETAN BUDDHISM
LANGUAGE	KHALKHA MONGOLIAN
LITERACY	83%
LIFE EXPECTANCY	61 YEARS
GDP PER CAPITA	2,200 USD
ECONOMY	Industry: copper, construction materials, mining Agriculture: wheat, barley, sheep, goats, cattle, camels, horses Export: copper, fluorite, meat, animal products, cashmere, wool, apparel

Chinggis Khaan's horsemen swept into the high, dry Asian interior during the 13th century. Manchu China muscled in four centuries later. Mongolia was founded as a communist country in 1924, but in 1990, the communist dropped their monopoly, and multiparty elections were held. The nation elected its first non-communist government in 1996.

With less than two persons per square kilometer, Mongolia ranks among the least densely populated countries of the world.



2004 ECONOMIC PROFILE

The year 2004 was full of different events in political, economic and social sectors where many changes, growth, progress and negotiations occurred.

The Government of Mongolia has been taking consistent political measures aimed at attracting investments and creating favorable environment for economic development. In 2004, GDP of Mongolia reached over 1807 billion tugrugs and the economic growth was at the rate of 10.6 percent, which has become the basis for the further economic development of the country. This growth of GDP is due to the robust performance in the mining and agricultural sectors.

As of the end of 2004, money supply M2 reached to 847,03 billion tugrugs, which meant it increased by 147,7 billion tugrugs or 20,7 percent compared to the previous year.

In 2004, total revenue and assistance of the state budget was 697,4 billion tugrugs and total expenditure was 713,8 billion tugrugs, accordingly, the current balance had 164,6 billion tugrugs surplus and the total balance had 16,4 billion tugrugs deficit, which was 0,9 percent of GDP.

Last year total foreign trade turnover was 1864,9 million USD, out of which export accounted for 853,3 million USD and import accounted for 1011,6 million USD respectively, which resulted in 158,3 million USD deficit. Compared to 2003, total balance increased by 31,6 percent, further export and import increased by 38,5 and 26,3 percent respectively.

In 2004, the inflation rate was 4,7 percent and increased by 11 percent compared to 2003.

BANKING INDUSTRY IN 2004

Total assets of Mongolian banking sector reached to 962,04 billion tugrugs. As a result of the increasing public confidence in the banking system, the total time deposit of the banking sector reached to 625,7 billion tugrugs, which has reached to the highest level in the history of Mongolian financial sector.

Total loan portfolio of the banking sector reached to 606,8 billion tugrugs. Total non-performing loans stood at 21,6 billion tugrugs, which was 3.5 percent of the total loan portfolio of the banking industry.

Although the number of commercial banks remained at 17, competition among banks greatly intensified. Banks opened new branches and introduced new products such as telephone-banking, internet-banking and International and domestic payment cards.

CEO'S MESSAGE

Ladies and Gentlemen:

It is my great pleasure to present to our esteemed business partners, clients and customers the Bank's Annual Report 2004.

2004 was year of dedication, optimism, hope and success for the Chinggis Khaan Bank of Mongolia. The Chinggis Khaan Bank focused on financing new and feasible projects developed by companies with the long term vision. In 2004, the Chinggis Khaan Bank provided loans amounting to 24,7 billion tugrugs in sectors such as agriculture, light and food industry, gas station network, petroleum imports, metal trading, printing house, entertainment, sheepskin processing, health, construction materials, cashmere and camel wool as well as exploration of non-metal mineral resources. I would like to make a special note that these projects developed and implemented by our clients were promising and exciting in terms of future success.

As of December 31, 2004, the Chinggis Khaan Bank's total asset reached to 73, 05 billion tugrugs and increased by 29,5 percent from the previous year. It accounts for 7 percent of the country's total banking assets. In the environment of intensified competition between banks, we were able to advance our position from 6th rank to the 5th rank in terms of total assets.

In 2004, the share capital of the Bank was increased by 60,4 percent and reached to 36,7 billion tugrugs, thus making the Bank become the largest Mongolian bank in terms of paid-up capital and substantially advancing the Bank's competitive position as well as significantly reducing its risk exposure.

Last year the Chinggis Khaan Bank's net profit after tax was 2,7 billion tugrugs with 29,6 percent increase from the previous year. The Bank paid 600 million tugrugs to the state budget.

It is common knowledge that the interest rate and maturity for bank loans is very important for the entire economy as well as for the individual businesses. We are very proud that the weighted average interest rate of the Chinggis Khaan Bank loans was 12 percent per annum and their average maturity was 35 months, which have been respectively the lowest and longest in the country.

In 2004, we paid special attention on choosing a banking software. As a result of a long research, we chose Oracle based «RS-Bank v.6» software developed by R-Style Softlab Company. This software allows us greatly advance our Management Information System to the high level in the banking industry.

Based on the Chinggis Khaan Bank is achievements in 2004, the Mongolian National Chamber of Commerce and Industry awarded the Bank with 6th place among «The Top 10 Banks of Mongolia».

I am very proud to announce that we fulfilled all the goals and businesses planned for 2004. I strongly believe that the success we achieved is the result of enormous efforts of our staff, strong cooperation between the Bank and our customers based on trust and confidence.

We, the Chinggis Khaan Bank, recognize that the Bank is making only first few steps towards the implementation of its long term mission. The year 2005 will be another important stage in this regard. We are confident that the Chinggis Khaan Bank is staff will work hard and our customers will cooperate with and support us.

Taking this opportunity, I would like to extend my sincere gratitude to everyone who works with us and supports us and wish you prosperity in 2005.

