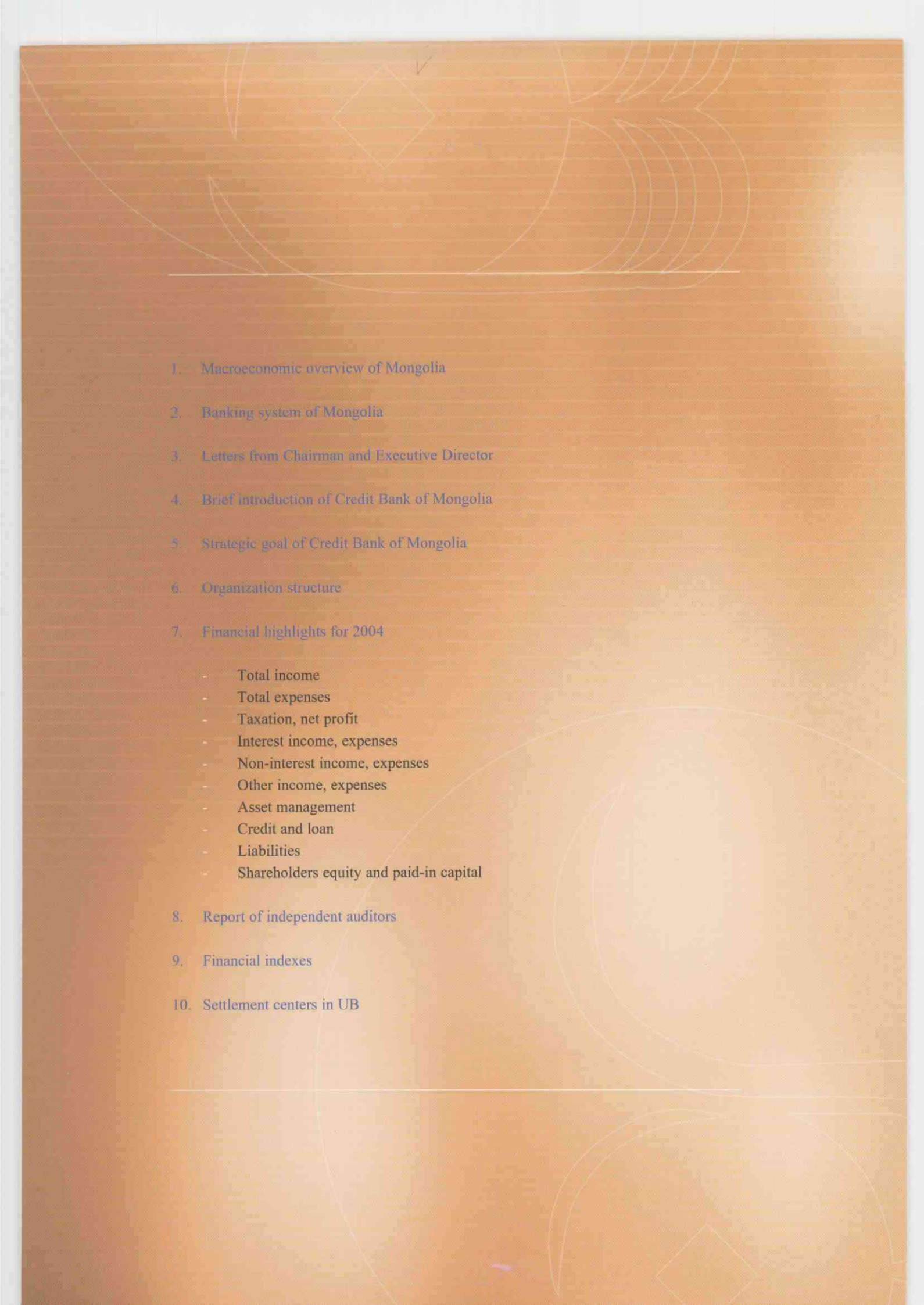




ANNUAL REPORT

2004



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 2. Banking system of Mongolia
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ECONOMIC AND SOCIAL SITUATION OF MONGOLIA (As of the preliminary result of 2004)



General Government budget

For the preliminary result of 2004, total revenue and grants of General Government budget amounted to 692.8 bln.togrogs and total expenditure and net lending 717.3 bln.togrogs. The General Government budget overall balance was a deficit 24.5 bln.togrogs.

Current revenue of General Government amounted to 685.9 bln.togrogs and current expenditure 525.8 bln.togrogs. The budget current balance was a surplus 160.1 bln.togrogs.

Compared with the previous year, tax revenue increased by 37.5 percent, taxes on foreign trade increased by 37.0 percent, value added tax increased by 33.5 percent and exsize increased by 19.9 percent respectively.

Money, Loan and Stock

According to the report of the Bank of Mongolia, at the end of November 2004 money supply (broad money, or M2) increased by 33.8 percent against of the same period of the previous year, and by 1.0 percent against the previous month, reaching 839.5 bln. togrogs. Compared with the previous month, at the end of the November 2004 currency issued in circulation decreased by 4.5 percent or 7.8 bln. togrogs, whereas foreign currency deposits showed an increase of 5.9 percent or 18.4 bln. togrogs and time saving deposit increased by 1.1 percent or 3.1 bln. togrogs.

In the end of November 2004 the remainder of loans outstanding increased by 2.9 percent over the previous month, reaching 592.0 bln. togrogs. Of which loans in public sector decreased by 7.9 percent. The loans of private and other sectors increased by 3.7 and 7.9 percent respectively. The non-performing loans, principal in arrears loans decreased by 4.7 percent.