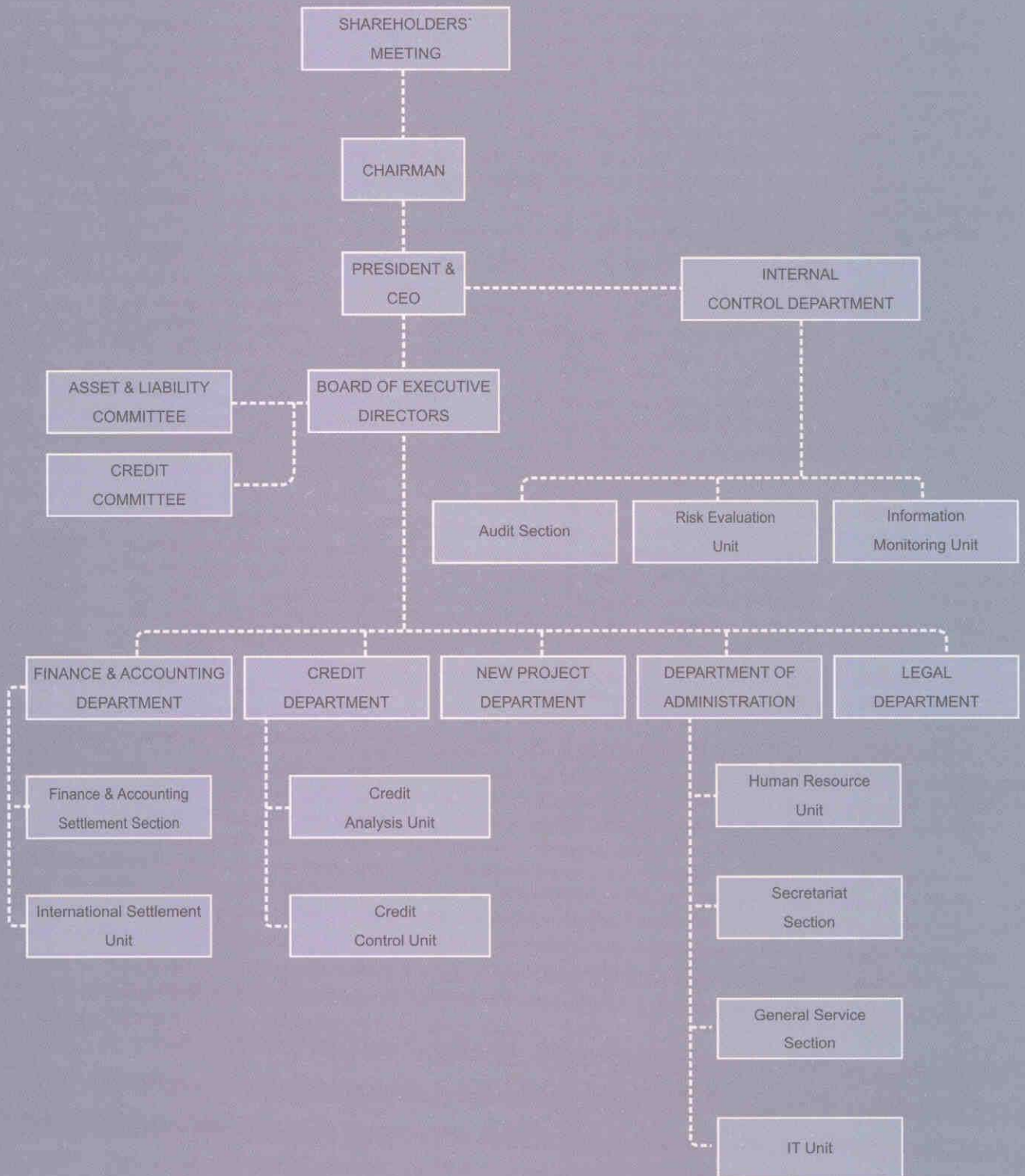


SAINTSOGT Chimid
President and CEO



SAINTSOGT Chimid
President and CEO

BANK STRUCTURE



MANAGEMENT TEAM



ARIUNAA, Luimed
Director of Internal Control Department



ENKHBAT, Badarch
Advisor

BATMAGNAI, Tunrev
Director of Credit Department



TUUL, Namkhajantsan
Director of Finance & Accounting Department



CORPORATE LENDING AND FINANCING

In the year 2004, the Chinggis Khaan Bank disbursed USD21.1 millions as loans for the projects in sectors such as agriculture, light industry, food industry, processing industry, media, arts and culture as well as health. Some of them include:



Thanks to loan disbursement, Agro-Eco Company's project of intensive pig breeding farm, an excellent contribution to the agro-food industry, was successfully completed and put into operation earlier than the planned date.

The Bank granted loan for building up Water and Beverage bottling line of APU Company in 2004.



APU Company launched European standard brewery with most up-to date, fully automatic brewery equipments and laboratory fine tools made by German NERB and KLINGER firms. As a result, APU has introduced new brand beer named Khar Khorin, Altan Gobi, Borgio, Altai and Niislel for the customers. The Chinggis Khaan Bank has supported this project from the very beginning with a view that the project will make great contributions to the export development of Mongolia.



Being granted loan disbursement, Tavanbogd Photo Co. Ltd is now capable of developing photos from originals by the digital labs Frontier 340 and 350, produced by the Japanese FUJIFILM Company.

The Chinggis Khaan Bank also granted loan for a project implementation of flourmill with the world known «SAS» modern and fully automatic technology of Turkish and Dutch joint venture.

The project was aimed at producing high quality ironized flour.



The Khatan Suikh Impex Company was granted with loan for an export-oriented meat processing factory, with strategic significance. As a result, the factory was put into operation at full capacity.



The Eermel Joint Venture took loan for its technical renovation and working capital needs. As a result, the factory regained its leading position on the wool and cashmere market.



The Chinggis Khaan Bank supported a sheepskin processing project aimed at producing high quality silky sheepskins. This project, implemented by Sergen Mandalt Co. Ltd, was utilized in 2004.



The Bank disbursed to Ulaanbaatar Print Company as loan for the purpose of purchasing the world-known Heidelberg's new technical equipment, which had never been used by Mongolian printing houses.





Loan was given to Shunkhlai Co. Ltd, which implemented a project to build up gas stations with comfort and security in rural areas as well as the capital Ulaanbaatar.



In 2004, the Chinggis Khaan Bank provided loan for the establishment of «Open Air» Entertainment Place of Ulaanbaatar Palace Co. Ltd.

Bolor Melmii Co. Ltd took loan to purchase ophthalmologic laser equipment, designed for treating eyesight defects.



The project of pet preform production, basic raw material of domestic beverage and juice factories was supported by loan. The project was successfully implemented by Pet Mongolia Co. Ltd.



Additional credit required for completion of some parts of the meat processing plant building, which aimed at supplying meat prepared in compliance with health safety regulations for the population of Ulaanbaatar, as well as advertising proper consumption of meat, was disbursed by the Bank. As a result, the plant has become fully operational.

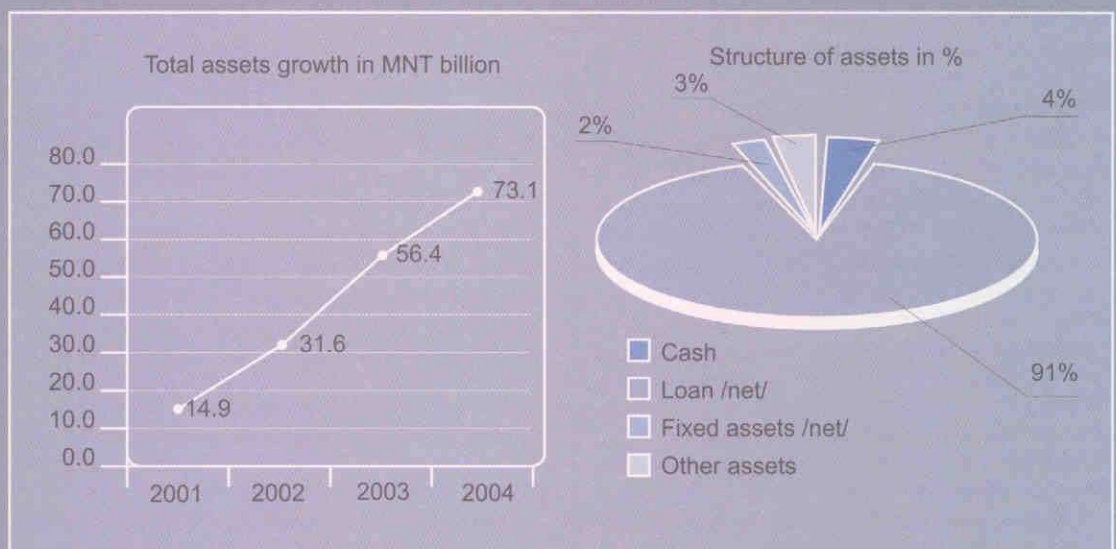


FINANCIAL REPORT

ASSETS

In 2004, the Chinggis Khaan Bank's total asset increased by 16.7 billion tugrugs or 29.5 percent and reached to 73.1 billion tugrugs, thus making the Bank occupy the 5th rank in Mongolian banking sector.

Total asset structure is as follows: loan outstanding holds 91 percent or 67.1 billion tugrugs, cash 4 percent or 2.7 billion tugrugs, tangible assets 2 percent or 1.1 billion tugrugs and commercial securities 0.3 percent or 136.2 million tugrugs.



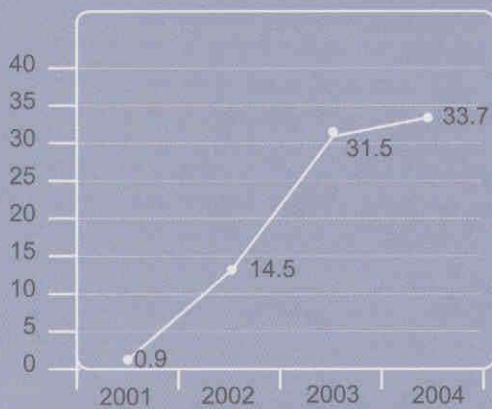
Interest bearing assets that increased by 27.4 percent compared to the same period of the previous year was 93.5 percent of the total assets.

LIABILITIES

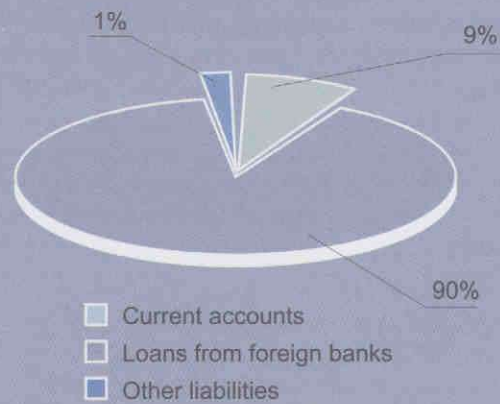
As of December 31, 2004, total liabilities of the Bank increased by 7 percent compared to the previous year and reached to 33.7 billion tugrugs.

By the end of 2004, 9 percent or 3 billion tugrugs of the total liabilities was current accounts and 90 percent or 30.2 billion tugrugs was funds borrowed from bank and other financial institutions respectively.

Total liabilities growth in MNT billion



Structure of liabilities in %



Liquidity of the Bank is managed through the regular monitoring of the correlation for the ratios of maturity and interest of Bank assets and liabilities.

EQUITY

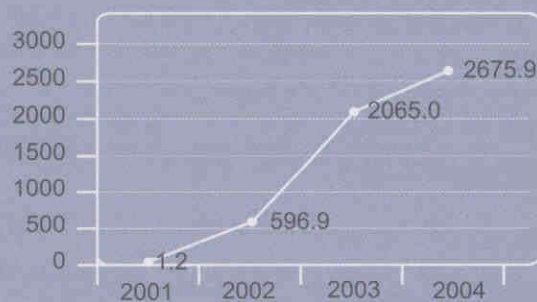
In 2004, total equity of the Bank reached to 39.4 billion tugrugs and increased by 14.4 billion tugrugs or 57.9 percent from the same period of the previous year. The Chinggis Khaan Bank holds the first rank among the Mongolian commercial banks in terms of equity.

PROFITABILITY

As a result of successful credit and investment operations, the Chinggis Khaan Bank had net operating profit of MNT2.7 billion in 2004 and the profitability increased by 29.6 percent. The Bank occupied the 3rd rank among the other banks in terms of earnings.

In 2004, the Chinggis Khaan Bank contributed 600.5 million tugrugs to the state budget.