External trade

For the preliminary estimates of 2004, total external trade turnover equaled 1864.9 mln. US dollars, of which exports 853.3 mln. US dollars and imports 1011.6 mln. US dollars. Total external trade balance turned a deficit of 158.3 mln. US dollars. As compared with the previous year, total external trade turnover increased by 31.6 percent, of which exports increased by 38.5 percent and imports by 26.3 percent respectively.

As compared with the previous year mineral products exports increased by 132.0 mln. US dollars, textiles and textile articles by 29.2 mln. US dollars and natural or cultured pearls, precious metal, jewellery by 100.0 mln. US dollars, which are mainly reflected in the increase of total exports. By raw and processed hides, skins, fur and articles thereof exports decreased by 32.0 mln. US dollars and live animals, animal origin products by 4.5 mln. US dollars respectively.

The volume of copper concentrated exports decreased by 1.1 percent, but the value in US dollars increased by 73.7 percent compared with the previous year. For the 2003 year, the average price of cop-

per concentrate per ton was 287.7 US dollars. However, in the 2004 year, it was 505.4 US dollars and increased by 75.7 percent.

Compared with the previous year machinery, equipment electric appliance recorders, TV sets and spare parts improve increased by 33.5 mln. US dollars, mineral products imports by 64.8 mln. US dollars, textiles and textile articles imports by 17.4 mln. US dollars, vegetable origin products improved by 31.4 mln. US dollars, auto, air and weight transport vehicles and their spare products imports by 16.8 mln. US dollars, which is comprised high percentage in the improvement. These had an effect on an increase of imports.

Industry

In 2004, the total industrial output was and 312.6 bln. togrogs at the constant prices 1995, that was more by 36.0 bln. togrogs or 13.0 percent with the previous year. Compared with the previous year, industrial output has been increased by 2.5-2.5% times for electricity, thermal energy, steam, collection, purification and distribution of water, mining of coal and lignite, extraction of peat, extraction of crude petroleum and natural gas, mining of metal ores, manufacture of food products and beverages, manufacture of textiles, manufacture of paper and paper products, manufacture of chemicals and chemical products, manufacture of basic metals, manufacture of fabricated metal products, except machinery and equipment, manufacture of furniture, manufacturing, etc. divisions, and declined by 1.2-94.1 percent for the other mining and quarrying, manufacture of wearing apparel, dressing and dyeing of fur, tanning, dressing of leather, manufacture of luggage, handbags, saddlers harness and footwear, manufacture of wood and wooden products, publishing, printing and reproduction of recorded media, production of other non metallic mineral products, manufacture of radio, television and communication equipment, manufacture of medical precision and optical instruments, watches and clocks, etc, division.

Compared with the previous year, 256 main items of industrial products, there production of 102 items increased, while production of 154 items decreased.



LETTER FROM CHAIRMAN

CREDIT bank can look back on another successful financial year. Above all, it was a year in which in many respects the signals were set for the future direction of the bank.

Now I am delighted to present the achievements, outcome and audited financial statement of CREDIT bank in Year 2004.

First of all, the paid-in capital of CREDIT bank has reached MNT 4.0 billion, according the Mongol Bank/State Bank requirement. We have pursued strategically policy of delivering satisfactory dividends to our shareholders, guaranteed prove of income to our staff, constant improvement of customer service quality, plus implementation of wide range of new banking service products. Moreover, we have performed successfully our goal on basis of our productive activities in the Mongolian financial market and fulfilled appropriate prudential ratio requirements of Mongol Bank. As a result, the net income of our bank has been increased by 85.5%, comparing with the last year. In addition, as the economy gathers strength, we expect to see growth in our commercial lending operations.

Although our bank provides a wide range of financial services to consumers, small businesses, middle-market companies and corporations, we have focused our activities to the improvement of risk management and high liquid ability.

Our retail presence is growing steadily, and we have improved our presence in all our markets. In summary, CREDIT bank is well positioned for further success.

Finally, I would like to express my sincere gratitude to all our shareholders, customers and staff of Credit Bank for your continuing support and cooperation.

Let your entire dream become true in this Year.

CHAIRMAN

A.TSERENDORJ



LETTER FROM EXECUTIVE DIRECTOR

The year 2004 was full of outstanding events not only for entire banking system of Mongolia with its historical celebration of 80-th Anniversary, but also for society on the whole.

By the end of 2004, our bank has provided entire banking services to our esteemed clients and customers through our branch and settlement centers in Ulaanbaatar, Darkhan-Uul and Govisumber aimag consequently. Moreover, in our bank, to fit new requirements of customer service environment, we started entire innovative service program, namely "VIP customer service".

Few facts of our bank's achievements. The current fiscal year the assets of our bank increased by 55.2%, net profit by 85.5% and the volume of our credit operation have doubled comparing with the last fiscal year.

In Year 2004, in the frame of Government policy on reducing poverty, we have implemented several projects, among with "Employment opportunity program," "Evolving SME-reducing poverty", "Microfinance" etc. Furthermore we will tighten our cooperation with international financial institutions and strengthen our position in Mongolian finance market.

Taking this opportunity, I would like to thank all our shareholders, esteemed clients and customers and all staff of Credit bank, first of all, for your significant support and contribution on developing our institution and for your confidence and trust, and wish to all of you success and happiness in your life.

EXECUTIVE DIRECTOR

N. BATKHISHIG



BRIEF INTRODUCTION OF CREDIT BANK

Its already around seven years, since commencement of its activities in April 10, 1998, Credit bank has been operating stable in financial system of Mongolia, strengthening its position and delivering to the customer professional and high quality service.

"CREDIT BANK" LLC was founded in 1997 as a limited liability company, and granted the license for banking services under resolution No 503 issued by the President of the Bank of Mongolia dated December 19, 1997.

The principal activities of CREDIT Bank LLC, which is incorporated as a commercial bank under the Mongolian Banking Law, are to provide a wide-range of banking products and services, including corporate and personal lending, international trade financing, foreign exchange services, deposit-taking and checking account services, investment banking services, credit cards services, private banking services and securities custody services, granted in accordance with the resolution No. 137 issued by the Bank of Mongolia on April 10, 1998 and foreign payment and settlement service under Banking License granted in accordance with resolution No. 328 issued by the Bank of Mongolia on July 15, 1999.

As of December 31, 2004, the Bank provides banking services through the branch in Gobisumber aimag incorporated under the resolution No 335 issued by the President of Bank of Mongolia on July 25, 2001, and a settlement center in Darkhan-Uul aimag, 2 settlement centers in Bayangol District of Ulaanbaatar, 2 settlement centers in Sukhbaatar District and a settlement center in Bayanzurkh District of Ulaanbaatar.

Since its establishment, the CREDIT Bank continually carries out all criteria, by which the Bank of Mongolia estimates the activities of commercial banks.

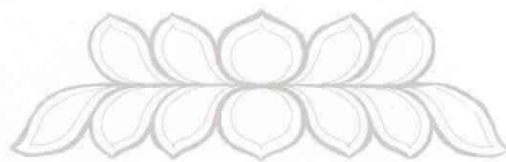
The main staff of the Bank is all have university degree in economics and finance and 24.4 percent of them have more than 5 years experience working in banking system. Eighty one percent of total employees are under 35 of age.

As at December 31, 2004 the Company had 74 employees (2003: 69 employees).

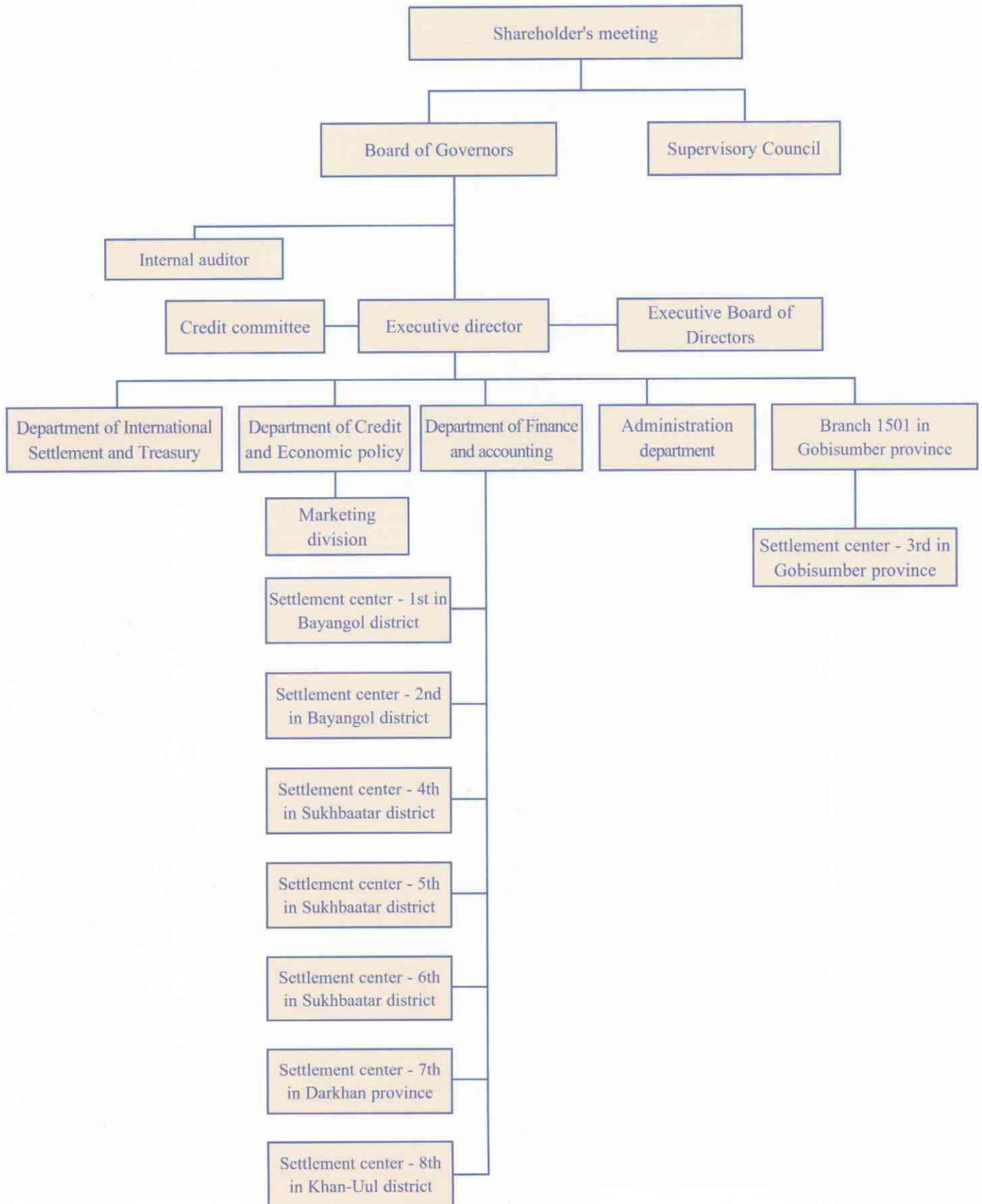
MISSION:

The Bank put forward its mission to become a high profitable, based on intellectual and technological progress international level Bank, with strong position in the national banking sector and international financial market.