Net profit growth in MNT million

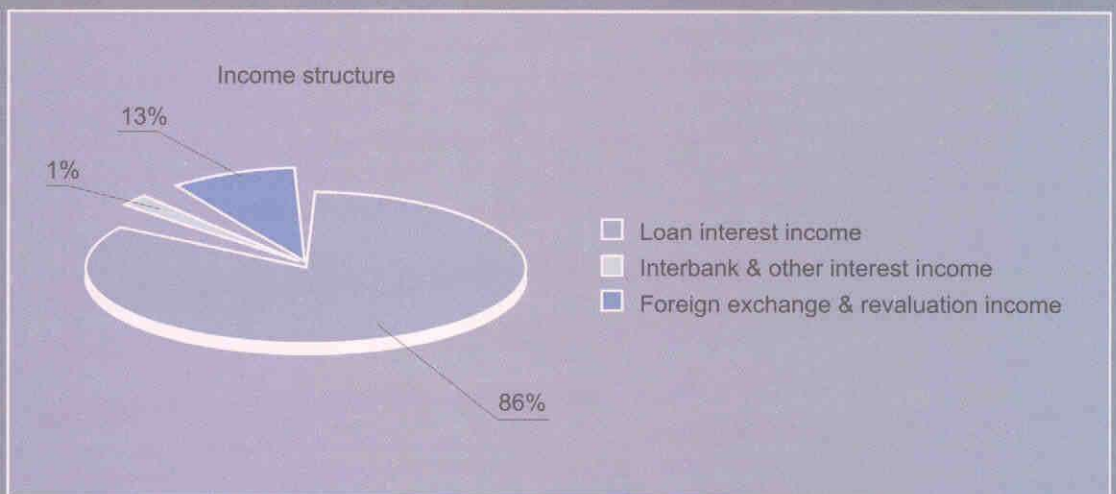
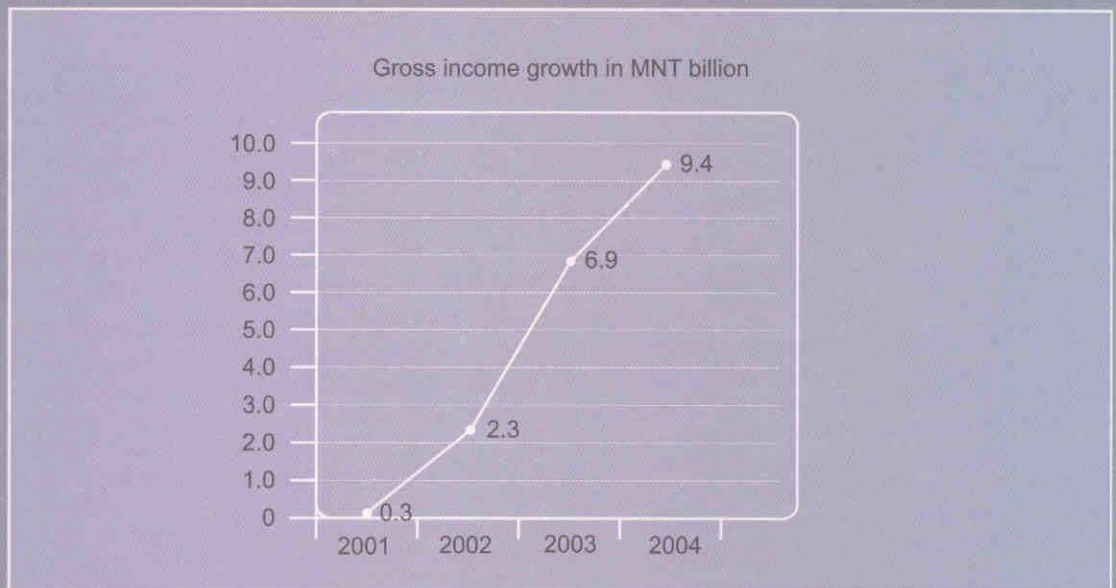


FINANCIAL REVIEW

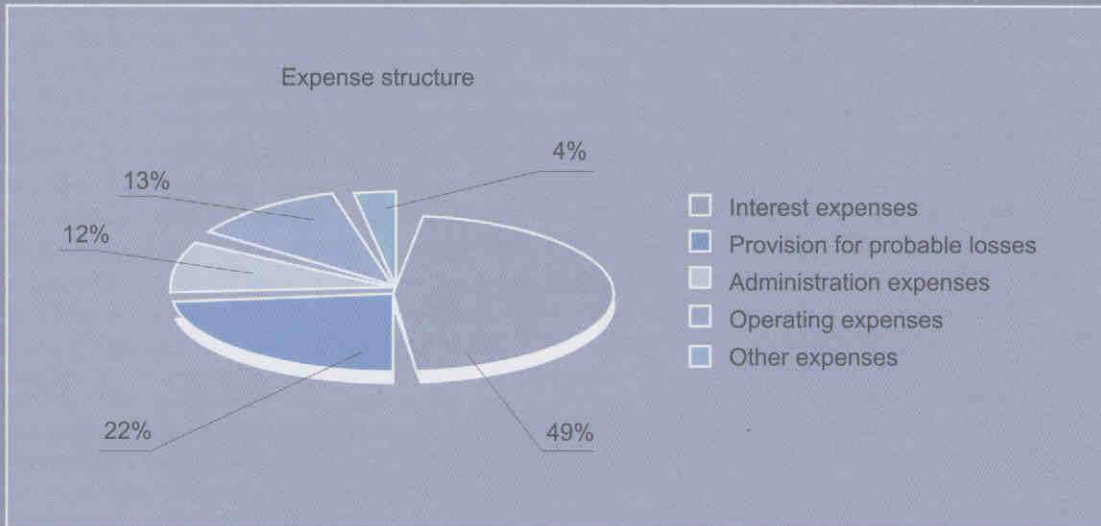
In 2004, the Chinggis Khaan Bank implemented a policy of keeping the interest rate at the same level as the previous year.

By the end of 2004, total revenue of the Bank reached to 9.4 billion tugrugs increased by 2,5 billion tugrugs or 1.4 times and total expenses reached to 6.7 billion tugrugs, increased by 1.9 billion tugrugs or 36 percent compared to the same period of the previous year.

In 2004, interest revenue was 87 percent or 7.5 billion out of the total revenue. It was 85 percent or 5.8 billion tugrugs in 2003.



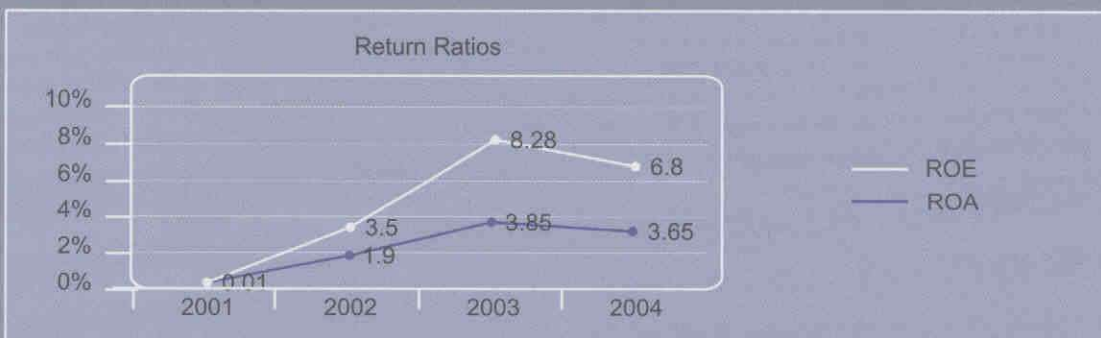
Out of the total expenses, 49 percent was interest expense, 22 percent provision for probable losses, 12 percent staff expenses and 13 percent other operating expenses respectively.



Most of the non-interest expense is provision for probable loan losses. In 2004, expense for loan loss reserve was 472.6 million tugrugs.

Legal consulting fee occupied 31 percent of the total operating expenses, rental expenses 10 percent, insurance expenses 4 percent, advertisement expenses 11 percent and communications expenses 12 percent respectively.