Strategic mission of Credit Bank is developing and implementing products tailored to the needs of customers in a profitable manner.



ORGANIZATIONAL CHART OF CREDIT BANK



Executive Board of Directors



Executive Director
BATKHISHIG Namsrajav



Director of Credit and
Economic policy
BASBISH Dunai



Director of Finance
and accounting
ENKHTUVSHIN Isheekhuu



Director of International
Settlement and Treasury
BANZRAGCH Dashdorj



Director of Administration
department
SANJAA Dugar



Internal auditor
ENKHBOLD Amjaa

Financial highlights

In year 2004, the financial indexes of bank has significantly improved and met all prudential ratio, set by Mongol bank for commercial banks.

Current fiscal year, the total income estimated MNT 1 576 938 thousand, total expenses MNT 985 721 thousand, MNT 172,891 thousand of income tax paid to state budget, and accordingly net profit became MNT 418 326 thousand.

/thousand MNT/

Categories	2004	2003
Total income	1 576 938	981 338
Total expenses	985 721	625 528
Profit before taxation	591 217	355 810
Taxation	172 891	130 403
Profit after taxation	418 326	225 407

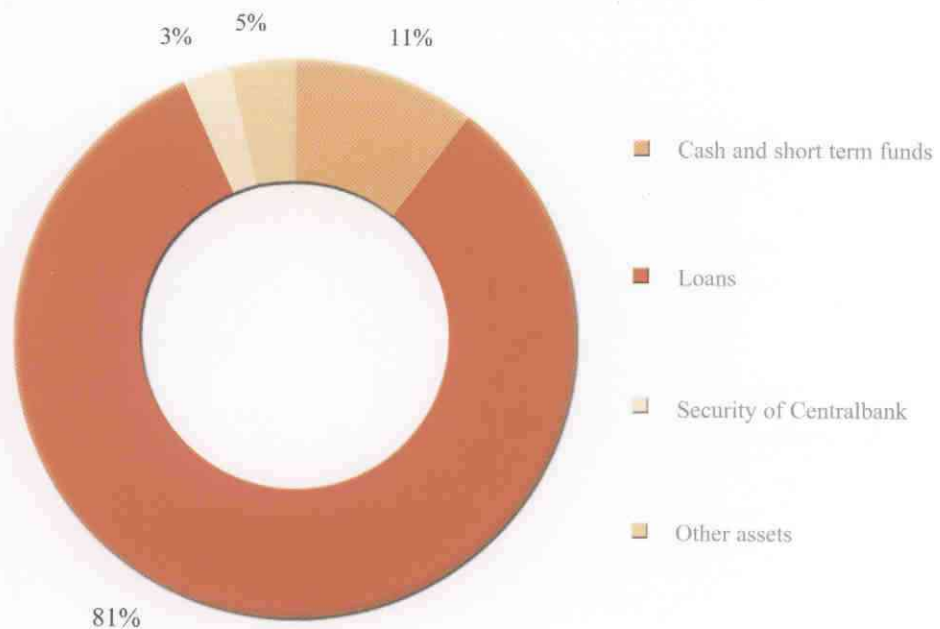


ASSETS

The current fiscal year, the interest earning asset reached MNT 10,504,334 thousand, an increase of 58.5 % or MNT 3,9 billion compared to last year's result.

	<i>/thousand MNT/</i>
Structure of total assets	10,504,334
Cash and short term funds	1,142,484
Loans	8,520,020
Security of Centralbank	299,353
Other assets	42,477

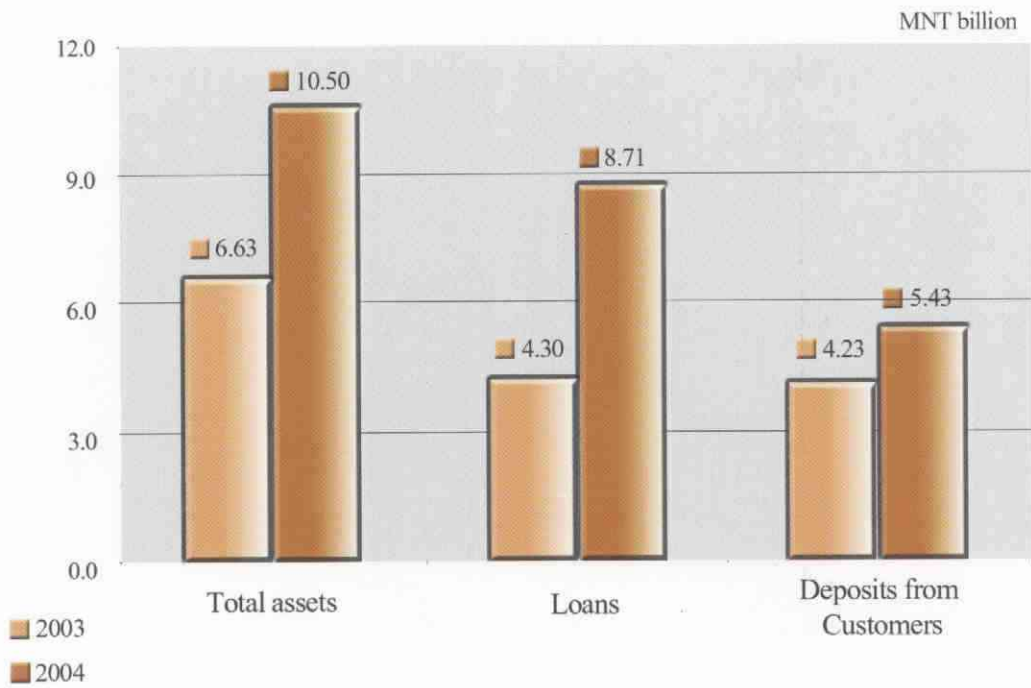
Structure of total assets



Financial highlights

/thousand MNT/

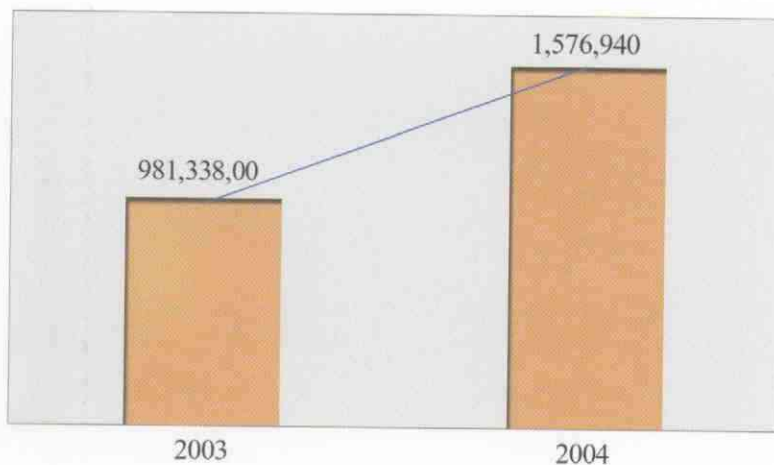
Categories	2003	2004
Total assets	6,625,320.05	10,504,334
loans (net)	4,295,866.67	8,520,020
Deposit from Customers	4,228,075.42	5,912,330



Total income

In Year 2004, the total income of Credit Bank reached MNT 1,576,940 thousand, an increase of 60.7 % or MNT 595,602 thousand.

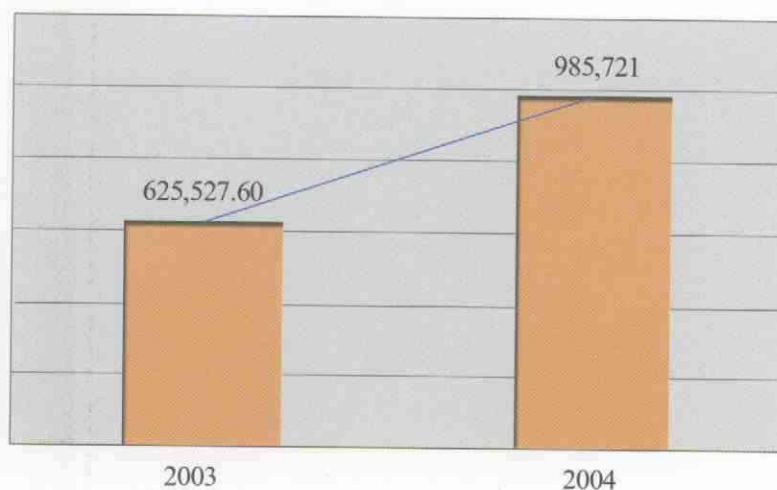
Total income



Total expenses

Total expenses in 2004 increased by 57.6 percent or MNT 360,199 thousand compared to a year earlier, reaching MNT 985,721 thousand.

Total expenses



Income tax and profit after taxation

The Bank paid MNT 172,891 thousand of income tax in 2004 to the state budget, an increase of 32.6 percent or MNT 42,488 thousand compared to the previous year. Profit after taxation rose by 85.6 percent or MNT 192,917 thousand reaching MNT 418,326 thousand.