Return Ratios	2003	2004
ROA	3.85%	3.65%
ROE	8.28%	6.80%
Ratio of equity & total assets weighted by risk	46.04%	35.34%
Ratio of Tier I core capital & total assets	44.21%	52.85%



RISK MANAGEMENT REPORT

It is necessary for the banks to ascertain, assess, measure and appropriately manage bank risks now due to rapid development of the banking and financial sector with increasing competition.

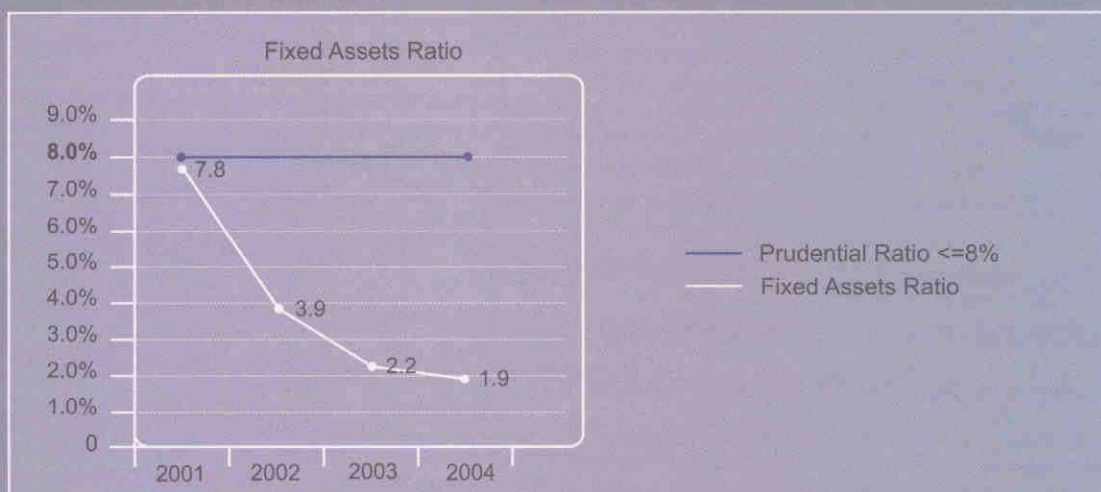
In order to introduce its own risk management system in each single stage of the banking operations, the Chinggis Khaan Bank made organizational restructuring in 2004 as well as special efforts to improve the Bank's management control system.

Image or reputation risk is directly monitored by the senior executive management of the Chinggis Khaan Bank, credit risk by the Credit Department, liquidity, market and operational risks by the Department of Finance and Accounting, operational and reputation risks by the Department of Administration and legal risks by the Legal Department respectively.

The Internal Control Department of the Bank ensures the establishment and maintenance of potential risk management system throughout the banking operations.

In 2004, within the framework of the restructuring, the Risk Assessment Unit was founded and the Unit is responsible for assisting and supporting the management in making right decisions through prevention from new risks, ascertaining, assessment of analysis and monitoring of the Bank's existing risks. Special attentions were paid on studying and implementation of experiences of modern methodology on risk assessment of other domestic and international banks.

The Bank strictly complies with the prudential ratios set by the Bank of Mongolia. In 2004, the return on assets of the Bank was 3.7 percent, decreased by 0.2 points compared to the previous year. This is due to the 30 percent increase of the total assets. The return on equity was 6.8 percent, decreased by 1.4 points compared to the previous year. This is due to the increase in total expenses.



CREDIT RISK

Credits available at the Mongolian commercial banks are mainly for non-industrial sectors because of single borrower exposure ratio dependent on their equity size. For the development of Mongolian industrial sector, long-term credit with low interest rate is highly demanded. Thus, the Chinggis Khaan Bank has been making its best efforts to meet this demand and provide such service.

As of December 31, 2004 the Bank's total loan outstanding was 67.1 billion tugrugs with increase of 9.2 billion tugrugs or 31.7 percent compared to the same period of the previous year.

Performing loans and overdue loans were 82.5 percent or 56,3 billion tugrugs and 17.5 percent or 11,9 billion tugrugs of the total loan outstanding. According to the rules set by the Bank of Mongolia, the Chinggis Khaan Bank maintained the provision for probable loan losses of 1 percent for performing loans and 5 percent for the overdue loans.

The Bank's credit policy and limits are set by the Shareholders and the economists of the Credit Department have been working hard and effectively on the credit analysis of investment projects, including collateral valuation, document compilation standard level, improvement of credit monitoring and assessment, monitoring of economic sector as well as client concentration risks.

Credit ratio	31-Dec-2003	31-Dec-2004
Loans / Total assets	90.34%	91.92%
Provision for Probable loan losses / Total assets	0.67%	1.82%
Interest income / Loans	11.44%	11.20%
Overdue loans as % of total loans	8.37%	17.51%
Provision for Probable loan loss as % of total loans	1.33%	1.70%

LIQUIDITY RISK

The Bank ensured balanced maturity of the bank assets and liabilities and appropriately managed liquidity in accordance with profitability.

Liquidity ratio	31-Dec-2003	31-Dec-2004
Liquid assets / Total liabilities	9.06%	8.07%
Cash / (Current account + Demand deposits)	-	91%
Loans / Total liabilities	161.9%	199.38%
Current assets / Current liabilities	1790.1%	197.48%
Current assets / Total assets	5.84%	8.04%

MARKET RISK

The Bank maintained a stable policy on the interest rate and the Bank's interest rate of both assets and liabilities remained the same as the previous year.

Weighted average interest of the Bank assets was 11.2 percent in 2004, weighted average interest of the liabilities was 8.7 percent, emerging a difference of 2.5 points. Interest sensitive revenue grew by 29 percent against the previous year.

Items	31-Dec-2003	31-Dec-2004
Net interest income / Interest bearing assets	6.37%	6.71%
Adjusted net interest income / Interest bearing assets	5.65%	4.74%

OPERATIONAL RISK

The Internal Control Structure of the Bank was restructured to take precautionary measures against all risks related to accounting, asset security and safety, commercial risks, personnel risks, information technological risks, mistakes of administrative resolutions and confidentiality.

The Bank has been making consistent efforts in preventing risks related to the information technology development and improvement.

To reduce any possibility for negative actions on the Bank activities, the Internal Control Department monitors implementation of resolutions aimed at preventing from mistakes, discovering violations and improving structure of internal control management.

In addition, the Bank developed and adopted its own guideline on Anti-Money laundering and terrorism financing in 2004.

INFORMATION TECHNOLOGY

2004 was the year of rapid development for Information Technology of the Chinggis Khaan Bank. We achieved our objectives set forth in this direction and was able to reach the same level where Mongolian commercial banks have been.

As a result of a long term research on banking software, we chose «Oracle»based «RS-Bank v.6» from many software including «Galaxy», «Bankers Realm», «RS-Bank» and «Banks» developed by «R-Style Softlab» Company. The advantages of this software are as follows:

- Prior experience of the «R-Style Softlab» company with its software already implemented in Mongolian banking sector;
- High level of information security as well as operational safety;
- Flexible operational coding structure of the software, which meets individual client requirements;
- Possibility of on-line banking operations;
- Availability of account statements and reports in different formats;
- Establishment of MIS and maintenance as well as processing of credit and risk management system;
- Comprehensive and conventional system for distant consulting and services in various ways;
- Full and broad coverage of all banking operations;

This software has been introduced and utilized by many domestic and foreign banks.

Introduction and full implementation of the new software in much earlier than the planned date or in December 2004 was due to professional skills and experience of IT officers of the Bank as well as the effective cooperation of the specialists from the «R-Style Softlab» Company with high professional skills.

In 2005, the Bank will be connected to S.W.I.F.T. The Bank is also planning to introduce new services based on information technology such as internet banking and mobile banking.

HUMAN RESOURCE MANAGEMENT

The success of the Bank directly depends on our employees, who are well educated and have sufficient professional skills to carry out the Bank's mission.

In 2004, the major tasks of the Bank's human resource development policy were further improvement of knowledge, professional skills and productivity of the Bank officers and training as well as retraining of them so that they could acquire required capacity in accordance with international banking standards. We are proud to note that these tasks were successfully implemented.

In 2004, the Bank hired 6 new principal officers and the total number of bank employees reached to 41. Last year the Chinggis Khaan Bank spent 553,3 million tugrugs on its employees as salaries and wages, special benefits, compensation and professional training.

The average age of the Bank employees is 33.



AUDIT REPORT



NIMM AUDIT Co.,Ltd

ACCOUNTING, AUDITING, VALUATION AND TRAINING

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lkh toiruu-15 Chingeltei district, Post office-46, Box-670
Ulaanbaatar, Mongolia
Tel: (976-11) 318667, 328630; Fax: (976-11) 313882;
E-mail: nimmaudit@mongol.net

Date: _____

Ref: _____

**TO INVESTORS OF
CHINGGIS KHAAN
BANK**

AUDITOR'S REPORT

We have audited the statements of Chinggis Khaan Bank for the year ended December 31, 2004. Preparation and presentation of the bank financial statements are responsibility of the bank management. Our responsibility is to express an opinion on these financial statements based on our auditing.

Our examination was made in accordance with the Auditing law, the Accounting law of Mongolia, and International Standards on Auditing, and principles, procedures prescribed in the rules approved by the Bank of Mongolia based on an audit planning. We perform the auditing procedures as planned, and examined bank significant accounting policies, principles and methods used for preparation of the bank's financial statements, and evaluated the internal control systems to obtain reasonable assurance about whether the statements are free from material misstatements. We assessed bank management's resolutions, and its realization, and examined significant estimates made by the bank management. We believe that our auditing provides a reasonable basis to following opinion.

In our opinion, the financial statements of Chinggis Khaan Bank present fairly, in all material respects, financial position, operating results, changes in equity and cash flows of the bank for the year ended December 31, 2004 in accordance with the accounting rules approved by the Bank of Mongolia and International Accounting Standard.



CHINGGIS KHAAN BANK

BALANCE SHEET

As of December 31, 2004

(in Tugrugs)

Assets	Note	Dec.31.2003	Dec.31.2004
Cash and cash equivalents	5	2,851,878,966	2,717,140,038
Loans \net\	6	50,953,139,348	67,148,199,330
Fixed assets \net\	7	1,030,998,591	1,098,201,512
Long term investment		117,903,000	136,213,850
Other assets	8	1,450,325,747	1,951,483,123
Total assets		<u>56,404,245,652</u>	<u>73,051,237,853</u>
Liabilities			
Current accounts	9	-	2,972,421,374
Long term liabilities	10	29,200,000,000	30,225,000,000
Other liabilities	11	2,266,103,622	481,759,420
Total liabilities		31,466,103,622	33,679,180,793
Equity			
Share capital		22,873,118,770	36,696,142,030
Retained earnings		<u>2,065,023,261</u>	<u>2,675,915,029</u>
Total equity		24,938,142,030	39,372,057,059
Total liabilities and equity		<u>56,404,245,652</u>	<u>73,051,237,853</u>

CHINGGIS KHAAN BANK

STATEMENT OF PROFIT AND LOSS ACCOUNTS

For the year ended December 31, 2004
(in Tugrugs)

	Note	Dec.31.2003	Dec.31.2004
Interest income		5,822,698,741	7,518,275,038
Interest expense		<u>(2,528,221,766)</u>	<u>(2,966,538,268)</u>
Net interest income	12	3,294,476,976	4,551,736,771
Gain or loss on foreign currency trading and revaluation	13	784,689,059	1,165,990,606
Other operating income	14	23,240,028	32,925
Non interest income		807,929,087	1,166,023,531
Operating net income		4,102,406,063	5,717,760,302
Operating expenses	15	<u>(1,191,378,825)</u>	<u>(1,464,655,943)</u>
Profit before provisions for contingent risk		2,911,027,238	4,253,104,359
Contingent risk expenses	16	<u>(375,886,170)</u>	<u>(1,332,874,986)</u>
Operating profit		2,535,141,068	2,920,229,373
Non operating income		-	7,500
Non operating expenses	17	(15,397,205)	(30,270,642)
Profit before tax		2,519,743,863	2,889,966,231
Income tax expense	18	<u>(454,720,602)</u>	<u>(214,051,202)</u>
Net profit		<u>2,065,023,261</u>	<u>2,675,915,029</u>

CHINGGIS KHAAN BANK

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2004
(in Tugrugs)

	Share capital	Retained earnings	Total equity
Balance as of December 31, 2002	16,576,191,506	596,986,483	17,173,177,989
Increase in share capital	5,700,000,000	-	5,700,000,000
Allocation of retained earnings:			
Stock dividend	596,927,263	(596,927,263)	-
Dividend by cash	-	(59,219)	(59,219)
Net profit for the current period	-	2,065,023,261	2,065,023,261
Balance as of December 31, 2003	22,873,118,769	2,065,023,261	24,938,142,030
Increase in share capital	11,758,000,000	-	11,758,000,000
Allocation of retained earnings:			
Stock dividend	2,065,023,261	(2,065,023,261)	-
Net profit for the current period	-	2,675,915,029	2,675,915,029
Balance as of December 31, 2004	36,696,142,030	2,675,915,029	39,372,057,059

CHINGGIS KHAAN BANK CASH FLOW STATEMENT

For the year ended December 31, 2004
(in Tugrugs)

	<u>Subtotal</u>	<u>Total</u>
Profit before tax		2,889,966,231
Adjustment:		
Fixed asset depreciation	100,075,691	
Contingent risk expenses	1,369,224,169	
Interest income	(7,518,275,038)	
Interest expense	2,966,538,268	
Loss on disposal of fixed assets	869,447	(3,081,567,464)
Operating profit before working capital changes		(191,601,233)
Increase \decrease\ in operating assets:		
Loans	(16,667,656,556)	
Other Assets	(1,376,652,459)	(18,044,309,014)
Increase \decrease\ in operating liabilities:		
Current accounts	2,972,421,374	
Long term liabilities	1,025,000,000	
Other liabilities	2,771,053	4,000,192,426
Cash flows from operating activities		(14,235,717,821)
Interests received	7,497,142,526	
Interests paid	(4,569,690,523)	
Income tax paid	(398,014,202)	2,529,437,801
Net cash flows from operating activities		(11,706,280,020)
Cash flows from investing activities		
Purchase of fixed assets	(168,148,059)	
Purchase of long term investment	(18,310,850)	
Net cash flows from investing activities		(186,458,909)
Cash flows from financing activities		
Increase in share capital	11,758,000,000	
Net cash flows from financing activities		11,758,000,000
Net total cash flows		(134,738,929)
Cash and cash equivalents, beginning of the year		2,851,878,966
Cash and cash equivalents, end of the year		2,717,140,038

CHINGGIS KHAAN BANK

Notes to the Financial Statements

December 31, 2004

(thousand tugrugs)

1. STRUCTURE AND OPERATIONS

Chinggis Khaan Bank was established on May 18, 2001 under the order of the Millennium Securities Management Limited Company.

The Bank's main operation is lending for investments and other type of loans, handling cash transfers and settlements of the customers and others in accordance with the Banking law, Foreign investment law and other regulations of Mongolia.

The Bank issued additional common shares by resolution of Shareholders and sold to Coral Sea Holding Group Ltd. Therefore, Millennium Securities Management Limited International Company and Coral Sea Holding Group Ltd owned all shares of Chinggis Khaan Bank in proportion.

2. MAIN PRINCIPLES

The financial statements have been prepared in accordance with the International Accounting Standard, accounting principles of Mongolia in consistent with it and accounting rules of Banking institutions approved by the Bank of Mongolia.

The financial statements are prepared in accordance with IAS.

3. MAIN ACCOUNTING POLICIES

a) The basis of accounting

The Bank prepared its financial statements under the accrual basis of accounting.

b) Financial statement preparing assumption

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

c) Recognition of assets

The bank recognized an asset in balance sheet when it is a resource that controlled by the bank as a result of past events, from which future economic benefits are expected to flow to the bank and the asset has a cost or value that can be measured reliably.

d) Recognition of liabilities

The bank recognized a liability in balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

e) Recognition and measurement of income

The bank recognized income in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Revenue is carried at the nominal value of the consideration receivable cash or cash equivalents.

f) Recognition and measurement of expenses

The bank recognized expenses in the income statement when an increase in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Expense is carried at the nominal value of the consideration receivable cash or cash equivalents.

g) Foreign currency transactions

Transactions in foreign currencies are recorded at that currency, and at the same time, translated into Mongolian tugrug using the exchange rate stated by the Bank of Mongolia on the date of transaction.

Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are translated into tugrug using the exchange rate at the date of transaction.

Foreign currency cash balances, receivables and payables are restated and translated each time when the official exchange rate is changed during the accounting period. Related gains and losses of foreign currency translation are recognized.

Gains and losses incurred from the foreign currency purchase and sales or trading are reported as foreign currency trading loss and gain.

h) Income taxes

The bank reports taxable profit and tax expense based on the «Corporate Income Tax Law» of Mongolia.

4. SOME SPECIAL ACCOUNTING POLICIES

a) Interest income and expense

Interest income and expense are recorded on the accrual basis of accounting.

b) Loans

Loans are reported in the financial statements at the net amount subtracting the reserve for probable loan loss from the loans given to business entities and individuals.

The reserve for probable loan losses is estimated for each category of loans according to the «Procedure for the asset's categorizing, set up reserve for probable loss and its disposition», jointly approved by the Governor of the Bank of Mongolia and Minister of Finance and Economy.

c) Fixed assets

Fixed assets are reported in the financial statements at the net amount, which is the historical cost less accumulated depreciation. Cost of asset is recorded at the sum of purchase price, other incidental expenses incurred for the acquisition of asset and expenditure for capital improvement of fixed asset.

Assets are depreciated under the straight-line method based on useful lives of asset. This method is same with the related provisions for the estimation of depreciation principles stated in the «Corporate Income Tax Law» of Mongolia.

Useful life of fixed assets is as follows;

Category of fixed assets	Useful lives	
	Chinggis Khaan	Income Tax Law
Building	40	40
Furniture and fixtures	10	10
Computer	5	5
Vehicles	10	10
Other fixed assets	10	10

d) Other assets

Receivables other than loan from other business entities and individuals, accrued interest receivables, prepaid expenses, advance to employees, prepayments, materials and supplies are classified and reported as other assets.

5. CASH AND CASH EQUIVALENTS

Categories of cash equivalents	Dec 31.2003	Dec 31.2004
A.Cash: In domestic currencies	15,313.3	5,487.8
In foreign currencies	2,367.5	1,354.1
Total	17,680.8	6,841.9
B.Current accounts at the Mongolbank:		
In domestic currencies	-	147,229.1
In foreign currencies	-	1,475,572.4
Total	-	1,622,801.5
C.Current accounts at the other banks and institution:		
Current accounts in domestic currency	17,301.4	825.6
Current account in foreign currencies	772,896.7	1,079,838.1
Deposits in foreign currencies	2,044,000.0	-
Current account at the Mongolian Stock Exchange	-	6,832.9
Total	2,834,198.1	1,087,496.6
Total of cash and cash equivalents	2,851,878.9	2,717,140.0

6. LOANS

Categories of loans	Dec 31.2003		Dec 31.2004	
	Loans	Provision for Probable Loan Losses	Loans	Provision for Probable Loan Losses
Standard loans	47,320,827.6	(473,208.3)	56,340,483.8	(563,404.8)
Past due loans	4,321,600.0	(216,080.0)	11,969,600.4	(598,480.0)
Total	51,642,427.6	(689,288.3)	68,310,084.2	(1,161,884.8)

7. FIXED ASSETS

FIXED ASSETS	Dec 31.2003		Dec 31.2004	
Types of fixed assets	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation
Building	492,670.8	(29,605.2)	492,670.8	(41,922.0)
Furniture and vehicles	626,469.9	(99,131.9)	720,514.2	(164,922.5)
Computers	70,339.8	(29,744.8)	131,592.0	(51,261.9)
Construction	-	-	11,530.9	-
Total	1,189,480.5	(158,481.9)	1,356,307.9	(258,106.4)

8. OTHER ASSETS

	Dec 31.2003	Dec 31.2004
Receivable	164.7	899,179.8
Provision for contingent risk on receivables	-	(896,627.6)
Prepaid expenses	16,348.8	482,644.7
Prepayments	918.1	3,406.0
Inventory	8,289.8	12,843.9
Low valuable and fast depreciable items	8,160.5	12,460.0
Accrued interest receivables on loans	1,416,443.8	1,437,576.3
Total	1,450,325.7	1,951,483.1

9. CURRENT ACCOUNTS

	Dec 31.2003	Dec 31.2004
In domestic currency:		
Private entities	-	1,020,828.2
In foreign currencies:		
Private entities	-	1,951,593.2
Total	-	2,972,421.4

10. LONG TERM LIABILITIES

The bank loans taken from foreign companies amounted 25,000.0 thousand dollars or 30,225,000.0 thousand tugrugs for the purpose of increasing the bank loan profile. These loans are recorded in the balance sheet as «Long term liabilities».

11. OTHER LIABILITIES

	Dec 31.2003	Dec 31.2004
Liabilities	3,448.3	6,219.4
Income tax payable	183,963.0	-
Accrued interest payables	2,078,692.3	475,540.0
Total	2,266,103.6	481,759.4

12. NET INTEREST INCOME

	2003	2004
Interest income		
Interest on loans	5,558,009.6	7,405,394.2
Interest income received from foreign company	236,978.3	109,411.9
Interest income received from other banks	27,710.8	3,468.9
	<u>5,822,698.7</u>	<u>7,518,275.0</u>
Interest expense		
Interest expenses on current account	-	(153,554.3)
Interest expenses paid to foreign institution	(2,509,377.5)	(2,799,943.3)
Interest expenses paid to other banks	(18,844.2)	(13,040.6)
	<u>2,528,221.7</u>	<u>(2,966,538.2)</u>
Net interest income	3,294,477.0	4,551,736.8

13. FOREIGN CURRENCIES TRADING AND REVALUATION

	2003	2004
Gain on foreign currency trading	78.1	138.1
Loss on foreign currency trading	(772.1)	(1,772.8)
	(694.0)	(1,634.7)
Gains on foreign currency revaluation	1,046,874.7	1,893,565.5
Losses on foreign currency revaluation	(261,491.6)	(725,940.2)
	785,383.1	1,167,625.3
Net gain and loss on foreign currency trading and revaluation	784,689.1	1,165,990.6

14. OTHER INCOME

	2003	2004
Rental income	11,938.5	-
Penalty	8,780.7	-
Other income	2,520.8	32.9
Total	23,240.0	32.9

15. OPERATING EXPENSES

	2003	2004
Salaries and wages expense	(328,177.8)	(394,732.0)
Social insurance expense	(41,183.8)	(61,086.9)
Bonus and incentives	-	(47,788.6)
Training expense	(30,957.3)	(18,295.5)
Business trip	(111,492.8)	(140,437.3)
Allowance	(16,349.4)	(31,346.6)
Loan and receivable collection expenses	(187,028.8)	(783.2)
Finance charges	(11,847.9)	(3,055.3)
Real estate tax	(2,956.0)	(2,956.0)
Consulting service	(75,698.0)	(254,133.2)
Audit and members' fee	(6,111.3)	(7,488.5)
Property insurance	(18,848.4)	(31,444.3)
Advertisement	(19,670.1)	(90,173.6)
Depreciation of fixed assets	(79,337.5)	(105,084.1)
Rental expense	(56,631.8)	(80,635.8)
Utilities	(13,160.7)	(12,648.1)
Ordinary maintenance of fixed assets	(24,988.6)	(6,100.7)
Stationary expense	(3,075.4)	(5,233.6)
Armored guard and security	(12,013.2)	(13,308.3)
Communication	(91,932.1)	(93,955.0)
Transportation and fuel supply	(13,785.7)	(26,097.1)
Subscriptions	(11,705.9)	(3,224.4)
Current expenses of automation	(2,706.4)	(2,329.6)
Sanitation expense	(1,771.4)	(1,947.0)
Uniforms	(2,454.5)	(1,640.2)
Land fee	(27,494.0)	(28,428.0)
Other expense	-	(303.0)
Total	(1,191,378.8)	(1,464,655.9)

16. CONTINGENT RISK EXPENSES

	2003	2004
Contingent risk expense on loans	(375,886.2)	(439,431.9)
Contingent risk expense on receivables	-	(893,443.1)
Total	(375,886.2)	(1,332,875.0)

17. NON OPERATING EXPENSES

	2003	2004
Loss on disposal	-	(869.4)
Non operating other expenses	(15,397.2)	(29,401.2)
Total	(15,397.2)	(30,270.6)

18. INCOME TAX EXPENSE

The bank pays 15 % income tax on the taxable income up to 100.0 million tugrugs and 30% tax on the income in excess of that amount by the Mongolian taxation laws.

In 2004, the tax amount of 214,051.2 thousand tugrugs was levied and the taxable income was amount of 667,438.0 thousand tugrugs, respectively.

19. FINANCIAL PERFORMANCE RATIOS

	Normal ratios	Bank's ratios	Dissimilarity
A.Capital adequacy:			
The Tier I risk-assessed capital adequacy ratio	> 5 %	35.3 %	-
The total risk-assessed capital adequacy ratio	> 10 %	35.3 %	-
The Tier I capital adequacy ratio	> 5 %	52.9 %	-
B.Concentration risk ratio on loans:			
The loan and guarantee given to one borrower	<Equity 20 %	15.35 %	-
C.Provision for probable loan losses /thous.tug/			
	1,161,884.9	1,161,884.9	-
D.Fixed assets ratio			
	< 8 %	1.9 %	-
E.The limit of shares owned by the bank			
Rate of shares owned by the bank in total shares of that company stock			
	<10 %	<10 %	-
All shares owned by the bank	<Equity 20%	0.35 %	-