Net interest income

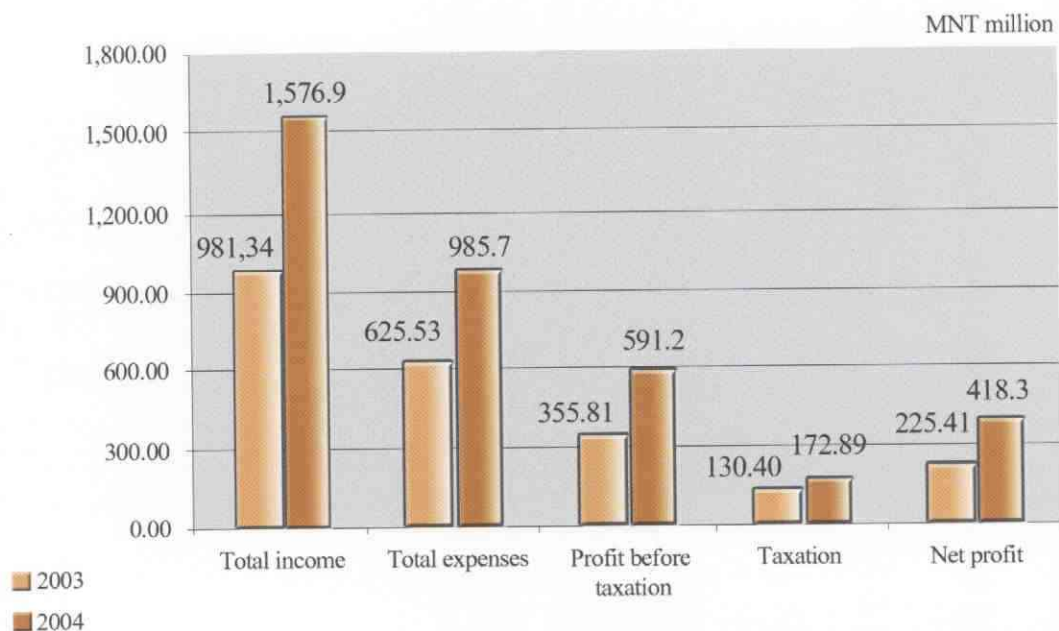
The Bank's net interest income rose by MNT 438,631 thousand or 61.4 percent, and reached MNT 1,152,895 thousand.

Interest Expenses

As a result of an increase in the number of customers and balances on their deposits, interest expense increased by 88,9 percent or MNT 171,623 thousand compared to the previous year.

Non interest income

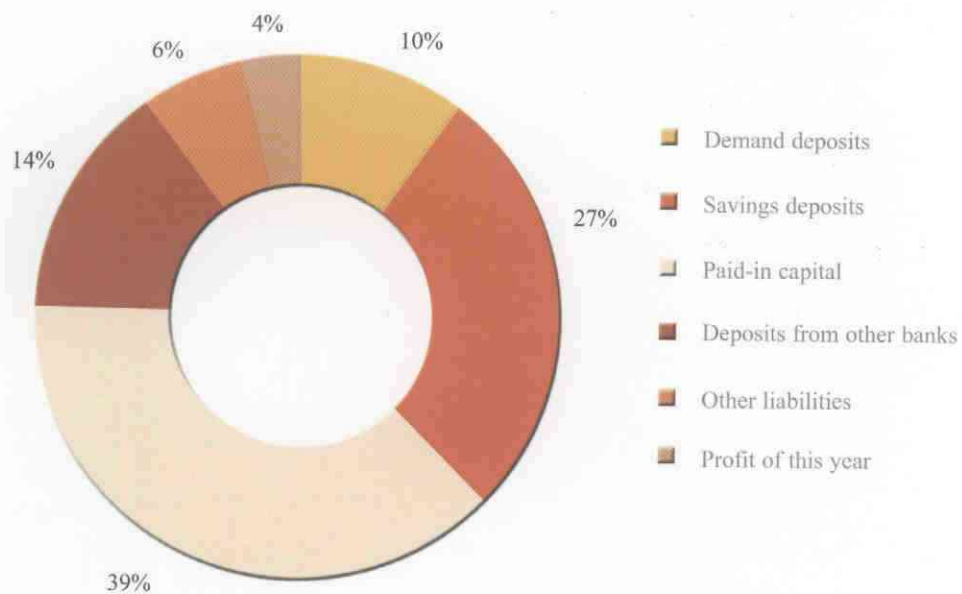
In this year, the Bank's non interest income increased by 8.6 percent or MNT 4,696 thousand.



STRUCTURE OF LIABILITIES

2004.12.31 thousand MNT

Structure of liabilities	10,504,334
Demand deposits	1,082,407
Savings deposits	2,861,077
Paid-in capital	4,000,067
Deposits from other banks	1,490,000
Other liabilities	652,456
Profit of this year	418,326



LIABILITIES

The total liability reached MNT 10.5 billion, an increase of 58.5% or MNT 3.9 billion. The liability structure has been improved due to the owner's equity increased significantly.

LOAN PERFORMANCE

In this reported year, we have expanded our loan operations in both quality and quantity. In 2004, loans outstanding have increased by 36.9 percent or by MNT 3,876,852 thousand, compared with loans outstanding at the end of fiscal 2003. Loan interest income became MNT 433,629.61 thousand or has increased by 37.8 percent over previous year. All above figures show how the bank's activities and operations expanded.

The total asset has been increased by 55.2% or MNT 3 980 000.00 thousands, compared with previous fiscal year, and 78 % of total assets were allocated in loan operations.

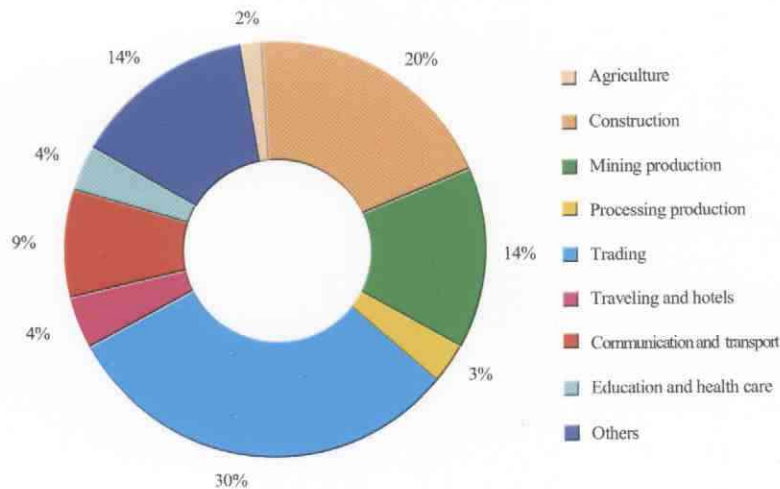
Although the 78% of total assets allocated in loan portfolio, the bank undertook appropriate actions for better credit risk management, monitoring and control, and enforced bad loan repayment. As a result, the non-performing loans estimated 1.6% of the whole loan performance.

The average interest rate estimated 30.0 % per year or approximately 2.5% per month, which is 0.15% lower comparing with average interest rate of last year.

In mining sector, we have provided loans MNT 1,26 billion, an increase of 31% compared with the last year, which shows at same time our contribution to the economic growth of Mongolia by 10.6%.

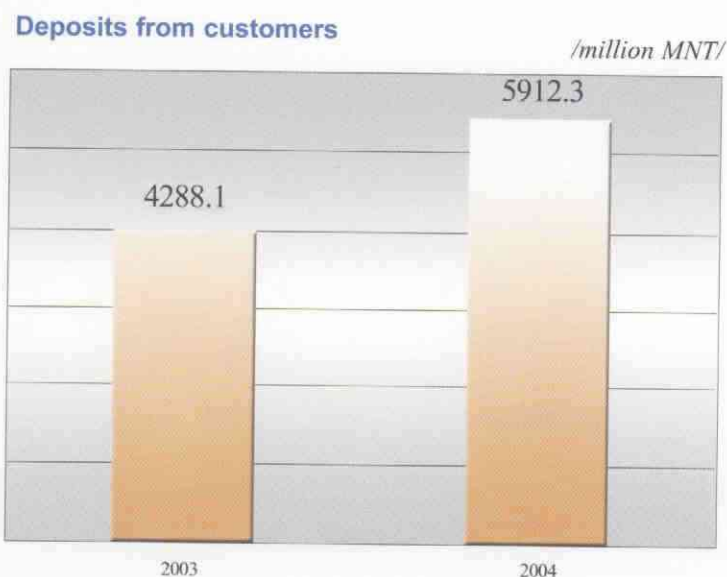
Loans can be analysed by industry as follows:

	2004.12.31
Agriculture	138,280.81
Construction	1,718,200.00
Mining production	1,259,660.91
Processing production	265,000.00
Trading	2,723,657.30
Traveling and hotels	342,350.00
Communication and transport	740,000.00
Education and health care	310,391.35
Others	1,207,845.73
Total	8,705,386.10



DEPOSITS FROM CUSTOMERS

The Bank's deposits from customers increased by 37.9 percent and reached MNT 5.9 thousand. At the end of 2004 the structure of total deposits was comprised of the following accounts: 14,6 percent current accounts of corporate customers, 22,7 percent personal savings, 39,0 percent time deposits of individuals, and 23,7 percent other deposits.



Capital Funds, Return on Equity

In 2004, the Bank's capital funds rose by 88.5 percent or 2076872 thousand, due to an increase in the Bank's shareholders equity. The net profit increased by 85.6% or MNT 192,918 thousand. Return on Equity 9.4 percent

Categories	2004	2003	Growth /by percent/	Growth /by figures/
Total income	1,576,940.00	981,338.00	63.9	614,951.79
Total expenses	985,721.00	625,527.60	33.8	249,140.44
Profit before taxation	591,217.00	355,810.40	66.2	235,406.60
Taxation	172,891.00	130,402.70	32.6	42,488.30
Net profit	418,326.00	225,407.70	85.6	192,918.30
Net interest income	1,152,895.00	714,264.12	61.4	438,630.88
Interest expenses	364,747.81	193,124.79	88.9	171,623.02
Non interest income	59,295.00	54,599.29	8.6	4,695.71
Total assets	10,504,334.00	6,625,320.05	58.5	3,879,013.95
Loans	8,705,386.10	4,219,922.56	106.3	4,485,463.54
Deposits from customers	5,912,330.00	3,998,637.42	37.9	1,624,254.59
Capital funds	4,419,532.00	3,998,637.42	88.16	2,076,872.00

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 2004, these ratios were met by the Bank as shown in the table below.

No	Prudential Ratios	Required ratio	2004.12.31
1	Tier 1 Capital adequacy ratio	$\geq 5\%$	47,67 %
2	Capital adequacy ratio	$\geq 10\%$	47,69 %
3	Liquidity ratio	$\geq 18\%$	45,46 %
4	Foreign currency exposure	$< \pm 20\%$	4,26 %
5	Single borrower exposure / Capital funds	$< 20\%$	18,12 %
6	Staff loans / Capital funds	$< 5\%$	2,27 %

ИТГЭЛТ-АУДИТ ITGELT-AUDIT

НЯГТЛАН БОДОХ БҮРТГЭЛ, АУДИТ, ЗӨВЛӨХ ҮЙЛЧИЛГЭЭ, ҮНЭЛГЭЭ, СУРГАЛТ

REPORT OF INDEPENDENT AUDITORS

To: Shareholders of CREDIT BANK LLC

Scope

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the appropriateness of data in financial statements and accounting policies described in Note 2 of these financial statements as a whole. We believe that our audit provides a reasonable basis for our opinion.

Auditor's opinion

In our opinion, the financial statements prepared adopting to the accounting policies referred in the Note 3 to the financial statements, present fairly, in all material respects, the financial position of "Credit Bank" LLC as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards "IFRS" issued by the International Accounting Standard Board ("IASB") and interpretations issued by the International Financial Reporting Interpretation Committee of the IASB. Also the Bank's financial statements are prepared in compliance with Bank's accounting rules and regulations issued by the Bank of Mongolia.



Itgelt Audit LLC Date: **25 February 2005**
 Mongolia, Ulaanbaatar, Enkhtaivan avenue 18a-1,
 NAMAC house, Second Floor
 Fax: +976(11)451150; Tel: +976(11)454026; 462131

CREDIT BANK LLC
BALANCE SHEET as at December 31, 2004

	Notes	2004 MNT'000	2003 MNT'000
ASSETS			
Cash on hand	3	721,278	1,261,933
Balance and deposit with other banks	3	42,790	207,212
Balance and deposit with the Bank of Mongolia	3	378,416	293,464
Securities	3	299,353	179,910
Loans and advances /net/	4	8,520,020	4,219,922
Interest accruals receivable		103,523	46,159
Property, plant and equipment	5	411,598	361,758
Other assets	6	27,356	54,962
TOTAL ASSETS		10,504,334	6,625,320
LIABILITIES AND EQUITY			
Liabilities			
Current account and savings	7	3,943,485	3,998,637
Placements from financial institutions	8	1,490,000	-
Placement from government organization	9	478,845	229,438
Interest accruals payable		111,747	38,140
Other liabilities	10	60,725	16,445
Total liabilities		6,084,802	4,282,660
Equity			
Share capital	11	4,000,067	2,116,046
Reserves		1,139	1,206
Accumulated profits / (losses)		418,326	225,408
Total equity		4,419,532	2,342,660
TOTAL LIABILITIES AND EQUITY		10,504,334	6,625,320

CREDIT BANK LLC
STATEMENT OF INCOME for the year ended December 31, 2004

	Notes	2004 MNT'000	2003 MNT'000
Interest and similar income	12	1,517,643	907,389
Interest and similar expenses	13	(364,748)	(193,125)
Net interest income		1,152,895	714,264
Fees and commissions	14	22,858	25,216
Net foreign exchange gains /(losses)		27,638	14,588
Other operating income		8,799	14,795
Net non-interest income		59,295	54,599
Operating income		1,212,190	768,863
Operating expenses	15	(508,617)	(373,517)
Impairment losses	16	(112,356)	(39,536)
Operating profits /(losses)		591,217	355,810
Income tax expenses	17	(172,891)	(130,403)
Net profits after tax /(losses)		418,326	225,407
Earning per share			
Basic earning/(loss) per share (MNT)	18	0.11	0.11

CREDIT BANK LLC
STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2004

	Share capital	Social Development Fund	Accumulated profits (losses)	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Balance at January 1, 2003	2,110,829	1,484	166,395	2,278,708
Issue of share capital	5,217			5,217
Net profit for the year			225,408	225,408
Dividends			(162,560)	(162,560)
Expenditures of Social Development Fund		(4,113)		(4,113)
Allocation to Social Development Fund		3,835	(3,835)	-
Balance at January 1, 2004	2,116,046	1,206	225,408	2,342,660
Issue of share capital	1,884,021			1,884,021
Dividends			(225,408)	(225,408)
Net profit for the year			418,326	418,326
Allocation to Social Development Fund		5,408		5,408
Expenditures of Social Development Fund		(5,475)	-	(5,475)
Balance at January 1, 2004	4,000,067	1,139	418,326	4,419,532

CREDIT BANK LLC
STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2004

	Notes	2004 MNT'000	2003 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		591,217	355,810
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment		27,564	22,175
Expenses of allowance for impairment		112,276	39,536
Interest income		(1,517,643)	(907,389)
Interest expenses		364,748	193,125
Recovery of the provision for loan loss		(42)	-
Loss from disposal of property, plant and equipment		1,309	
		(1,011,788)	(652,553)
Operating profits before the changes in working capital		(420,571)	(296,743)
Changes in operating assets:			
Loan and advances		(4,409,519)	(710,834)
Foreclosed property			-
Other assets		(24,713)	(36,799)
		(4,434,232)	(747,633)
Changes in operating liabilities:			
Current accounts		115,369	613,191
Deposit		(170,522)	945,176
Current account of budgeted organizations			(4,430)
Placements from other non-bank organizations		248,526	(248,136)
Other liabilities		51,390	5,717
		244,763	1,311,518
Cash flows from operating activities			
Interests received		1,460,279	870,793
Interests paid		(291,141)	(200,110)
Income tax paid		(123,810)	(157,440)
		1,045,328	513,243
Net cash flows generated from/(used in) operating activities		(3,564,713)	780,388

CREDIT BANK LLC
STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2004

	Notes	2004 MNT'000	2003 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(80,408)	(45,470)
Disposal of property, plant and equipment		1,300	3,832
Net cash flows from investing activities		(79,108)	(41,638)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		1,884,022	5,217
Loans received (paid)		1,490,000	-
Securities			
Dividends		(225,408)	(162,560)
Other expenditures		(5,475)	(3,835)
Net cash flows from financing activities		3,143,139	(161,178)
Total net cash flows generated from/(used in) for the current year		(500,682)	577,572
Cash and cash equivalents at the beginning of the year	3	1,942,519	1,364,947
Cash and cash equivalents at the end of the year	3	1,441,837	1,942,519



Building of CREDIT Bank
Sukhbaatar Square, Ulaanbaatar
Mongolia

Mailing address:

