



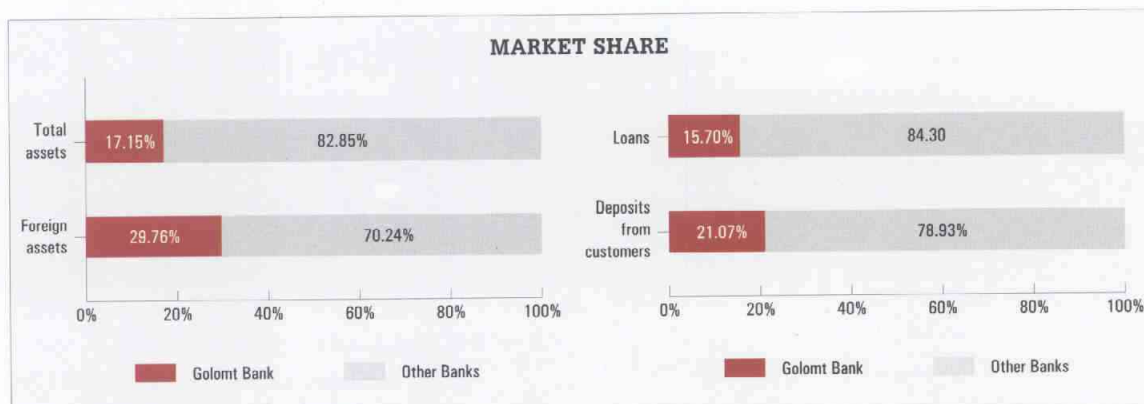
Annual Report 2004

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Financial Highlights

	2004	2003
FINANCIAL RESULTS		
Net Interest Income	5 737	4 691
None Interest Income	3 749	2 250
Net income	9 486	6 940
Operating Costs, Provisions	6 953	5 104
Tax Expenditure	782	747
Net Profit	1 752	1 089
BALANCE SHEET		
Total Assets	183 417	114 059
Claims on Customers	90 943	46 789
Current Accounts	32 636	26 281
Saving Accounts	114 489	66 940
Own Equity	14 590	9 793
FINANCIAL RATIOS		
Return on Equity	12.01%	11.12%
Return on Assets	0.96%	0.96%
Net Interest Margin	6.01%	8.37%
Cost/Income ratio	85.82%	85.20%
OTHER RATIOS		
Capital Adequacy	13.10%	15.36%
Liquidity Ratio	50.45%	57.79%
Forex exposure	20.61%	27.51%
Single borrower exposure	18.55%	11.92%
Single borrower exposure in relation to related parties	0.82%	1.19%
OTHER INFORMATION		
Number of employees	332	271
Number of branches and sub-branches	13	10
Number of borrowers	5 898	4 294
Number of cardholders	99 100	28 334
Number of account holders	51 395	41 900



Chairman of the Governing Board



It is my great pleasure to submit to our esteemed shareholders, business partners and collaborators the annual report of Golomt Bank for the year of 2004. This is the first annual report since my appointment as a Chairman of the Governing Board last year. On behalf of the Governing Board of Golomt Bank I would like to express our full satisfaction with regard to the success of Golomt Bank operations over the past years as well as with optimistic plans for new financial years. In 2004 we aimed at highly buoyant and new dynamic goals, achievement of which we are reporting today.

Last year Golomt Bank has thoroughly fulfilled its mission "to be the prime bank with capable and motivated staff, which provides new and advanced financial services to customers, thus contributing to the social and economic development of the country."

As a result we have reinforced our leading position in the market by actively expanding all types of lending, increasing the size of current and time deposits as well as raising the amount of credit and other types of cards' transactions and the number of cards, introducing the new products and services into the market, thus broadly applying advanced technologies in all areas of banking services.

The actions have been initiated under the theme "the Bank and its staff together for development and advancement", which enhanced the capacity of the Bank team and created a new creative atmosphere and culture in the working relations between customers and the Bank staff. As a result the number of branches and subbranches in the city and in rural areas has been increasing. Owing to its successful operations the Bank total assets grew by 60.8%, liabilities increased by 61.1% and own equity rose by 43.0%, with net profit of 1.8 billion tugrugs or 12% of net financial return.

Whereas we have realized the sound banking operations to increase the profitability and sustain the confidence of customers we organized diverse activities aimed at social development and future wellbeing of Mongolia. We can proudly state that the Golomt Bank current operations are meeting social needs as well as customers' demand, for this reason the Bank has become the resolute factor in the Mongolian financial market. This may be evidenced by the rising confidence of thousands of customers as well as by the number of outstanding international awards for our performance, including the Financial Times Group Bankers Magazine Award as "the Best Bank in Mongolia in 2004".

Taking this opportunity on behalf of the Governing Board I would like to extend our gratitude to the management and the staff of Golomt Bank for fulfillment of the goals put forward in 2004, meeting the Mongol Bank prudential requirements and operating within the existing legal framework. Taking this opportunity I would like to express my sincere appreciation to our business partners, collaborators, foreign and domestic organizations, individuals and all customers for your confidence and cooperation. We extend our best wishes for your wellbeing and for expansion and development of our continued cooperation to our mutual benefit.



BOLDKHUYAG Luvsanvandan
Chairman of the Governing Board

Executive summary



Mongolia's overall social and economic environment, especially political situation, had significant changes in 2004. As a result of the Parliament elections the biggest two political forces divided the seats in the Parliament and a coalition government was formed. Moreover, owing to high world market prices of our major export products, as gold and copper, according to the preliminary estimates the economic growth rate reached 10.6%. In addition the Mongol Bank requirement to increase the commercial bank paid-in capital upto 4 billion tugrugs has reduced risk, thus ensuring the stability of the banking and financial market.

In 2004 Golomt Bank all performance indicators show a positive growth, thus ensuring the full implementation of the goals for 2004.

In the conditions of rising customers' knowledge on banking and financial market, to which they prefer the reliability of the bank rather than high deposit interest rates, we pursued the primary objective instead of increasing costs to study thoroughly each market segment and each customer needs and demand and rendered innovative, efficient and high quality service. As a result, the total number of customers increased by approximately 109.8% compared with the previous year, liabilities to the customers grew by 61.1% and the Bank total assets rose by 60.8%. At the same time the policy was adhered in 2004 to carry out active lending for different types and purposes in economic sectors, which will have a major impact on economic development aimed at raising living standards and environmental safety. Consequently as of end of 2004 the loan portfolio reached 90.9 billion tugrugs, which is an increase of 94.4% compared to the previous year. Also in 2004 Golomt Bank has strengthened its position at the card business market, which resulted in around 100,000 customers by the end of the year.

As there is a necessity to reduce risk, as the number of transactions and the number of customers rise as well as the loan portfolio grows substantially the Bank capital has been increased by 3 billion tugrugs. Golomt Bank has contributed 782 million tugrugs in taxes to the state budget and had a net profit of 1.8 billion tugrugs.

Golomt Bank has initiated introduction of new and modern products and services at the Mongolian banking and financial market as well as a lot of measures were undertaken to streamline those products and services in the market.

In 2003 many activities directed to activating and streamlining the new products and services, as the children's "Golden Key" savings account, "the Golden Ear" yuan card service, "the Mongolian students discount card", the Visa Electronic and Maestro Cards as well as to learn from the latest achievements of the world banking and financial market were implemented. In 2004 we established and expanded correspondent bank relations with the Korean Exchange of the Republic of Korea and Sber of the Russian Federation, Rabo of the Netherlands and Obhodny Bank of Czech. Also Golomt Bank first amongst other Mongolian banks started to announce its commercial rates at the Bloomberg, an international economic, banking and financial network. At the same time Golomt Bank introduced new types of consumption loans, including quick loans, apartment renovation loans, car loans and new types of business loans, including import credits and investment loans. In addition our customers were gratified that Golomt Bank for the first time in Mongolia introduced the bank time deposit passbook with a magnetic strip, which ensures a high level of security and safety for customers. In 2004 we newly opened several branches and subbranches in the city and urban areas. Moreover, during the reporting period we developed and prepared the studies of big projects to be implemented in the next financial year and some projects are ready to be realized soon.

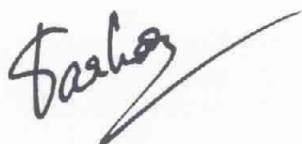
Golomt Bank is attaching a high significance to contributing to the development of the country.

Golomt Bank promotes the policy of improving the living standards of the staff, implementing several projects directed to upgrading knowledge and qualifications of the staff, to strengthening the human resources with capable personnel, increasing the individual labor productivity and giving incentives based on the realistic individual evaluation of their contribution towards the Bank productive performance. In addition to this the Bank has implemented many activities aimed at intellectual development of children and students, who are the future of Mongolia. Last year we organized a scientific conference amongst university students, awarded students by the Golomt Bank scholarships as well as rendered financial support to art and cultural organizations, to student sport unions and to children for participation in international competitions. Also in cooperation with the World Vision, an international non-governmental organization we have continued our charity contribution to educating orphans and poor children.

Esteemed shareholders, business partners and customers!

The past year of 2004 was a favourable year, productive and successful year for our bank. I am proud to state that Golomt Bank has achieved its goals planned for 2004 and produced even higher results, which were beyond our expectations. The forthcoming year is a special year, as we will mark the 10th anniversary of Golomt Bank and we are confident that it will be a successful and productive year. We extend to our business partners, customers, foreign and domestic clients, organizations and individuals and to all Mongolian people our best wishes for success in their activities and well-being. We wish you all the year of 2005 to be the most successful year.

Sincerely Yours,



BAYASGALAN Danzandorj
President & CEO

Macroeconomy

The World Economy

The pace of global economic growth in 2004 was the fastest for over 20 years. But there are already signs that growth is decelerating in some major economies, and the outlook for 2005-06 is for a more modest pace of expansion. The Economist Intelligence Unit (EIU) forecasts that world GDP growth (on a purchasing power parity basis) will slow from a rapid 5% in 2004 to 4.2% in 2005 and 3.9% in 2006. Measured using GDP at market exchange rates (which give greater emphasis to the OECD countries and reflect the exchange rates at which firms trade and repatriate profits), world GDP growth will slow from an estimated 3.9% in 2004 to a forecast 3% in 2005 and 2.9% in 2006. This projected slowdown does not represent a poor global economic performance in absolute terms—the rate of growth expected in 2005 and 2006 is robust in comparison with the rate achieved during much of the 1990s. But after several years of an improvement in the global economy, the next few years are likely to be characterized by a gradual deceleration in output and demand growth.

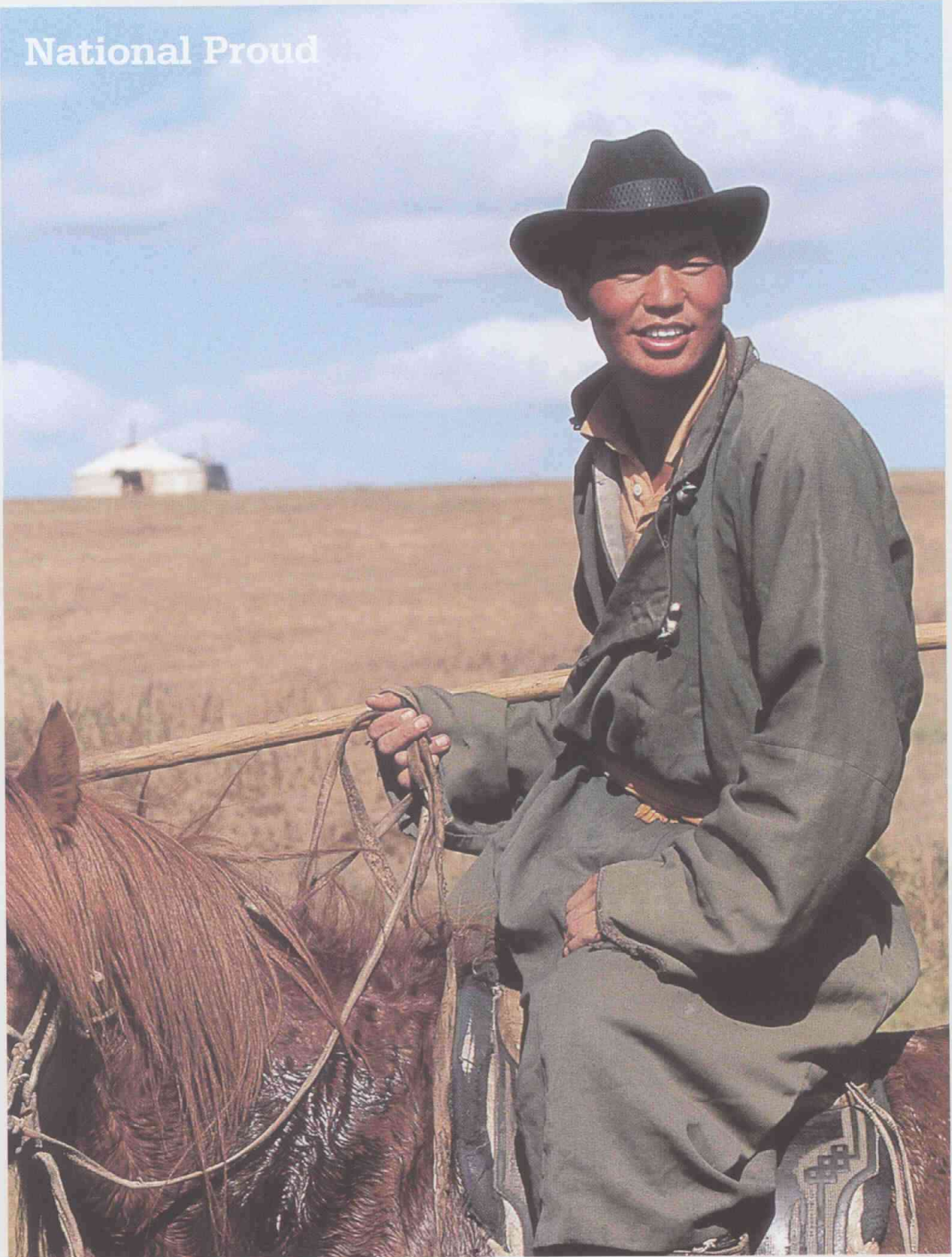
WORLD SUMMARY										
(%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP growth										
OECDa	3.8	1.0	1.5	2.0	3.3	2.4	2.4	2.5	2.5	2.5
Non-OECDa	6.0	4.3	4.7	6.7	7.4	6.5	5.9	6.0	6.0	6.1
Worlda	4.6	2.3	2.8	3.9	5.0	4.2	3.9	4.1	4.1	4.2
World (market exchange rates)	4.0	1.4	1.8	2.6	3.9	3.0	2.9	3.0	3.1	3.1
Regional growth summary										
North America	3.8	0.8	2.0	3.0	4.4	3.3	2.9	3.0	3.0	3.0
Western Europe	3.9	1.7	1.3	1.2	2.5	2.1	2.2	2.3	2.3	2.3
Transition economies	7.0	4.2	3.8	5.9	6.6	5.5	4.9	4.6	4.4	4.3
Asia & Australasia	4.2	1.8	2.6	3.7	4.6	3.3	3.4	3.6	4.0	3.9
Latin America	3.7	0.3	-0.5	2.0	5.6	3.9	3.5	3.3	3.6	3.6
Middle East & North Africa	5.2	2.1	1.9	4.4	5.4	5.1	4.6	4.5	4.4	4.4
Sub-Saharan Africa	4.5	3.3	3.6	5.0	4.0	3.8	4.0	3.9	3.8	3.5
Inflation (av)										
OECD	2.2	2.1	1.4	1.8	1.9	1.8	1.9	2.1	2.1	2.1
World	18.8	18.7	15.4	9.7	5.2	4.7	2.7	2.8	2.9	2.8
Trade in goods										
Developed countries	11.6	1.9	1.6	2.6	7.4	5.1	5.1	5.7	6.2	6.4
Developing countries	18.1	-6.5	8.5	12.7	17.0	10.3	10.6	10.5	10.7	11.1
World	13.3	-0.4	3.5	5.5	10.4	6.8	6.9	7.4	7.8	8.1

a At purchasing power parity exchange rates.

Source: Economist Intelligence Unit.

According to the International Monetary Fund estimates the world economy growth rate for the last year was 5%. This growth rate was influenced by the following factors, as tax reduction, a rapid rise in the US consumption due to mortgage refinancing as well as activation of the Asian economy after the SARs. In 2004 the GDP growth rate in the US reached 4.4%, which was the highest rate since 1999. In the European Union the GDP average growth rate achieved 1.9% and in Japan it was 2.6% and in the developing countries it reached in average 7.5%. In 2004 the world total trade turnover has grown by 10.4%, reaching a maximum level in the last 10 years, and this is largely affected by import growth rates of Japan, USA and China.

National Proud



Truly national bank with value added from international best practice.

In 2004 the following 4 factors made an impact on the world economy:

1. Oil price increase

In 2004 oil and oil products price of 1 barrel cost 40 US dollars and in October of 2004 it reached a maximum of 52.7 US dollars, the highest price in the last 60 years. In 2005 this trend seems set to continue mainly due to a high oil demand from China and India as well as owing to decline of oil supply from Iraq because problems with oil pipeline and due to the fact that amount of oil produced per day by OPEC remains steady and because of issues around YUKOS company of the Russian Federation.

2. Japan economy growth decline

In 2004 the total export of Japan fell down and the economic growth rate reached 2.6% as a result of several natural disasters, typhoons and earthquakes. In 2005 the economists predict that the growth will decline further and will be around 0.75%.

3. US dollar exchange rate decline

As a result of rise in the US budget deficit and national debt the exchange rate of US dollar to euro and other major currencies has been depreciating. The decline in dollar exchange rate and the rise in US budget deficit were making an upward pressure on the Treasury bills interest rates as well as increasing the Government borrowing from the private sector in order to finance the budget deficit.

4. Acceleration of the Asian economies

Asian countries economies, including China and India, have been developing rapidly due to the population growth, rise in demand of raw materials as well as owing to foreign investment and export growth.

The economic growth of the southern neighbour

Though the economic growth rate of our southern neighbour was 9.25% in 2004, some economists consider that it reached 13-14%. The Chinese economy has grown intensively for the past few years and this trend seems set to continue. The main reason for this growth was its membership to the World Trade Organization, resulted in export growth due to cease of export restrictions and quota as well as increase of foreign investment within the framework of policies directed towards upgrading the economic system as seen by economists.

The economic growth of the northern neighbour

In 2004 the GDP growth rate in the Russian Federation was 7.1%. 3% of the GDP growth rate was due to the energy sector production and a half of the energy sector revenue was created owing to supply to the overseas market. An oil price increase made a significant impact on the GDP growth rate of the Russian Federation. However, there will be no further prospects for rise of produced and exported oil due to the existing production capacity. In the nearest years energy sector will remain a main economic sector of the Russian Federation.

The Mongolian Economy

The economy surged in 2004 on the back of a stronger performance in agriculture, expanding mining output, and buoyant world copper prices. Rising corporate tax payments helped narrow the budget deficit to historical lows. Economic growth is expected to average 7% over the next 3 years, but sound monetary and fiscal policies as well as further private sector development are necessary to sustain growth and generate employment in order to fight persistent poverty.

Economic growth

The preliminary performance for 2003 has indicated the GDP real growth rate of 10.6 % in 2004 by increasing the nominal GDP to MNT 1,8 trillion and reaching per capita GDP to USD 582.8, thus showing increase of 22.2% compared with the previous year and by 52% compared to 1999.

Sectoral Contribution to the Economic Growth

Sectors	Prices of the year		Prices of 1995		Growth	Sectoral Contribution	
	2003	2004*	2003	2004*		By value	%
Agriculture, hunting	293,377.9	385,690.5	165,439.2	196,774.7	18.9%	31,335.47	4.5%
Mining	185,788.5	312,780.5	86,030.4	113,514.7	31.9%	27,484.25	3.9%
Industry	90,463.5	96,444.4	77,638.4	78,803.6	1.5%	1,165.23	0.2%
Electricity, gas, utility	49,212.0	53,561.6	11,512.5	12,234.0	6.3%	721.50	0.1%
Construction	44,765.9	47,004.2	15,354.2	15,398.2	0.3%	43.99	0.0%
Retail	387,086.4	445,488.4	181,059.1	186,069.7	2.8%	5,010.55	0.7%
Tourism, transport, communication	202,754.4	229,075.7	89,456.8	97,530.0	9.0%	8,073.18	1.1%
Financial Services	55,415.7	71,733.2	12,298.6	14,778.9	20.2%	2,480.29	0.4%
Other	152,304.7	166,207.4	63,632.5	61,798.6	-2.9%	(1,833.92)	-0.3%
GDP	1,461,169.2	1,807,985.9	702,421.7	776,902.2	10.6%	74,480.53	10.6%

* Preliminary Estimates

Surging world commodity prices and the positive effect of a milder winter on livestock nearly doubled GDP growth to 10.6% in 2004, in excess of projections and propelling it to the highest rate since Mongolia's economic transition began in 1991. Agriculture grew by 18.9%, driven by rapid development of animal husbandry, though crop production declined. While the contribution of manufacturing was minimal, industry overall progressed by 15.4% as mining expanded with the start of operations of a new gold mine, which lifted gold production by half. Services mainly wholesale and retail trade, telecommunications, and financial services rose at a slower pace than in the previous years, by 4.0%. Visitor arrivals rebounded by 67%, after being hit by the regional SARS outbreak in 2003.

Unemployment, poverty

Although continuing economic growth is helping raise living standards, poverty remains persistent in both rural and urban areas: 36% of the population live below the national poverty line equivalent of \$0.75 a day. In addition, income inequalities have widened the Gini coefficient, a measure of income inequality, increased to 0.44 in 2002 (the latest data available) from 0.31 in 1995. Poverty in rural areas is the most severe, with western Mongolia is the worst. This is broadly consistent with changes in the composition of GDP in recent years, as industry and services have boosted their share of the economy while that of agriculture has shrunk, to 25% of GDP in 2004 from 34% in 2000. One result is a significant flow of people moving from the countryside to urban centers.

High unemployment-14.2% of the workforce in 2003 according to the National Statistical Office and underemployment are the major causes of poverty. The services sector is the main source of employment in Mongolia, followed by agriculture and industry. But only 5% of the rural workforce is employed in services, compared with 75% in urban areas. The Government's strategy to reduce poverty consists in maintaining macroeconomic stability, further liberalizing the economy, and improving public services.

State budget

The fiscal deficit remained below the International Monetary Fund's Poverty Reduction and Growth Facility target (6.0% of GDP) for a fourth year in a row. Despite a fiscal loosening in the approach to June 2004's elections, the deficit narrowed to 1.2% of GDP from 4.2% in 2003, bolstered by higher corporate tax collection, particularly from the mining sector. This enabled the Government to repay \$50 million borrowed in late 2003 from a Canadian mining company as part of a debt settlement with the Russian Federation.

Foreign trade

Total trade leaped by 28.3% to \$1.9 billion in 2004, on account of a 36.0% surge in exports led by increases in shipments of copper concentrate, textiles, and precious metals and a 22.4% upswing in imports driven by purchases of oil, equipment, and machinery. The trade deficit narrowed to 10.4% of GDP from 15.7% the year before, and the current account deficit, including official transfers, narrowed to 0.3% of GDP from 7.8%. The overall balance of payments recorded a \$42.5 million surplus, reflecting the inflow of external assistance and growing remittances from overseas workers. At the year end of 2004, foreign debt amounted to \$1.3 billion, equal to 89.5% of GDP. Most foreign loans are on concessional terms, so the country's debt remains manageable. Gross international reserves stood at \$205 million (10.3 weeks of imports), indicating a recovery after part of the reserves had been used to repay debt to the Russian Federation in December 2003.

Money supply

M1 has accelerated by 20.4% or by MNT143.7 billion reaching MNT 847 billion at the end of 2004, thus making a major impact on growth of total money supply.

Indicators	2003		2004		Growth	
	Amount	%	Amount	%	By amount	By percentage
Currency outside banks	131.50	18.70	143.51	16.90	12.01	9.1%
Current accounts (tugrug)	81.34	11.60	77.81	9.20	(3.53)	-4.3%
Quasi money (term deposit)	490.50	69.70	625.70	73.90	135.2	27.6%
Money supply	703.34	100%	847.02	100%	143.68	20.4%

/billion tugrug/

As of the end of the year inflation based on calculation of the consumer price index to the base year was 27.4% (December, 2000), which rose by 11% compared with the previous year. During the reporting period inflation rate, except October, was rising and the increase in the consumer price index was mainly due to increase of the fuel price.

Lending rates were broadly stable and credit to the corporate sector continued to expand. The tugrug depreciated by 3.9% in nominal terms against the dollar. FDI inflows, concentrated in mining, totaled \$132 million, similar to 2003 levels.

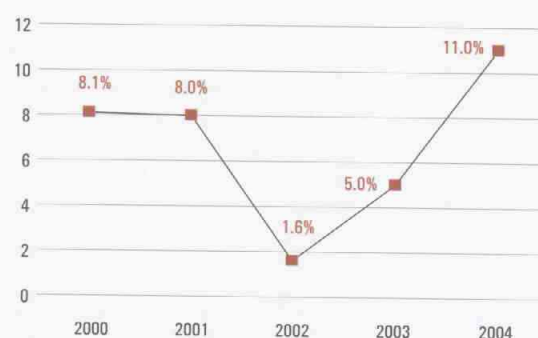
Banking and financial market

The banking sector total assets have reached MNT 1,069.75 billion or 59.4% of GDP by the end of the year, thus growing by 38% compared with the previous year.

The total loans lent from the banking sector to companies and individuals have reached MNT 606.8 billion with increase of MNT 164.7 billion or 37.2% in comparison with 2003. The loan portfolio of performing loans could be divided by types ownership, as 2.3% to the public sector and 94.6% to the private and 3.1% to other sectors, thus increasing by MNT 180.7 billion and reaching MNT 516.6 billion in 2004.

The amount of loan portfolio of Anod Bank reached MNT101.7 billion, Golomt Bank to MNT 96.6 billion, TDB to MNT92.6 billion and Agrilculture Bank to MNT 81.1 billion, thus representing 61.3% of total loan portfolio. Total non-performing loans from banks have accelerated to MNT 60.7 billion with increase of MNT 24 billion, representing 10% of total loan portfolio. The weighted average interest rate on loans reached 24.8% at the end of the year, which was the lowest rate for a last several years.

Inflation





E. Shoovdor, Shift Manager, Flour mill, Altan Taria Co., Ltd
Technological advancement brings in development.

In the reporting period the total amount of the current accounts has declined by 13% and the savings accounts have accelerated by 42.1% as well as the interest rate on the current and the savings deposits was relatively stable. At the end of 2004 the size of the own capital of the banking sector has increased by 51.4% and has reached MNT 167.1 billion indicating the growing financial capacity of the banks.

Macroeconomic policy developments

The new Government of Mongolia, formed as a result of the parliamentary elections in June 2004, defined an Action Plan for the next 4 years, the main objectives of which are to upgrade the quality of public services, deepen legal reforms, sustain higher rates of private sector-led growth, improve living standards, and raise education standards.

On economic issues, the Action Plan sets various targets, including a minimum of 6% annual economic growth to be pursued through economic and financial stabilization, private sector-based structural reforms, and increased foreign investment and exports. The Government will pursue macroeconomic stability by maintaining inflation within single-digit levels, the budget deficit at 3% of GDP, and sufficient international reserves to cover 17 weeks of imports. The financial and banking sub sector is to be strengthened through the development of financial markets and financial intermediation, introduction of long-term loans and mortgages, and progressive reduction in interest rates to facilitate wider access to credit and foster domestic investment.

Privatization will be continued and private investment in infrastructure will be encouraged. To stimulate private sector-led growth and exports, the Government will expand the policy of establishing free economic and trade zones and industrial technology parks. The Action Plan also calls for support to SME-s through better access to credit generally and micro credits in rural areas especially, and through promotion of intensive agricultural techniques and modern farming methods. To create a stable and attractive legal environment for investors, international standards and procedures will be extended and the stock exchange will be resuscitated.

The 2005 budget, passed by Parliament in November 2004, aims for a budget deficit equivalent to 3.5% of GDP. It incorporates a new system of cash payments to children in families below the poverty line, fulfilling a promise made during the election campaign. This program will cost about \$14 million a year. The budget allocates 20.8% of total expenditures to education and 10.8% for health. The president vetoed the excise tax provisions of the 2005 budget, which will reduce revenues by about \$10 million, so a revision to the budget is required.

Late in 2004, the Bank of Mongolia raised the interest rate on its bills by 6 percentage points to 15.5% to damp inflationary pressures. This helped contain M2 growth within relatively moderate levels for the first time since 2001. The slowing growth of the money aggregate indicates that demand for money and the monetization of the economy is decelerating after 3 years of fast growth in bank deposits and credit, a period when public confidence in the banking system improved. The central bank's guidelines for 2005 aim to contain the growth of money aggregates and bring down inflation to 5%. The Bank of Mongolia expects the exchange rate of the tugrug to remain fairly stable, its policy having avoided sharp swings in the currency in the past 5 years. In other areas, it plans to strengthen regulation and surveillance of the financial sub sector and to draw up laws to fight international money laundering and terrorism financing practices. In order to project the expected effect of monetary policies on the overall economy, this year the central bank also plans to develop a general equilibrium model for the economy.

The economy depends heavily on the weather, which can seriously damage farm production; and on the performance of just three exports (minerals, cashmere, and textiles), which account for more than 80% of total exports. Hence, projections for the economy rest largely on assumptions in these two areas. The outlook relies on assumptions that external demand will grow; prices of gold, copper, and cashmere will remain strong; weather conditions will be favorable; the PRC and the Russian Federation will continue to grow; and Mongolia itself will remain politically stable.

Outlook for 2005-2007 and medium-term trends

Major economic indicators, Mongolia, 2004-2007, %

Item	2004*	2005	2006	2007
GDP growth	10.60	7.00	6.30	7.50
GDI/GDP	27.00	27.00	28.00	28.00
Inflation (CPI)	10.60	5.00	5.00	5.00
Fiscal balance/GDP	16.50	19.30		
Money supply (M2) growth	(1.20)	(2.50)		
Merchandise export growth	36.00	(0.80)		
Merchandise import growth	22.40	2.50		
Current account/GDP	(14.00)	(13.50)		

*CPI=consumer price index, GDI=gross domestic investment,
GDP=gross domestic product*

On this basis, economic growth is expected to average 7% in the forecast period. Milder winters and improved breeding techniques should continue to foster animal husbandry, although increases in crop production are less certain because the sector needs restructuring and investment. The boom in investment in mining and minerals is expected to continue, given good prospects for exploration in the Gobi desert and the PRC's voracious demand for minerals particularly copper and energy. Mongolia is affected by the phasing out of the Multifibre Arrangement and could lose garment-making jobs if it cannot upgrade to higher value-added products and compete in international markets, though prospects may brighten following a new bilateral trade agreement with the US. Construction and services, the latter accounting for about half of GDP, are projected to grow in line with rapid development of the capital city and growing demand for financial and telecommunications services. Tourism is likely to expand further because the country has attracted a growing number of visitors year after year, and the infra-structure for tourism is improving.

The budget deficit is likely to remain below 3.5% of GDP in the forecast period, with strong tax revenues from minerals and moves to discourage tax avoidance helping off set the increased costs of the new system of cash payments. Inflationary pressures caused by high oil prices may ease after the replacement of the agreement with a key oil supplier the Russian company Yukos with a new agreement to buy oil at lower prices from Kazakhstan. The lower oil prices and tighter monetary policy may be able to keep inflation at around 5% in the next 3 years.

Mongolia's dependence on a few commodities that are vulnerable to internationally volatile prices makes reliable projections on trade particularly difficult. There is potential for increased exports to the PRC (especially oil and copper) and to the Russian Federation (animal products), though against this, the sharp increase in global copper prices seen in the past year or so is unlikely to be sustained.

Other constraints include the dependence of some of the country's major growth industries on energy consumption, which poses a risk to sustainable development. The resulting air pollution and land and water degradation could hamper future growth. Furthermore, the country's competitiveness suffers from high transport costs, insufficient infrastructure, and limited access to credit.

The private sector's share in the economy has increased to 85%, but substantial challenges remain. A large body of legislation to improve the environment for private sector development has been enacted, but a lag remains between enactment and application. Interest rates remain high and terms for lending are short, which restricts investment to big borrowers and limits broad access to credit, hindering the development of SME-s.

Although investment remains strong, mobilization of savings is not progressing indeed, the savings ratio is declining. The gap between saving and investment needs to be covered by foreign funds. Growth has picked up in recent years, but remains vulnerable to the economy's narrow base. Sound monetary and fiscal policy actions, a healthy financial sector, and further private sector development are crucial for sustaining growth and generating employment.

Golomt Bank Vision, Mission, Goals, Strategy and Credo

◆ Vision

To be the market leader in Mongolia, a reputable and credible bank with sound international standard banking practices

◆ Mission

To be the market leader in innovation and the supplier of the best customer oriented banking and financial services and the most efficient bank with talented employees contributing to the social and economic development of the country

◆ Goals

- ◆ To restructure and reorganize the Bank as a public company, the shares of which are freely traded on the stock exchange.
- ◆ To gain the leading position in the market and sustain it for the long-term.
- ◆ To introduce and develop advanced technologies in all the activities of the bank.
- ◆ To develop actively all types of credit facilities and to minimize loan losses.
- ◆ To maximize balance on the current accounts as a percentage of the total deposits and to increase long-term customer deposits.
- ◆ To streamline the payment card market, to strengthen the bank's leading position and increase the number of the cardholders and volume of card transactions.
- ◆ To introduce new types of financial services.

◆ Strategy

◆ To introduce new technologies

- to introduce the latest achievements in information technology in its activities on a continuous basis and to make constant upgrading.

◆ To provide the market with a high quality and premier service

- to introduce successfully traditional and new types of financial services to the targeted market based on customer demand.
- to streamline and to sustain the new types of customer services.

◆ To attract new customers and to build customer loyalty

- to study demands of different segments of customers and to operate efficiently in response to those demands.
- to provide customers with efficient, friendly and high quality services.
- to care about customers and to create an atmosphere of trust and confidence.

◆ To create a team of capable and professional staff.

- to strengthen the Bank human resources and to create favourable conditions for the personal development of every employee.
- to improve efficiency by increasing each employee's productivity.
- to make an annual assessment of each employee's merit and contribution and to create incentives to work effectively and increase their responsibility.
- to ensure that the Bank and the employee both develop and advance.

◆ To contribute to the social and economic development of the country.

- to make a major contribution to the social and economic development of the country in a comprehensive way.
- to carry out activities directed to protecting the environment and making better the lives of children who are the country's future.

◆ Strategic planning and marketing.

- to introduce the new types of customer services on the basis of actual assessment of the business environment by ensuring flexible price policy, providing accurate and timely information and advertising, prioritizing and activating marketing.
- to create an image of a bank which highly values customers.
- to establish Bank branches and units first in our neighbouring countries and later in other foreign countries.

EXECUTIVE DIRECTORS



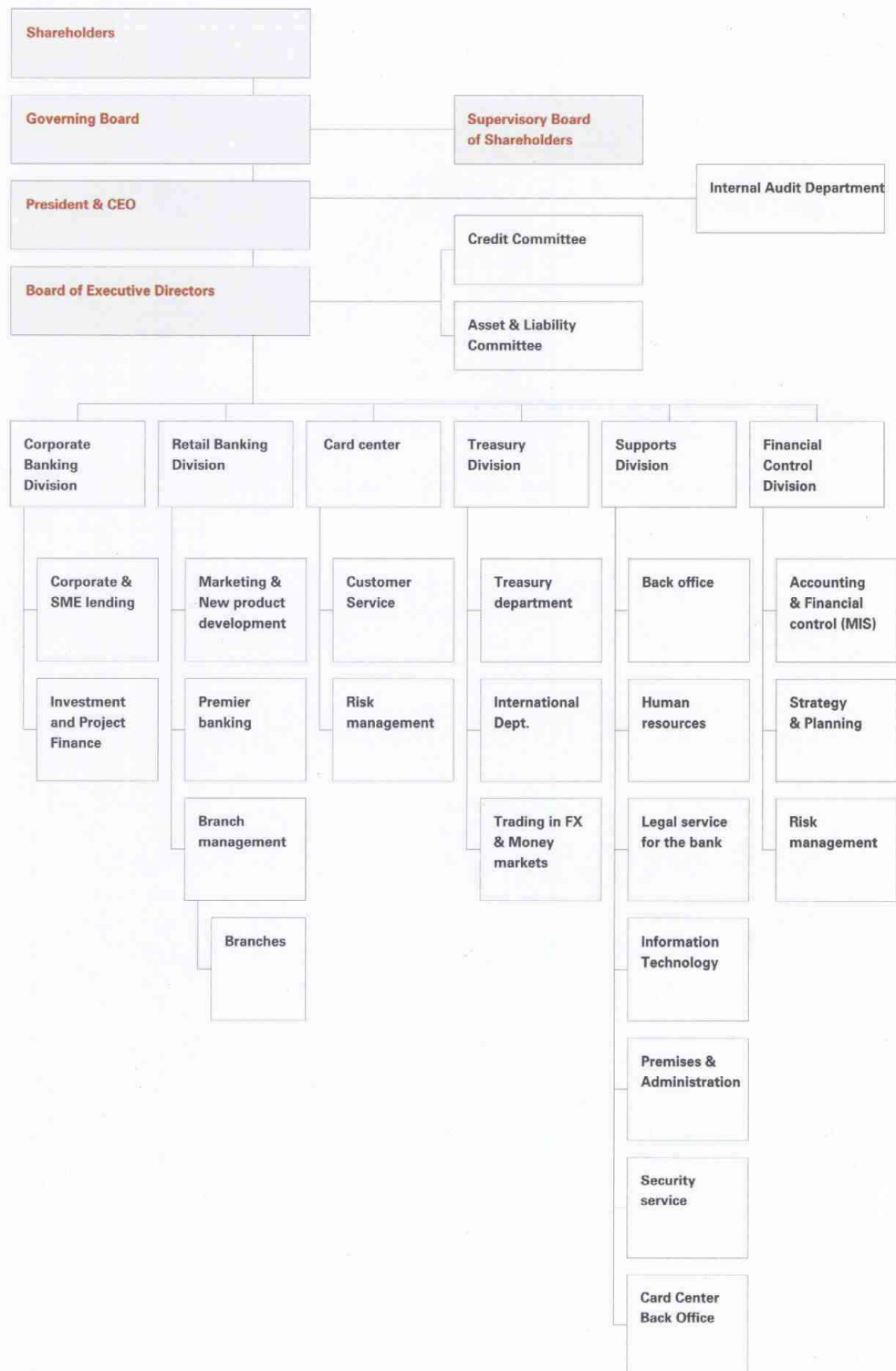
GANBOLD Galsan
Vice President & Director
of Supports Division

GANKHUYAG Gombosuren
Vice President & Director
of Treasury Division

CHIMEGMUNKH Munkhuu
Vice President & Director
of Financial Control Division

MUNKHTUR Dagva
Vice President & Director
of Corporate Banking Division

Structure of Golomt Bank



Department Directors



NATSAGDORJ Namkhai
Director of Branch Management



GANBAT Jamiyan
Director of Internal Audit Department



TSERENDAVAA Namuu
Director of Information Technology Department

- Branch management
- Advancement/development of distribution channels
- Implementation of new products and services

- Implementation of bank policy and procedures at all levels of the bank
- Discover, eliminate and prevent from all kind of risks to the bank operations
- On-site check of all bank units and provide advice on improvement of their operations

- Bank policy on information technology
- Safe and secure operations of bank hard- and soft-ware
- Introduction of new technology and implementation of IT projects



ENKHTUVSHIN Sodnomtseren
Director of Card Center

- Management of day-to-day operations of the Card Centre
- Safe and secure operations of the card system
- Research and development and introduction of new card products



OYUN-ERDENE Lamjav
Director of Investment & Project Finance Department

- Cooperation with local and foreign donors
- Management of two-step loans from donors or other companies
- Investment and term loans



SUGAR Dashbazar
Director of Back Office

- Back office operations of the bank and development and implementation of related policy and procedures
- Interbank settlement
- SWIFT and communications



BOLD Canbat
Director of Marketing Department

- Marketing policy, planning and research
- Advertisement, promotion and public relation
- New products and service
- Direct marketing

Bank Expansion and Supports

Human Resources

In 2004 the number of Golomt Bank employees reached 332 or increased by 22.5% compared with the previous year. Out of 110 new staff members 74 persons were recruited as the staff of the Bank branch and sub-branches, 36 persons were recruited to the Head Office. 15.5% of the Bank staff has a master degree, 77.9% has a bachelor's degree and 6.7% is a support staff with a secondary education. The Bank staff average age is 29 years old. The Bank management pays a special attention to supporting the young and capable and implements a human resource policy directed to developing and promoting their new ideas and initiatives.

The year 2004 has been announced as the "Year of Leverage Power" and the Bank staff has been actively involved in the training programs and curricula, which were aimed at increasing human development and labour productivity. Last year for staff training and development over 70 million tugrugs was invested by the Bank. Three bank staff have been newly enrolled at the joint MBA Program of the Institute of Finance and Economics and the Handong University of Korea and 54 staff have participated in 288 overseas and domestic training programs in the areas of banking operations, research and study, international experience. Also Golomt Bank organized a 424-hour training 44 times at its own banking training centre. Altogether 51.6 million tugrugs were invested for staff training. The system of transferring knowledge and skills by the staff participated in training programs to the other staff and using on-job training methods have been very fruitful and used for a daily work.

The Bank strives to keep the employees being healthy and to develop a corporate culture. In 2004 the Bank "Sport Club" organized many sport events, in which the Bank employees actively participated and over 10 thousand tugrugs was spent. Also the Bank has given incentives to a highly productive staff by awarding them by holiday trips to Malaysia and Singapore.

Information Technology Report

In 2004, Information Technology department has fulfilled few sets of assignments for the targets such as innovating and upgrading the bank software system, improving information exchange between the branches, automation of new products and services, enhancing network confidentiality and security.

1. Software enhancement

New program in support of "Floating Interest Rate Certificate of Deposit" newly being launched in 2005 and "Human Resource Management Software" for the purpose of creating pool of human resource related information, preparing human resource reports were written and the Internet banking software was improved and updated.

2. Networking

Self-service Touch screen terminals have been placed at the online branches to help customers to obtain information about the bank, bank services and card statement and other card related information without queuing at the counters. SWIFT connectivity has been upgraded into SWIFTNET FIN. Since our branch number 1 of Orkhon aimag is connected online, our customers have an easy access to their accounts even from countryside. Intranet to strengthen internal exchange of information has been upgraded and now it has more options.

3. Customer confidentiality and security

We pay a great deal of attention for customer's confidentiality and information security. Last year by upgrading MasterCard and Visa card networks from X.25 to TCP/IP, customer's information is substantiated by international standard and high protection network. Moreover, we have accomplished to introduce saving's book with magnetic stripe.

Branch and Sub-Branches

Whereas Golomt Bank operations expand and the Bank becomes known to customers there is a need to rationalize locations of the Bank branches and subbranches, to distribute equally the workload in order to provide customers with a high quality and efficient services. Also there is an increasing demand to render financial intermediation service and advice to Mongolians working abroad. Last year based on a market demand we established and started operations of several new branches and units.

Advantages of online banking

98% of the Bank total assets are online and online branch and subbranches are able to operate for 24-hours on-line and customers and deposit holders could come and do banking at any branch of the Bank.

Golomt Bank representative office in Seoul

The representative office opened in Seoul to render time deposit and efficient and cost-effective money transfer transaction as well as other financial services and advice to Mongolians living and working in the Republic of Korea.

Sub-branch No.5The establishment of a 24-hour bank delivery channel in the city centre at the point, where main bank head offices are located, enabled to reduce the workload of Branch No.1 as well as to attract many new customers. At the end of the year the sub-branch could collect deposit of MNT 4.5 billion from over 2000 customers and issued loans to customers amounting to MNT 395 million.

Sub-branch No.9

Sub-branch No.9 was established at the proposal of the Bank staff and provided an easy access to Golomt Bank all products and services in the area. In addition to this with development of integrated software program connecting the Customs GAMAS program with the bank accounting software program GALAXY it became possible for customs staff to see directly from their program the customers' bank transactions and provide a high quality and efficient service without any delay.

Premier Banking unit at Branch No.1

The specialized office for providing all types of banking services to big clients was established at Branch No.1. This office aims to provide convenient and efficient banking services to clients from single point in order to save their valuable time.

Baganuur district Sub-branch No.10

The Bank sub-branch was established in one of the remote districts of the city aimed at bringing the latest types of banking services to this district. It provides all types of the bank products and services to district customers.

Golomt Bank To The Future Of Children and Youth

Golomt Bank participated and organized many activities aimed at creation of environment to educate and to augment the intellectual capability of children and youth, who are the future of Mongolia.

For children development

With purpose to improve educational environment for children of socially vulnerable groups the "Golomt Bank for Mongolia Children" fund was established and a certain percentage of the savings of "the Golden key" account are contributed and donated to the children fund as well as financial assistance for participation in art, culture and sport competitions, for purchase of musical instruments and sport wear and for travel expenses is provided. In 2003 we have initiated and introduced a new long-term savings deposit account titled "the Golden key". The savings deposit account has an interest rate of 1.45% per month and 0.05 points will be donated to the "the Golomt Bank Children Fund" for funding the non-formal education project aimed at improving the education environment for children of vulnerable groups of the society. The fund will also finance the following activities:

- at the initiation of Golomt Bank in order to develop children's abilities and talent to organize different types of cultural, sport, scientific competitions.
- for purpose of spending children leisure in a useful and correct way to establish sport and game centers.
- to assist in the development of children with outstanding ability by way of financing education expenses etc.

The Golomt Bank has given presents to children, "the Golden key" new savings deposit holders as well as to children savings deposit owners whose deposit amount reached a certain threshold. The children were greatly pleased.

For education of students

In order to prepare the best future personnel and develop the students independent and self-expressing capability Golomt Bank organized successfully the annual scientific conference and supported the winners with financial assistance for successful graduation and completion of scientific research work. Also the scientific research works of 16 students, winners of the competition, were published as well as 114 students were awarded with Golomt Bank scholarships. In addition to this the students teams are working as interns at the Bank on a paid basis to strengthen their theoretical knowledge as well as to assist with their research and scientific work.

Tailor-made Products



Customer B.Uranzul:
... **High sense of customer needs and demand.**

Golomt Bank Business Operations in 2004

External relations

In 2004 Golomt Bank expanded foreign relations and developed direct relations with the banks of our neighbours and trade partners, as the Russian Federation, the Republic of Korea and the People's Republic of China, and implemented many activities in order to provide cost-effective and efficient banking services. Golomt Bank established correspondent relations with Korea Exchange Bank of the Republic of Korea and Sber Bank of the Russian Federation and reached an agreement with Agricultural Bank of China on trade finance.

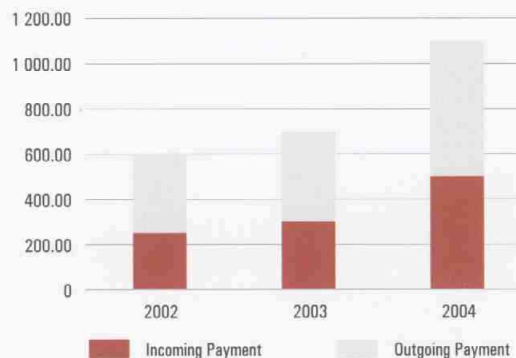
In 2004 Golomt Bank strengthened its position as an international bank and executed around 40% of foreign exchange settlement on its own as well as it concluded a Master agreement with Rabo Bank of the Netherlands for forex and money market operations.

Foreign settlement

Last year Golomt Bank executed foreign settlement through its nostro accounts with 18 banks in 12 countries, thus our total turnover of foreign transactions amounted to USD 1 billion with a 110% increase in the number of transactions coming from abroad and with a 123% rise in the number of transactions going abroad. Also in 2004 Golomt Bank transferred money through the Western Union network, which has 140,000 points in 186 countries, and the total amount of money transferred through the Western Union reached USD 13.6 million with a 12% increase over the last year.

24

Total overseas payment
/billion tugrug/



Foreign trade finance

In the reporting period Golomt Bank has issued letters of credit to over 10 countries through the Hong Kong and Shanghai Banking Corporation Ltd., Commerzbank AG, Dresdnerbank AG, the Bank of Tokyo-Mitsubishi, Chohung Bank, the Union Bank of California, Sberbank and Korea Exchange Bank, which has a 31% increase in the number of letters of credits and a 50 % increase in its total amount. In addition the income from provision of those services rose by two times over the last year.

Card Services

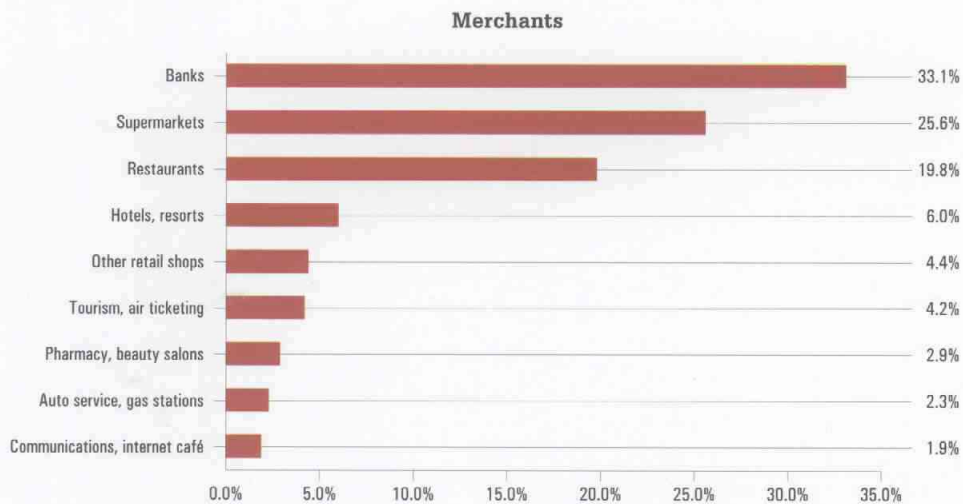
Golomt Bank has led introduction of Visa and MasterCard cards at the Mongolian market and implemented many activities to introduce the advanced methods of non-cash payments to customers as well as to streamline the card use.

Card use

At the end of 2004 the number of card holders increased 3.5 times reaching 100,000 and total amount of transactions reached MNT 15.7 billion. Belief that only businessmen should hold card was left behind and the cardholders circle widened and covered all segments of the society. The use of the "Mongolian students discount card" Visa Electron and Maestro cards rose by 4.7 times and reached 52,000 students. These cardholders are eligible to discount services, which covers over 120 trade and service units, thus becoming a large service network.

Merchant Network

Golomt Bank cardholders are able to make payments with no risk at over 150 bank branches, and more than 450 merchants locally as well as in 23 million merchants and 700 thousand ATMs in almost all countries. In order to streamline use of non-cash payments and to make card use a daily necessity of customers Golomt Bank has been cooperating closely with potential organizations and it could be said that almost all leading trade and service entities accept Golomt Bank cards.



Card loans

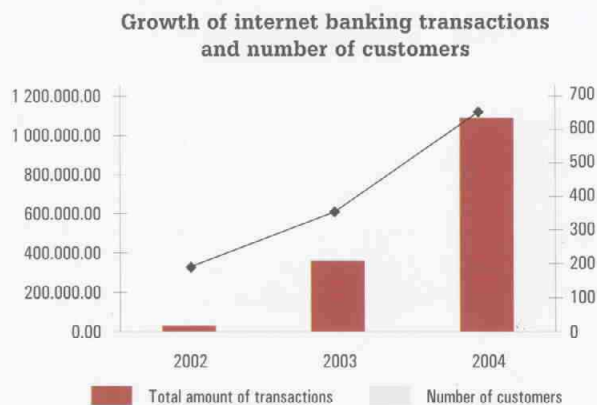
Golomt Bank cardholders and merchants may utilize any types of the Bank products and services on a favourable conditions, thus last year in order to support the business activities of organizations, which use Golomt Bank card, as well as to meet short-term financial needs of cardholders, a total amount of MNT 1.1 billion was lent to card members and merchants.

External cooperation

Last year Golomt Bank in order to promote card business in the country, in cooperation with Asia and the Pacific regional centre of Mastercard International and Visa International implemented various projects. Golomt has been cooperating with Zoos, Khaan and Capitron banks in their card issuance.

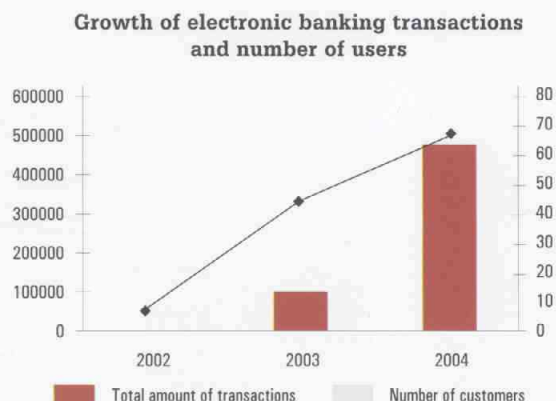
Internet Banking

Three years have passed since Golomt Bank started to provide the most rapid and efficient internet banking service. Since then the Bank internet banking service users' number as well as the types of services has gone up significantly. Last year we paid a special attention to quality and security of internet banking service. As a result of our endeavours the number of internet banking users rose by 83% and total amount of transactions increased by 204%.



Electronic Banking

Electronic banking provides an opportunity to customers to get banking service from home and office with assistance of special software and it has a high degree of security, as it uses the phone line with authorizations of a number of people and an electronic signature is checked on a constant basis. In 2004 the number of customers increased by 53% and the amount of transactions rose by 394%.



Customer care

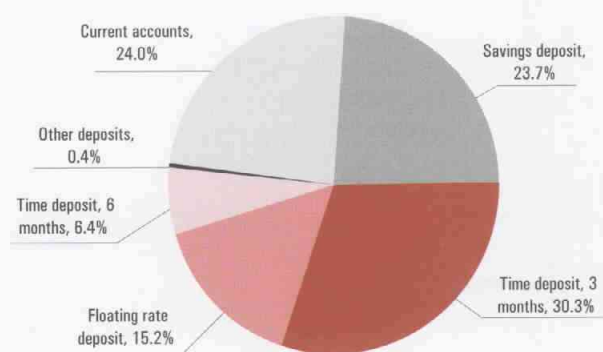


Customer B.Tuvshin:
Needs are growing, but it is natural.

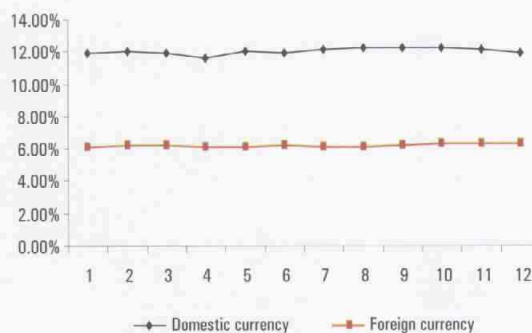
Current Accounts and Time Deposits

We offer to our customers many types of products in relations to their current accounts and time deposits, which has specific features, as safety and reliability, earning interest income and efficient execution of payments. Amongst time deposit products there are the following new products, as Golden Key time deposit, time deposit with a floating exchange rate, certificate of deposit, which have their own specifics and which entered into the market very recently. In 2004 total amount of Golomt Bank current and time deposits increased by 61.1% and reached MNT 147 billion, thus making up 21% of the current and time deposits of the banking system. The interest expenditure on current and time deposits totalled to MNT 7.5 billion with a 49.1% increase compared to the previous year.

Composition of deposits /2004.12.31/



Weighted average interest rate /2004.01-2004.12/



Time deposit passbook with a magnetic strip

Golomt Bank introduced to its customers the time deposit passbook with a magnetic strip, which provides a high quality service and security, thus making an important step towards reducing the Bank operational risk.

Lending Services

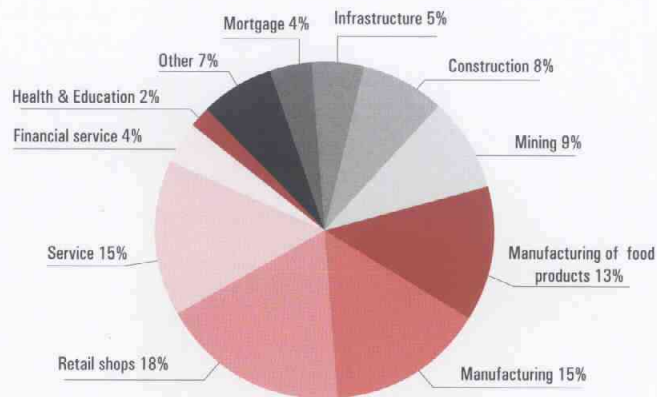
In 2004 Golomt Bank disbursed loans amounting to MNT 149.8 billion and received loan repayment of MNT 105.6 billion and received interest income of MNT 12.9 billion. The total amount of loan portfolio reached MNT 90.9 billion by year-end. In comparison with the last year loan disbursement increased 65%, interest income rose to 38.3% and loan portfolio growth was 94.4%, thus rising the market share of the Golomt Bank to 15%. Out of total loans disbursed 97.3% was financed from its own sources and 2.7% was financed from project sources. In 2004 the percentage of loans disbursed through bank branches doubled.

The structure of loan portfolio

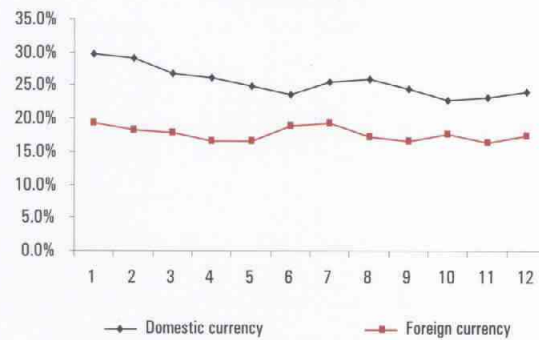
In addition to providing 16 types of loan products from its own sources we have implemented "the Private Sector Development Project" in cooperation with the World Bank and the Government of Mongolia, the ADB "Employment Generation Project" and "Housing Development Project" and "Support to Employment Project" as a bank intermediary as well as we have paid a special attention to introducing to the market other cost-effective loan products.

Types of loans	Share in loan portfolio
Corporate working capital loans	74.6%
Small business loans	8.9%
Mortgage loans	4.3%
PSDC project term loans	3.3%
Loan to financial institutions	2.1%
Working capital loans to individuals	1.9%
Consumer loans	1.7%
Investment loans	1.0%
Other	2.2%

Loans by sectors /2004.12.31/



Weighted average interest rate /2004.01-2004.12/



New loan products

Guided with objective "to lend actively various types of credits for different purposes and to bring in credit services to each segment of the market" the Bank has introduced several new products to the market. This includes:

- ◆ Investment loan - with objective to support private individuals and companies in purchasing machinery and equipment with duration upto 5 years and 1.5-2.5% interest rate.
- ◆ Import credit - with objective to advance customs charges and transportation cost with duration upto 6 months and 3% interest rate.
- ◆ Quick loans - with objective to resolve short-term financial difficulties of private individuals with duration of 6 months and 3.5% interest rate.
- ◆ Home renovation credit - with objective to support renovation of apartments and houses with duration of 18 months and 2.5% interest rate.
- ◆ Car credit- with purpose to support purchase of cars by private individuals and companies with duration of 12 months and 1.5-2.3% interest rate.

Consulting Service

Golomt Bank consulting service is the first consulting service in the Mongolian banking system, which provides to customers a detailed information on banking services, makes guidance on use of banking services, in other words it aims to improve the relationship between the bank and its customers as well as to advise to foreign and local companies and individuals on business, finance and credits and to assist them in developing business plans and other financial documents.

Premier Banking since its establishment in March 2001 has been expanding and successfully operating for three years. Until 2003 this service was mostly directed to attracting the deposits of individuals with higher income and the larger corporations and to provide them with efficient services. Since last year the scope of this service has been expanded and Premier Banking activities was reorganized into two main directions:

1. **Private banking service unit** - high quality and efficient bank services are rendered to bigger customers from a single unit in the bank.
2. **Consulting service unit** - advice and consulting on business and other issues will be provided to individual and corporate customers at their request.

The Consulting service unit carries out the following activities:

- ◆ Business consulting: to provide consultancy on developing the customer business plan for a new or established business, making analysis and preparing the related documents.
- ◆ Financial advice: to improve the customer financial management, to advise on optimal allocation of funds.
- ◆ Credit advice: to provide advice on business credit, housing credit, project credit and all information related to credit.
- ◆ Consulting to non-banking financial institutions and credit and savings cooperatives: to provide advice to the customers of the new non-banking financial institutions and credit and savings cooperatives as well as to the customers of the established non-banking financial institutions and credit and savings cooperatives on ways of improvement of these institutions.
- ◆ Training: Training in business management, strategic management, marketing, financial management, management accounting.

In 2004 the Banking consulting service in addition to the Bank customers cooperated with an internationally well-known non-governmental organization "Mercy Corps" in its implementation of "the Gobi region economic development initiative" and "Rural agro business support program" by organizing training programs and providing advice to companies and individuals in marketing and business management in the rural areas.



J. Batbileg, System engineer, IT Department of Golomt Bank

System integration and its security are far important for the interest of not only the bank, but for our valuable customers as well.

Financial Reports

Budget, business plan and achievements

In the reporting period Golomt Bank total assets reached MNT 183.4 billion exceeding the initial plan by MNT 8.8 billion or 5% This performance was mainly due to the growth of current and time deposits with an increase of MNT 6.4 billion in current deposits and an increase of MNT 47.5 billion in time deposits. The bank successfully accomplished its goals towards the returns on assets and equity .

The progress of the business plan implementation on liabilities and profit of every units of bank was monitored on a monthly basis and internal pricing system for distribution of profits amongst bank branches and units was introduced, thus resulting in a highly positive outcome as well as all the Bank branches and units fully fulfilling the planned commitments.

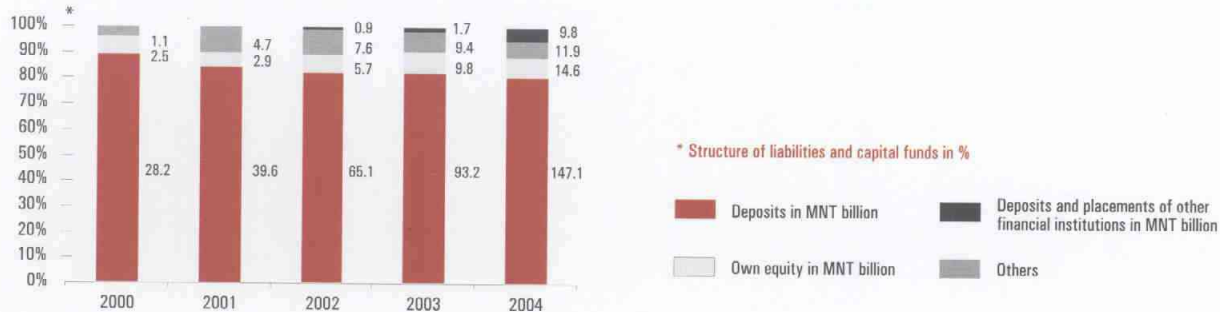
Major Financial Indicators /for the last 5 years/

Indicators	2004	2003	2002	2001	2000
Asset composition ratios					
1 Deposits to assets ratio	80.2%	81.7%	82.1%	80.3%	83.3%
2 Equity to assets ratio	5.5%	6.2%	5.2%	4.4%	6.5%
3 Net loans to assets ratio	49.6%	41.0%	40.8%	48.2%	38.0%
Operating capability					
4 Ratio of deposits to Loans (%)	161.8%	199.2	201.2%	166.6%	218.8%
5 Percentage of non-performing loans	9.6%	9.9%	16.8%	19.5%	28.4
6 Turnover of total assets	0.11	0.13	0.14	0.15	0.14
7 Average operating revenue per employee	53 975	45 780	41 285	31 853	25 418
8 Average profit per employee	5 277	4 020	3 850	2 027	1 389
Profitability					
9 Return on Assets ROA	1.0%	1.0%	1.0%	0.8%	0.7
10 Return on Equity ROE	12.0%	11.1%	14.4%	13.4%	8.6%
11 Net Interest Margin	6.0%	8.4	7.0%	7.9%	9.5%
12 Cost Income ratio	85.9	85.2%	83.8%	89.2%	88.5%
13 Net Income ratio	9.8	8.8%	9.3%	6.4%	5.5%
Prudential ratios (%)					
14 Tier 1 Capital adequacy ratio >=5%	13.1%	15.4%	14.2%	10.7%	14.5%
15 Capital adequacy ratio >=10%	13.1%	15.4%	14.2%	10.7%	14.5%
16 Foreign currency exposure ratio <+40%	20.6%	27.5%	12.8%	14.4%	12.1%
17 Single borrower exposure/capital funds <20%	18.6%	11.9%	17.7%	18.4%	19.4%
18 Staff loans/ Capital funds <5%	0.8%	1.2%	2.7%	4.0%	4.8%
19 Liquidity Ratio >= 18%	50.5%	57.8%	58.5%	46.8%	51.9%
20 Fixed assets ratio <=8%	1.4%	2.1%	2.8%	4.12%	6.9%

Liabilities Management

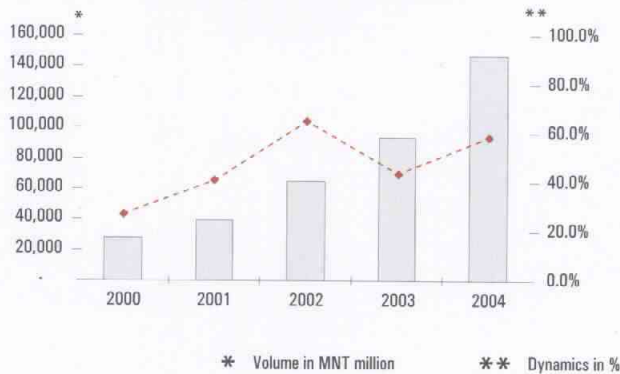
In 2004 Golomt Bank total liabilities reached MNT 168.8 billion, which increased by MNT 64.6 billion or 61.9% over the previous year. By the end of the year the Bank own capital reached MNT 14.6 billion with an increase of 49% or MNT 4.8 billion over the previous year.

Structure and volume of liabilities and equity

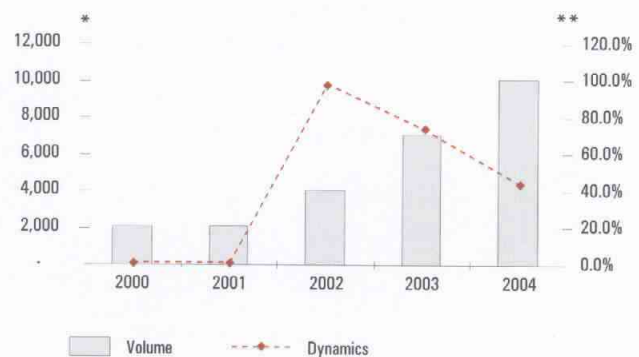


As a result of the policy to increase the ratio of long-term and sustainable funding, we have introduced deposit with floating interest rate. Time deposits increased by MNT 31.7 billion over the last year. In order to reduce the Bank risk paid-in capital has been increased by MNT 3 billion. Also as result of increase of accrued profit by MNT 1.8 billion the Bank own capital reached MNT 14.6 billion and rose by 49% over the last year.

Deposits from customers



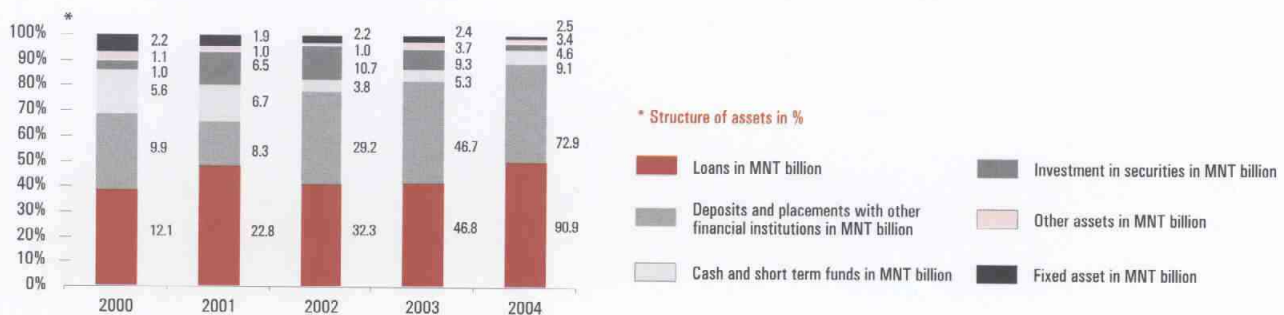
Shareholders equity



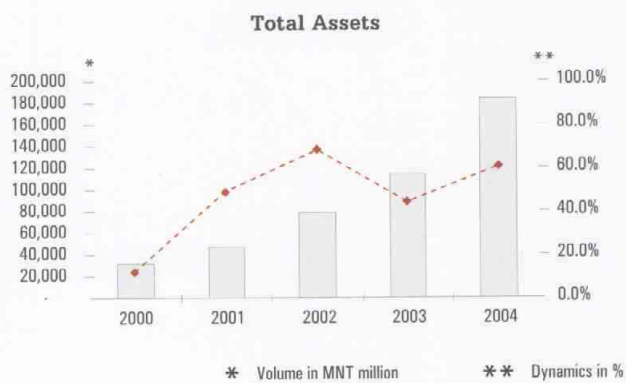
Asset Management

In the reporting period Golomt Bank total assets reached MNT 183.4 billion with a 60.8% increase or MNT 69.4 billion over the last year.

Structure and volume of assets



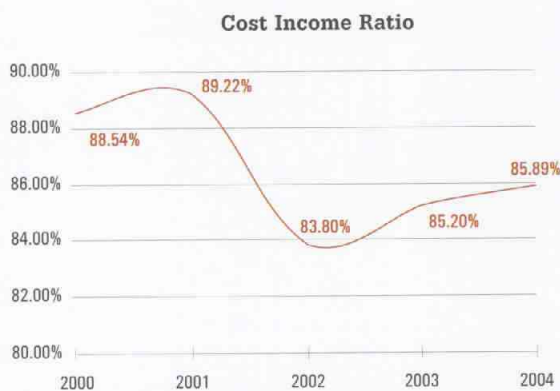
In 2004 2.5% or MNT 4.6 billion of total assets was composed of central bank bills and during the reporting period Golomt Bank purchased and traded central bank bills amounting to MNT 119.1 billion and government bonds with amount of MNT 2 billion. Also credits with total amount of MNT 90.9 billion or 49.6% of total assets were lent to companies and individuals and throughout the year the ratio of credits in the total assets was around 50%.



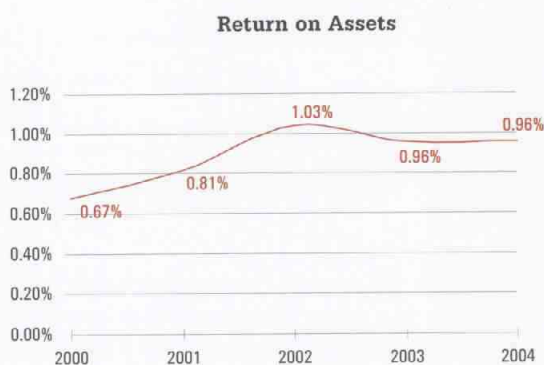
Financial performance

In 2004 Golomt bank total income reached MNT 17.9 billion, total expenses amounted to MNT 15.4 billion and income tax MNT 782 million has been paid to the state budget. The Bank net profit after tax amounted to MNT 1.8 billion. Also interest income accelerated to 38.9%, non-interest income increased by 70.8% and interest expense accelerated to 53.2% and operating expense increased by 16.8%.

34



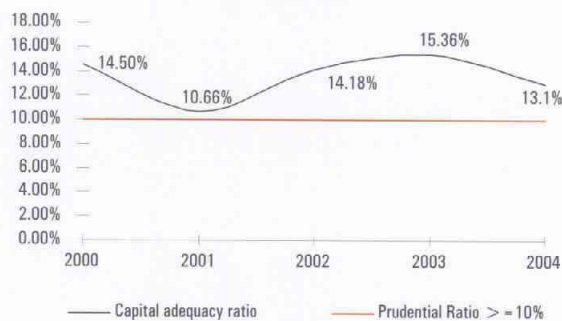
In 2004 Golomt Bank fulfilled the requirements set forth by the Bank of Mongolia on a constant basis and successfully performed its operations by combining effective management of capital and funds, implementing successfully the objectives of the financial plan and ensuring the profitable returns on equity to shareholders.



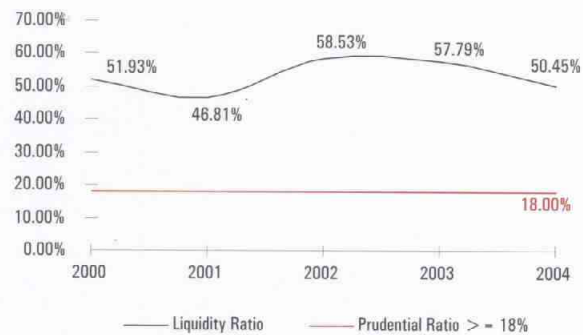
Risk Management Report

Bank operations compared to other businesses is a high risk and dynamic business and its stable operations and growth are greatly dependent on ensuring the establishment and maintenance of successful risk management system. Last year special efforts were made towards upgrading the research methods and instruments as well as risk evaluation and prevention.

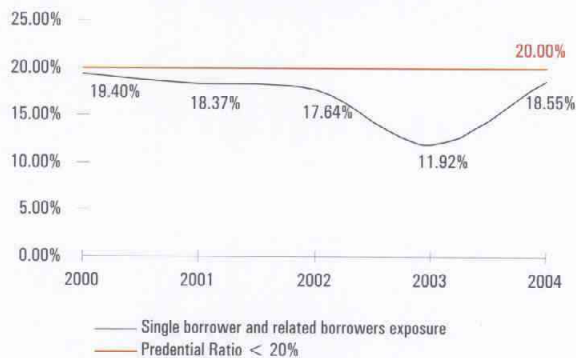
Capital Adequacy Ratio



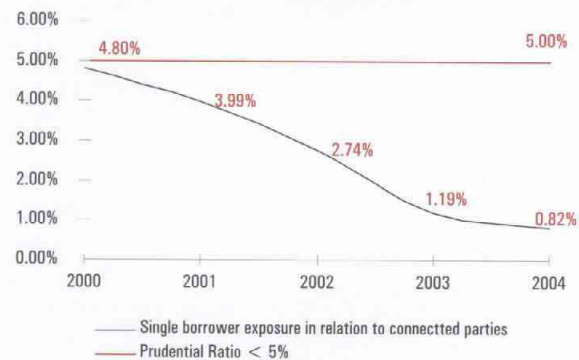
Liquidity Ratio



Single Borrower and Related Borrowers Exposure



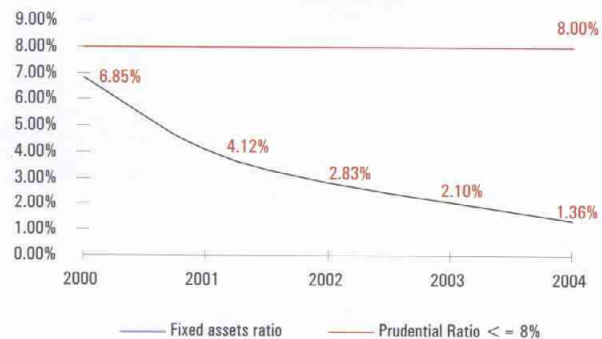
Single borrower exposure in relation to connected parties



Foreign Currency Exposure



Fixed Assets Ratio



1. Credit risk

Golomt Bank credit policy is directed to creating the mutually beneficial credit system for both the bank and the borrower, consequently reducing the credit risk. In 2004 the loans to total assets ratio reached 50% and the ratio of non-performing loans to total loans was 9.6%.

The Bank pursued a policy of expansion and diversification of loans into different sectors of the economy on the basis of analysis of general trends of sectoral development and economic outlook. According to statistics the highest ratio of loan portfolio belongs to manufacturing and trade sectors (28-30%), which are diversified economic sectors and divided also into many sub-sectors. The Bank had constantly fulfilled and met the prudential requirement from the Bank of Mongolia.

2. Liquidity risk

Within the scope of primary responsibilities of the Bank to have a capacity to make payment at the customer first demand the Bank put a special effort towards developing and sustaining an optimal level between liquidity and financial return. Last year the Bank fulfilled constantly the reserve requirement ratio on the cumulative basis and met all the liquidity requirements of the Bank of Mongolia.

Liquidity ratios

As of 31 December 2004

	Tugrug	Foreign Currency	Total
Liquid assets	15,681,928.7	68,850,315.7	84,532,244.4
Liabilities	47,888,582.0	119,657,501.4	167,546,083.4
Liquidity Ratio	32.75%	57.54%	50.45%
Required level	18%	18%	18%
Difference	-14.75%	-39.54%	-32.45%

In addition the currency risk ratios which adhered by the Bank internally are as follows.

Other liquidity ratios /2004-12-31/

Indicators	Percentage
Cash and short term funds/Liabilities	50.45%
Cash and reserve/Checking accounts	119%
Short term assets/Short term liabilities	102.84%
Short term assets/Total assets	96.22%
Loan/Total assets	54%
Loan/Liabilities	60%

3. Market risk

In 2004 the price competition at the banking and financial market continued to mount and the market interest rates were changing. The Bank closely monitored the interest rate developments at the market and reviewed the interest rates on long-term time deposits and interest rates on loans as well as pursued a policy of controlling interest rate risk by sustaining a small margin between interest bearing assets and liabilities.

The depreciation of US dollar in recent years has been increasing the foreign exchange currency risk of the countries, which have the big dollar reserves. The weakening of US dollar against other Asian currencies is small compared to other continents because the foreign exchange policy regulation is strong in these countries. As for the Mongolian tugrug the trend was reverse to an overall world market and US dollar appreciated against tugrug.

This is mainly influenced by the size of the Mongolian economy, economies of the two neighbouring countries, foreign exchange regulatory mechanism and Mongolia foreign currency reserve as well as its movements and future forecasts. We received on a timely basis the market information and made forecasts of exchange rates to manage and control risk. The Bank's exposure to foreign currency exchange risk by major currencies are as follows by year-end.

Foreign currency exposure /2004-12-31/

Indicators	Major currencies /in thousands/						Total	
	USD	EUR	JPY	CHF	GBP	Other currencies /expressed in USD/	In thousand USD	In thousand tugrug
Foreign currency assets								
Foreign currency liabilities	94,201.29	4,982.08	285,747.19	755.79	696.01	2,420.50	108,167.50	130,774,504.75
Off balance accounts	92,779.38	4,770.63	169,057.79	8.74	703.93	1,982.56	104,250.56	126,038,926.81
Open positions	1,154.57	390.00					1,685.99	2,038,365.04
Own Equity /million tugrug/	267.34	(178.54)	116,689.41	747.05	(7.92)	437.94	2,230.94	2,697,212.91
Exposure ratio	14,604.15	14,604.15	14,604.15	14,604.15	14,604.15	14,604.15	14,604.15	14,604.15
Prudential requirement by Central bank	2.21%	-2.01%	9.31%	5.46%	-0.13%	3.63%	20.61%	20.61%
Rate of the Central Bank	±15%	±15%	±15%	±15%	±15%	±15%	±40%	±40%
	1,209.00	1,647.40	11.65	1,067.70	2,320.90			

4. Operational risk

In order to reduce and prevent risks associated with intended and accidental faults and errors of the staff in accounting, legal and information technology areas the bank internal supervision regulations and procedures were renewed as well as a manual for undertaking monitoring and supervision and guidelines of work and operations for new staff were developed and issued. Also in order to supervise the Bank branches and units operations on a constant basis the supervision staff was appointed to each unit with a feedback connection, thus assisting to prevent any breach of regulations and procedures, providing guidance with methodological advice, handling complaints from customers etc.

In order to reduce and prevent any risks related to the legal and regulatory framework the Bank legal division advises on the agreements and documentations from the legal point of view and conducts training on changes to the laws and regulations .

Taking into consideration full automatization of the banking operations, online accounting and transaction processes, internet banking and increasing information technology risk, special measures were taken to ensure the full utilization of the information system at the high professional level, protection of the computer network from outside interference, provision of security and confidentiality for the customers and the Bank, prevention of professional types of crime and improvement of internal security system.

Products and Services Offered

◆ Current accounts

- Personal
- Corporate
- Escrow
- Special

◆ Savings accounts

- Checking
- Term
 - 3 month
 - 6 month
 - With floating rate
 - Golden key /for children/
- CD
 - Ordinary
 - With coupons

◆ Loans

- Working capital loans
 - Corporate
 - Individuals
 - Financial Institutions
 - Merchants (card)
- Investment loans
- Small business loans
- Loans for importers
- Consumer loans
 - Consumer
 - Against salary
 - Via card
 - Against term deposit
 - Quick
 - Car loans
 - For repair of houses
- Mortgage loans
 - Asian Development Bank project financed
 - From own resources
- Project Loans
 - WB Private sector Development Project
 - ADB employment generation
 - Employment generation
- Interbank lending

◆ Documentary Credit

- Export
- Import

◆ Guarantees

- For participation in tender
- Payment guarantee

◆ Card services

- MasterCard
 - Gold
 - Corporate
 - Standard
 - Maestro
- Visa
 - Gold
 - Business
 - Classic
 - Visa electron
- Golden Ear/Yuan card/

◆ Money Transfer

- Western Union money transfer
- Domestic money transfer
- Bank to bank transfers

◆ Cheque

- Personal cheque
- Travellers Cheque

◆ Currency trade

◆ Internet banking

◆ Electron banking

◆ Telephone banking

◆ SMS banking

◆ Billiing

◆ Business Consultancy services

◆ Safe box

◆ Others

Locations and Addresses of Golomt Bank Head Office and Branch Office

Branches	Locations and addresses
1 Golomt bank head office	Ulaanbaatar 210620, Sukhbaatar square Phone: (976-11) 311530, 311971 Fax: (976-11) 312307, 311958
2 Sub-branch #1	Chingeltei district, Ulaanbaatar-46, Khudaldaany street 6/2 Phone: (976-11) 326231
3 Sub-branch #2	Bayanzurkh district, 15 th microdistrict, Bayantseel company premises Phone: (976-11) 456829, 456980
4 Sub-branch #3	Khan-Uul district, Airport Phone: (976-11) 983205
5 Sub-branch #4	Sukhbaatar district, State center for Citizens Registration and Information Phone: (976-11) 350267
6 Sub-branch #5	Chingeltei district, Baga toiruu-9 Phone: (976-11) 320712
7 Sub-branch #6	Sukhbaatar district, Solongo service center Phone: (976-11) 320814, 318479
8 Sub-branch #7	Songino Khaikhan duureg, Tsambagarav service center Phone: (976-11) 681267, 680347
9 Sub-branch #8	Bayangol district, 3th microdistrict, Moscow center Phone: (976-11) 368602, 305419
10 Sub-branch #9	Bayangol district, Customs office Phone: (976-11) 942943
11 Sub-branch #10	Baganuur district, Urguu cultural center Phone: (0121)-20818, 22338, 22333
12 1st branch	Orkhon aimag, Bayan-undur soum, Amar street Phone:(01352)-25100, 25200
13 2nd branch	Darkhan-Uul aimag, Darkhan soum, 13th bag Phone:(01372)-27136
14 Cashier office 1	Sukhbaatar district, Ulaanbaatar hotel Phone: (976-11) 313942

 **ERNST & YOUNG** Mongolia Audit Company

■ **Certified Public Accountants**
Suit 103
Chinggis Avenue 11/1
Ulaanbaatar
Mongolia

■ Phone : 976-11-319270
Fax: : 976-11-319249
www.ey.com

Report of the Auditors

To the Board of Directors of Golomt Bank of Mongolia LLC

We have audited the accompanying financial statements of Golomt Bank of Mongolia LLC as at 31 December 2004 set out on pages 2 to 31. These financial statements are the responsibility of the Bank's directors. 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements have been properly drawn up in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by Bank of Mongolia so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended.



Ernst & Young Mongolia Audit Co.

Ulaanbaatar
25 March 2005

Golomt Bank of Mongolia LLC

Income statement for the year ended 31 december, 2004

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	14,110,776	10,156,803
Interest expense	5	(8,373,680)	(5,466,216)
Net interest income		5,737,096	4,690,587
Non-interest income	6	3,749,232	2,249,632
Operating profit		9,486,328	6,940,219
Operating expenses	7	(4,263,486)	(3,703,999)
Profit before allowances		5,222,842	3,236,220
Allowances	8	(2,689,481)	(1,399,917)
Profit before taxation		2,533,361	1,836,303
Taxation	9	(781,501)	(746,922)
Net profit for the year		1,751,860	1,089,381

The accompanying notes form an integral part of the financial statements.

Golomt Bank of Mongolia LLC

Balance sheet as at 31 december 2004

	Note	2004 MNT '000	2003 MNT '000
Assets			
Cash and short term funds	10	9,117,883	5,252,245
Deposits and placements with other banks and financial institutions	11	72,925,545	46,668,373
Investment in securities	12	4,550,110	9,276,445
Loans and advances	13	90,943,063	46,788,774
Other assets	14	3,379,443	3,662,109
Tax recoverable	15	1,549	20,261
Property, plant and equipment	16	2,499,448	2,390,869
Total assets		183,417,041	114,059,076
Liabilities			
Deposits from customers	17	147,124,573	93,220,499
Deposits and placements of other banks and financial institutions	18	9,787,869	1,683,465
Loans from Bank of Mongolia	19	1,120,000	1,074,000
Government loan	20	500,000	320,000
Loans from foreign financial institutions	21	7,857,232	6,498,162
Other liabilities	22	2,437,020	1,470,199
Total liabilities		168,826,694	104,266,325
Equity			
Statutory fund	23	10,130,726	7,084,990
Retained earnings		4,459,621	2,707,761
Total equity		14,590,347	9,792,751
Total equity and liabilities		183,417,041	114,059,076
Commitments and off balance sheet items	27	15,429,199	14,522,277

The accompanying notes form an integral part of the financial statements.

Golomt Bank of Mongolia LLC

Statement of changes in equity for the year ended 31 december 2004

	Statutory fund MNT '000	Retained earnings MNT '000	Total MNT '000
At 1 January 2003	4,083,230	1,618,380	5,701,610
Net profit for the year	-	1,089,381	1,089,381
Issue of shares	3,001,760	-	3,001,760
At 31 December 2003	7,084,990	2,707,761	9,792,751
Net profit for the year	-	1,751,860	1,751,860
Issue of shares	3,045,736	-	3,045,736
At 31 December 2004	10,130,726	4,459,621	14,590,347

Golomt Bank of Mongolia LLC

Cash flow statement for the year ended 31 december 2004

	2004	2003
	MNT '000	MNT '000
Cash flows from operating activities		
Profit before taxation	2,533,361	1,836,303
Adjustments for :-		
Depreciation of property, plant and equipment	409,057	409,775
Property, plant and equipment written off	333	2,010
Net allowance for loan losses	2,689,481	1,374,489
Allowance for impairment of other assets	-	19,588
Allowance for impairment of investment securities	4,267	5,840
Gain on disposal of property, plant and equipment	(1,507)	(2,652)
Operating profit before working capital changes	5,634,992	3,645,353
(Increase)/ decrease in operating assets:-		
Loans and advances	(46,843,770)	(15,825,891)
Other assets	380,323	(2,651,925)
Increase in operating liabilities		
Deposits from customers	53,904,074	28,147,105
Deposits and placements of other banks and financial institutions	8,104,404	789,670
Other liabilities	966,821	786,820
Cash generated from operations	22,146,844	14,891,132
Income tax paid	(762,789)	(804,431)
Net cash flow generated from operating activities	21,384,055	14,086,701
Cash flow from investing activities		
Net decrease in investment securities	4,722,068	1,413,382
Proceeds on disposal of property, plant and equipment	354,044	5,304
Purchase of property, plant and equipment	(968,163)	(578,093)
Net cash flow generated from investing activities	4,107,949	840,593
Cash flows from financing activities		
Increase in statutory fund	3,045,736	3,001,760
Drawdown of loan from Bank of Mongolia	46,000	50,000
Drawdown of loans from government and foreign financial institutions	1,539,070	926,788
Net cash flow generated from financing activities	4,630,806	3,978,548

The accompanying notes form an integral part of the financial statements.

Golomt Bank of Mongolia LLC

Cash flow statement for the year ended 31 december 2004 (contd.)

	2004	2003
	MNT '000	MNT '000
Net increase in cash and cash equivalents	30,122,810	18,905,842
Cash and cash equivalents brought forward	51,920,618	33,014,776
Cash and cash equivalents carried forward	82,043,428	51,920,618
Cash and cash equivalents comprises:		
Cash and short term funds	9,117,883	5,252,245
Deposits and placement with other banks and financial institutions	72,925,545	46,668,373
	82,043,428	51,920,618

The accompanying notes form an integral part of the financial statements.

Golomt Bank of Mongolia LLC

Notes to the financial statements - 31 december 2004

1. Corporate information

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 8 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is Sukhbaatar Square 3, Ulaanbaatar 210620A, Mongolia.

The holding company of the Bank is Bodi International Limited, a company incorporated in Mongolia.

These financial statements of the Bank for the year ended 31 December 2004 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 March 2005.

2. Basis of preparation

These financial statements have been prepared in accordance with applicable International Financial Reporting Standards and the Guidelines and Regulations issued by Bank of Mongolia.

The financial statements have been prepared under the historical cost convention except for the measurement of financial assets and liabilities at fair values, where applicable. 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.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge on current events and actions, actual results ultimately may differ from those estimates.

3. Significant accounting policies

a. Interest Income and Expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income is suspended when interest or principal on credit facilities are overdue by more than 90 days. On commencement of suspension, previously accrued interest not received is clawed-back. 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 and the loan is reclassified as performing.

b. Fee and Commission Income

Fee and commission income are generally recognised on an accrual basis when the service has been provided. Fees and commission income derived by the Bank relate mainly to money transfer, loan processing, debit card and credit card service, current account withdrawal and deposit box.

c. Foreign Currencies

Transactions in foreign currencies are initially recorded in Togrog at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Togrog at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange rate differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date used are as follows:

	2004	2003
United States Dollar	1,209.00	1,168.00
Great Britain Pound	2,320.90	2,073.40
European Euro	1,647.40	1,460.20
Japanese Yen	11.65	10.92
Swiss Francs	1,067.70	935.70

d. Loans and Advances and Allowance for Loan Impairment

Loans originated by the Bank by providing money directly to the borrower at draw down and are categorised as loans and advances. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

Originated loans are stated at amortised cost less allowance for impairment.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan impairment allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related allowance for impairment or recognised as an expense in the income statement. Subsequent recoveries are credited to the allowance for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the allowance is credited as a reduction of the allowance for loan losses.

The maturity of the loan portfolio is presented in Note 13 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 where for programs set up by international financial institutions and under government financing arrangements. However, in the Mongolian marketplace, short-term credits are granted with the expectation of renewing loans at maturity.

3. Significant accounting policies (contd.)

e. Taxation

The Bank provides for current income tax based on its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purpose, in accordance with the regulations of the Mongolian Government and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

f. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term funds, deposits and placements with other banks and financial institutions.

g. Investment Securities

All investments are initially recognised at cost (which includes transaction costs). Management determines the appropriate classification of its investments at the time of the purchase. Investment securities with fixed maturity where management has both the intent and the ability to hold for yield or capital growth to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any allowance for impairment. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed or deemed impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned on investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

h. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (j).

Assets under construction are not depreciated. Depreciation of these assets begins when the related assets are ready for intended use.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life. The estimated useful lives used by the Bank are as follows :-

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

Upon disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

i. Deposits From Customers

Deposits from customers are stated at cost which is the fair value of the consideration to be paid in the future for deposits received.

j. Impairment of Assets

At each balance sheet date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is charged to the income statement immediately except where relating to revalued assets. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

k. Sale and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are retained in the financial statements as available-for-sale or held-for-maturity securities and the counterparty liability is included in amounts due to other financial institutions or as appropriate. Securities purchased under agreement to resell ('reverse repos') are recorded as amount due from other financial institutions or as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

3. Significant accounting policies (contd.)

l. Employee Benefits

(i) Short Term Benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined Contribution Plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Fund. Such contributions are recognised as an expense in the income statement as incurred.

m. Operating Leases

Lease payments for operating leases, where substantially all risk and benefits remain with the lessor, are charged as an expense in the income statement on a straight-line basis over the term of the relevant lease.

n. Financial Instruments

Financial instruments are recognised in the balance sheet when the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Equity Instruments

Statutory fund is classified as equity and dividends are recognised in equity in the year in which they are declared.

(ii) Derivative Financial Instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

n. Financial Instruments (contd.)

(ii) Derivative Financial Instruments (contd.)

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement. Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

4. Interest income

	2004	2003
	MNT '000	MNT '000
Loans and advances	12,902,142	9,326,074
Deposits and placements with other		
banks and financial institutions	401,201	247,726
Bank of Mongolia Treasury Bills	736,304	520,546
Government bonds and Securities	71,129	62,457
	14,110,776	10,156,803

5. Interest expense

	2004	2003
	MNT '000	MNT '000
Current account deposits	554,789	365,292
Time and demand account deposits	6,910,564	4,641,602
Loans from foreign financial institutions	737,978	416,297
Placements by other financial institutions	170,349	43,025
	8,373,680	5,466,216

6. Non-interest income

	2004	2003
	MNT '000	MNT '000
Fees and commission income:		
Service charges and fees	1,284,858	603,972
Credit cards advance fees	685,906	543,296
Other fees income	753,881	642,901
	2,724,645	1,790,169
Other income:		
Realised foreign currency gain	1,277,790	141,008
Unrealised foreign currency gain	(289,681)	212,734
Gain on disposal of property, plant and equipment	1,507	2,652
Other operating income	34,971	103,069
	1,024,587	459,463
Total non-interest income	3,749,232	2,249,632

7. Operating expenses

	2004	2003
	MNT '000	MNT '000
Advertising	173,015	133,132
Communication	351,632	254,459
Depreciation of property, plant and equipment	409,057	409,775
Entertainment	18,184	10,671
Other operating expenses	582,210	484,529
Staff costs		
- Salaries and wages	750,882	538,499
- Social and health insurance	142,795	102,718
Rental of premises	742,903	688,669
Safety expenses	112,034	49,805
Service charges	549,711	692,983
Stationery	173,586	117,101
Training expenses	51,578	25,966
Travelling	205,566	193,682
Write-off of property, plant and equipment	333	2,010
	4,263,486	3,703,999

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

	2004	2003
	Number	Number
Directors and head of departments	25	22
Officers	268	218
Clerks	39	31
	332	271
Of which:		
- Head office	160	130
- Branches	172	141
	332	271

8. Allowances

	2004	2003
	MNT '000	MNT '000
Allowance for loan losses less writebacks	2,685,214	1,374,489
Allowance for impairment of investment securities	4,267	5,840
Allowance for impairment of other assets	-	19,588
	2,689,481	1,399,917

9. Taxation

	2004	2003
	MNT '000	MNT '000
Current income tax:		
Based on results for the year	771,175	747,186
Under/(over) provision in prior year	10,326	(264)
	781,501	746,922

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. The income tax rate for profits of bank is 15% for the first MNT100 million of taxable income, and 30% (2003: 40%) on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. The allowance for loan losses is deductible for income tax purposes.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December is as follows:

	2004	2003
	MNT '000	MNT '000
Profit before taxation	2,533,361	1,836,303
Tax at statutory tax rate of 30% (2003: 40%)	760,008	734,521
Effect of income not subject to tax	(21,339)	(24,982)
Effect of expenses not allowable for tax purposes	47,506	52,647
Effect of income subject to lower tax rate	(15,000)	(15,000)
Under/(over) provision in prior year	10,326	(264)
Tax expense for the year	781,501	746,922

Deferred tax is not provided for in the current and previous financial years as there are no temporary differences.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations.

10. Cash and short term funds

	2004	2003
	MNT '000	MNT '000
Cash and short term funds represented by:		
Local currency	2,887,549	2,379,209
Foreign currencies	6,230,334	2,873,036
	9,117,883	5,252,245

11. Deposits and placements with other banks and financial institutions

	2004	2003
	MNT '000	MNT '000
Current accounts with Bank of Mongolia	25,585,838	9,658,508
Placements with other banks and financial institutions	47,339,707	37,009,865
	72,925,545	46,668,373

Balances with Bank of Mongolia are maintained in accordance with Bank of Mongolia's requirements and bear no interest. The balances maintained with Bank of Mongolia are determined at set percentages based on 15 days average cash balances.

Placements with other banks and financial institutions represent foreign currencies current accounts maintained with foreign and local financial institutions, which are generally denominated in United States Dollar ("USD") and EURO Dollar ("EURO") and bear interest at annual rates ranging from 0.53% to 2.50% (2003: 0.53% to 1.02%) per annum.

12. Investment in securities

	2004	2003
	MNT '000	MNT '000
Securities held-to-maturity:		
Bank of Mongolia treasury bills	4,129,331	8,568,085
Accretion of discounts	6,320	176,102
Net securities held-to-maturity	4,135,651	8,744,187
Securities available-for-sale:		
Promissory notes	418,726	538,098
Allowance for impairment losses	(4,267)	(5,840)
Net securities available-for-sale	414,459	532,258
	4,550,110	9,276,445

Bank of Mongolia treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. The effective annual interest rates of these bills range from 6.48% to 15.19% (2003: 0.97% to 17.00%) per annum.

Promissory notes are issued by a private corporation with a 180 days maturity period. The annual interest rate of these promissory notes range from 14.4% to 21.6% (2003: 21.6%) per annum.

13. Loans and advances

	2004	2003
	MNT '000	MNT '000
Short term loans	90,864,592	42,926,216
Term loans	6,814,410	7,877,251
Credit cards	336,747	281,504
Staff loans	392,939	288,311
Accrued interest	544,019	710,313
Gross loans and advances	98,952,707	52,083,595
Allowance for loan losses		
- specific	(6,971,125)	(4,825,717)
- general	(1,038,519)	(469,104)
Net loans and advances	90,943,063	46,788,774

	2004	2003
	MNT '000	MNT '000
Maturity structure		
Maturing within one year	75,546,911	38,256,068
One to five years	13,820,862	7,280,489
After five years	1,575,290	1,252,217
	90,943,063	46,788,774

Loans and advances analysed by their economic purposes are as follows:

	2004	2003
	MNT '000	MNT '000
Trading	29,041,374	19,421,270
Processing related industries	28,217,223	16,699,633
Mining	8,578,238	3,798,901
Construction and transportation	7,372,401	4,483,150
Power, gas and water supply	4,559,220	1,470,870
Hospitality	3,899,361	1,137,902
Small medium enterprises	5,770,139	607,365
Leasing	3,954,013	587,295
Health and Education	2,200,532	572,795
Agriculture	1,134,086	344,724
Others	4,226,120	2,959,690
	98,952,707	52,083,595

13. Loans and advances (contd.)

Movements in the non-performing loans ("NPLs") are as follows:

	2004	2003
	MNT '000	MNT '000
Balance at beginning of year	5,159,987	6,099,950
NPLs during the year - gross	8,016,025	4,016,439
Recoveries/regularised during the year	(3,847,644)	(5,073,776)
Exchange differences	129,509	117,374
Gross balance at end of year	9,457,877	5,159,987
Less: Specific allowance	(6,971,125)	(4,825,717)
Net balance at year end	2,486,752	334,270
Gross NPLs ratio as a percentage of gross total loans	9.6%	9.9%
Net NPLs ratio as a percentage of net total loans	2.7%	0.7%

Movements in the allowance for loan losses are as follows:

	2004	2003
	MNT '000	MNT '000
Specific Allowance		
Balance at beginning of year	4,825,717	3,624,774
Allowance made during the year	2,336,244	1,395,974
Allowance taken over from other banks	19,463	-
Amount written back in respect of recoveries	(221,488)	(200,008)
Exchange difference	11,189	4,977
Balance at end of year	6,971,125	4,825,717

	2004	2003
	MNT '000	MNT '000
General Allowance		
Balance at beginning of year	469,104	290,554
Allowance made during the year	681,249	178,523
Amount written back in respect of recoveries	(110,791)	-
Exchange difference	(1,043)	27
Balance at end of year	1,038,519	469,104

13. Loans and advances (contd.)

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for USD loans amounting to MNT58,649 million (2003: MNT27,869 million) and EURO loans amounting to MNT694 million (2003: NIL). Interest rate ranges from 6% to 42% per annum (2003 : 6% to 42% per annum).

Loans and advances amounting to approximately MNT89,495 million at 31 December 2004 (2003 : MNT46,924 million) were classified as normal and provided with a 1% loss reserve. Further, loans amounting to MNT9,458 million as at 31 December 2004 (2003 : MNT5,160 million) were classified as NPLs and allowances of MNT6,971 million (2003 : MNT4,826 million) have been allocated against these NPLs.

The allowances for possible loan losses is considered adequate by the management based upon their formal reviews and analysis of existing credits using their knowledge of prevailing and anticipated economic conditions.

14. Other Assets

	2004	2003
	MNT '000	MNT '000
Other assets	744,139	280,784
Less: Allowance for impairment of other assets	(68,720)	(69,528)
	675,419	211,256
Prepaid expenses	2,498,715	3,217,942
Consumables and other inventories	205,309	232,911
Net balance of other assets	3,379,443	3,662,109

15. Tax recoverable

	2004	2003
	MNT '000	MNT '000
Tax recoverable	1,549	20,261

Tax recoverable represents the excess of tax paid compared to the taxation payable and is subject to the approval from the Mongolian Tax Authority ("MTA").

16. Property, plant and equipment

	Buildings	Leasehold improvements	Office equipment and vehicles	Construction in progress	Total
	MNT '000	MNT '000	MNT '000	MNT'000	MNT '000
At cost					
Balance at beginning of year	1,007,494	30,538	2,347,088	97,657	3,482,777
Additions	205,312	-	762,851	-	968,163
Disposals	(397,248)	-	(2,014)	-	(399,262)
Transfer to other assets	-	-	-	(97,657)	(97,657)
Write-offs	-	-	(14,837)	-	(14,837)
Balance at end of year	815,558	30,538	3,093,088	-	3,939,184
Accumulated depreciation					
Balance at beginning of year	151,539	12,894	927,475	-	1,091,908
Charge for the year	26,469	3,054	379,534	-	409,057
Disposals	(45,902)	-	(823)	-	(46,725)
Write-offs	-	-	(14,504)	-	(14,504)
Balance at end of year	132,106	15,948	1,291,682	-	1,439,736
Net Book Value					
At 31 December 2004	683,452	14,590	1,801,406	-	2,499,448
At 31 December 2003	855,955	17,644	1,419,613	97,657	2,390,869
Depreciation charge for 2003	54,621	3,054	352,100	-	409,775

17. Deposits from customers

	2004	2003
	MNT '000	MNT '000
Current account deposits	32,635,907	26,280,795
Demand account deposits	35,043,281	19,291,117
Time deposits	76,590,230	44,917,365
Government deposits	2,142,253	1,892,537
Other deposits	712,902	838,685
	147,124,573	93,220,499

17. Deposits from customers (contd.)

(i) The maturity structure of time deposits from customers is as follows:

	2004	2003
	MNT '000	MNT '000
Due within six months	60,823,405	31,512,785
Six months to one year	14,446,884	6,734,583
One year to five years	110,150	6,669,997
Over five years	1,209,791	-
	76,590,230	44,917,365

(ii) The deposits are sourced from the following customers:

	2004	2003
	MNT '000	MNT '000
Business enterprises	29,057,274	20,045,851
Individuals	115,925,046	71,282,111
Government	2,142,253	1,892,537
	147,124,573	93,220,499

Current account and other deposits generally bear no interest, however for depositors maintaining current account balance above a prescribed limit, interests are provided at annual rates of approximately 1.2% (2003: 1.2%) per annum and between 1.2% to 3.6% (2003: 3.0% to 3.6%) per annum for foreign currencies and local currency accounts, respectively.

Demand deposits in foreign currencies and local currency bear an annual interest rate of approximately 3.6% (2003: 3.6%) per annum and 7.2% (2003: 7.2%) per annum, respectively.

Time deposits in foreign currencies and local currency bear an annual interest rate ranging from 7.20% to 8.16% (2003: 0.7% to 7.2%) per annum and 12.0% to 17.4% (2003: 1.3% to 14.4%) per annum, respectively.

Government deposits in foreign currencies and local currency bear an annual interest rate ranging from 6.0% to 7.2% (2003: 6.0% to 7.2%) per annum and 12.0% to 14.4% (2003: 12.0% to 14.4%) per annum, respectively.

18. Deposits and placements of other banks and financial institutions

	2004	2003
	MNT '000	MNT '000
Foreign currency current account deposits	6,438,152	1,379,194
Local currency current account deposits	3,349,717	304,271
	9,787,869	1,683,465

Foreign currency and local currency current deposits are placed by local commercial banks and generally bear no interest.

19. Loans from bank of mongolia

	2004	2003
	MNT '000	MNT '000
Loans from Bank of Mongolia	1,120,000	1,074,000

These borrowings bear an interest rate of 10% (2003: 10%) per annum. The final repayment of these borrowings is due in July 2005 in accordance to the repayment schedule.

20. Government loan

	2004	2003
	MNT '000	MNT '000
Loan from government	500,000	320,000

The interest rate of the loan is fixed at 6% (2003: 6%) per annum. The loan was repayable within a year in 2003 in accordance to the repayment schedule. The loan was however rescheduled and is accordingly repayable within a year from the current financial year.

21. Loans from foreign financial institutions

	2004	2003
	MNT '000	MNT '000
Foreign funded loans:		
World Bank Loan I	2,902,048	3,075,422
World Bank Loan II	1,819,466	2,177,796
World Bank Loan III	413,789	327,825
Berliner Bank Loan	536,596	488,446
Asian Development Bank	2,185,333	428,673
	7,857,232	6,498,162

World Bank Loan I

The World Bank USD loan amounts to USD2.4 million or MNT2.9 billion (2003: USD2.6 million or MNT3.0 billion). The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 4.17% to 5.63% (2003: 4.20% to 4.46%). The repayment of the loan is in accordance with various repayment schedules, with the final payment due in March 2010.

World Bank Loan II

The World Bank MNT loan balance stands at MNT1.8 billion (2003: MNT2.2 billion). The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 13.51% to 15.96% (2003: 12.25% to 13.51%). The final repayment of the loan is in accordance with various repayment schedules, with the final repayment due in June 2009.

World Bank Loan III

The loan is utilised for staff training purposes. The interest rate of the loan is fixed at 2% (2003 : 2%) per annum with half yearly principal repayment commencing on November 2004 and final repayment due in May 2019 in accordance with the repayment schedule.

21. Loans from foreign financial institutions (contd.)

Berliner Bank Loan

The Berliner Bank loan is used to finance the purchase of a building in Germany. The interest rate of the loan is 7.45% (2003: 7.45%) per annum. The Bank commenced quarterly principal repayments in June 1996 and the final repayment is due in September 2025.

Asian Development Bank

The loan was subsequently disbursed to housing loan borrowers. The interest rate on the loans is between 8.2% to 8.8% (2003: 8% to 8.2%) per annum. Terms of repayment of the loan are in accordance with the various repayment schedules.

22. Other liabilities

	2004 MNT '000	2003 MNT '000
Payables	291,643	244,089
Foreign remittance under request	156,854	627,757
Delay on clearing settlement	1,731,560	230,390
Other payables	256,963	367,963
	2,437,020	1,470,199

23. Statutory fund

	2004 MNT '000	2003 MNT '000
At the beginning of the year	7,084,990	4,083,230
Issued during the year	3,045,736	3,001,760
At the end of the year	10,130,726	7,084,990

24. Financial risk management policies

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks are as follows:

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved regularly by the Bank's management team.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collaterals.

Apart from deposits and placements with other bank financial institutions amounting to MNT43.5 billion (2003: MNT36.1 billion) and property, plant and equipment amounting to MNT492 million (2003: MNT507 million), all banking assets and liabilities were geographically concentrated in Mongolia.

24. Financial risk management policies (contd.)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total.

The Bank's concentration of assets and liabilities are as follows:

	Local	Foreign Currencies			Total MNT'000
	Currency MNT'000	USD MNT'000	EURO MNT'000	Others MNT'000	
As at 31 December 2004					
Assets					
Cash and short term funds	2,887,550	2,738,718	595,137	2,896,478	9,117,883
Deposits and placements with other banks and financial institutions	9,588,979	51,313,636	6,487,516	5,535,414	72,925,545
Investment in securities	4,127,287	-	422,823	-	4,550,110
Loans and advances	31,600,011	58,649,106	693,946	-	90,943,063
Other assets	2,758,193	375,439	41	245,770	3,379,443
Tax recoverable	1,549	-	-	-	1,549
	50,963,569	113,076,899	8,199,463	8,677,662	180,917,593
Liabilities					
Deposits from customers	38,193,798	97,242,753	6,787,379	4,900,643	147,124,573
Deposits and placements of other banks and financial institutions	6,438,152	2,718,207	166,413	465,097	9,787,869
Loans from Bank of Mongolia	1,120,000	-	-	-	1,120,000
Government loans	500,000	-	-	-	500,000
Loans from foreign financial institutions	3,991,917	3,328,719	536,596	-	7,857,232
Other liabilities	1,090,698	953,285	203,473	189,564	2,437,020
	51,334,565	104,242,964	7,693,861	5,555,304	168,826,694
Net position	(370,996)	8,833,935	505,602	3,122,358	12,090,899
Commitments and other off balance sheet items	126,455	14,187,513	642,485	472,746	15,429,199

21. Financial risk management policies (contd.)

Currency risk (contd.)

As at 31 December 2003	Local	Foreign Currencies			Total MNT'000
	Currency MNT'000	USD MNT'000	EURO MNT'000	Others MNT'000	
Assets					
Cash and short term funds					
Deposits and placements with other banks and financial institutions	2,379,209	1,840,350	425,999	606,687	5,252,245
Investment in securities					
Loans and advances	1,727,290	33,945,511	2,552,714	8,442,858	46,668,373
Other assets	8,734,727	541,718	-	-	9,276,445
Tax recoverable	18,919,482	27,869,292	-	-	46,788,774
	3,257,406	317,487	15,685	71,531	3,662,109
	20,261	-	-	-	20,261
Liabilities	35,038,375	64,514,358	2,994,398	9,121,076	111,668,207
Deposits from customers					
Deposits and placements of other banks and financial institutions	32,213,755	57,573,134	2,818,698	614,912	93,220,499
Loans from Bank of Mongolia					
Government loans	304,271	1,368,239	10,347	608	1,683,465
Loans from foreign financial institutions	1,074,000	-	-	-	1,074,000
Other liabilities	320,000	-	-	-	320,000
	2,602,212	3,408,278	487,672	-	6,498,162
	5,926	1,382,028	8,938	73,307	1,470,199
Net position	36,520,164	63,731,679	3,325,655	688,827	104,266,325
Commitments and other off balance sheet items	(1,481,789)	782,679	(331,257)	8,432,249	7,401,882
	558,576	7,205,830	20,820	6,737,051	14,522,277

Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's Assets and Liabilities Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The following table analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

24. Financial risk management policies (contd.)

Liquidity risk (contd.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2004 are as follows (MNT '000):

	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	9,117,883	-	-	-	-	9,117,883
Deposits and placements with other banks and financial institutions	71,674,430	-	1,209,000	-	42,115	72,925,545
Investment in securities	4,550,110	-	-	-	-	4,550,110
Loans and advances	29,221,285	17,000,473	29,325,153	13,820,862	1,575,290	90,943,063
Other assets	3,379,443	-	-	-	-	3,379,443
Tax recoverable	1,549	-	-	-	-	1,549
	117,944,700	17,000,473	30,534,153	13,820,862	1,617,405	180,917,593
Liabilities						
Deposits from customers	123,177,792	8,179,956	14,446,884	110,150	1,209,791	147,124,573
Deposits and placements of other banks and financial institutions	9,183,369	-	604,500	-	-	9,787,869
Loan from Bank of Mongolia	21,000	-	847,800	251,200	-	1,120,000
Government loan	-	500,000	-	-	-	500,000
Loans from foreign financial institutions	343,882	585,194	591,374	4,244,867	2,091,915	7,857,232
Other liabilities	2,182,020	-	-	255,000	-	2,437,020
	134,908,063	9,265,150	16,490,558	4,861,217	3,301,706	168,826,694
Net liquidity gap	(16,963,363)	7,735,323	14,043,595	8,959,645	(1,684,301)	12,090,899
Accumulated gap	(16,963,363)	(9,228,040)	4,815,555	13,775,200	12,090,899	

24. Financial risk management policies (contd.)

The contractual maturities of banking assets and liabilities for the year ended 31 December 2003 are as follows (MNT '000):

	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	5,252,245	-	-	-	-	5,252,245
Deposits and placements with other						
banks and financial institutions	39,795,061	6,552,000	314,304	7,008	-	46,668,373
Investment in securities	8,734,727	541,718	-	-	-	9,276,445
Loans and advances	15,969,538	7,839,286	14,447,244	7,280,489	1,252,217	46,788,774
Other assets	3,662,109	-	-	-	-	3,662,109
Tax recoverable	-	-	20,261	-	-	20,261
	73,413,680	14,933,004	14,781,809	7,287,497	1,252,217	111,668,207
Liabilities						
Deposits from customers	49,457,021	30,358,898	6,734,583	6,669,997	-	93,220,499
Deposits and placements of other						
banks and financial institutions	1,099,465	-	-	584,000	-	1,683,465
Loan from Bank of Mongolia	-	-	772,800	301,200	-	1,074,000
Government loan	-	320,000	-	-	-	320,000
Loans from foreign financial						
institutions	317,110	335,220	386,312	4,047,687	1,411,833	6,498,162
Other liabilities	1,470,199	-	-	-	-	1,470,199
	52,343,795	31,014,118	7,893,695	11,602,884	1,411,833	104,266,325
Net liquidity gap	21,069,885	(16,081,114)	6,888,114	(4,315,387)	(159,616)	7,401,882
Accumulated gap	21,069,885	4,988,771	11,876,885	7,561,498	7,401,882	

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

24. Financial risk management policies (contd.)

Interest rate risk (contd.)

The Bank's interest rate policy is reviewed and approved by the Reserve department. The Bank's average effective interest rates per annum in 2004 and 2003 for monetary financial instruments are as follows:

	2004		2003	
	MNT	Foreign currencies	MNT	Foreign currencies
Interest earning assets				
Placement with other banks	-	0.53% - 2.50%	-	0.53% - 1.02%
Bank of Mongolia treasury bills	6.48% - 15.19%	-	0.97% - 17.00%	-
Government bonds	7.29% - 13.28%	-	5.04% - 14.18%	-
Promissory notes	20.40% - 21.60%	14.40%	-	21.60%
Loans and advances	6.00% - 42.00%	12.00% - 26.40%	6.00% - 42.00%	18.00% - 30.00%
Interest bearing liabilities				
Demand deposits from customers	7.20%	3.60%	7.20%	3.60%
Time deposits from customers	12.00% - 17.40%	7.20% - 8.16%	1.30% - 14.40%	0.70% - 7.20%
Current account deposits from customers	1.20% - 3.60%	1.20%	3.00% - 3.60%	1.20%
Government deposits	12.00% - 14.40%	6.00% - 7.20%	12.00% - 14.40%	6.00% - 7.20%
Government loan	6.00%	-	6.00%	-
Loans from Bank of Mongolia	-	10.00%	-	10.00%
Loans from foreign financial institutions	13.51% - 15.96%	2.00% - 8.8%	10.00% - 14.40%	2.00% - 7.45%

25. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bodi International Limited which owns 100% of the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

25. Related party disclosures (contd.)

As at 31 December, the Bank has the following balances and transactions with related parties, which are companies in which the directors has substantial financial interest:

	2004	2003
	MNT '000	MNT '000
a) Deposits from customers:		
Bodi Insurance Co. Limited	16,284	61
Bodi International Co. Limited	9,134	305
Bodicom Co. Limited	348,993	1,790
Smartcard Co. Limited	31,989	20,266
Bodi Computer Co. Limited	106	23
Bodi Properties Co. Limited	31,584	55,299
MPC Co. Limited	973	12,186
Bodi Automotive Co. Limited	52,733	44,403
SB Logistic Co. Limited	67	5,835
Bodi Tower Co. Limited	14,995	-
	506,858	140,168

	2004	2003
	MNT '000	MNT '000
b) Purchase of computers and software from:		
Smartcard Co.Limited	120,651	67,427
MPC Co.Limited	120,780	75,808
	241,431	143,235

	2004	2003
	MNT '000	MNT '000
d) Rental of garage to:		
Bodicom Co. Limited	152	544
MPC Co. Limited	333	544
Bodi Insurance Co. Limited	758	712
Bodi Properties Co. Limited	333	544
Smartcard Co. Limited	-	544
	1,576	2,888

e) Lease agreement with Bodi International Co. Limited

In November 2002, the Bank moved to its new Head Office located at Sukhbaatar Square 3, Ulaanbaatar, Mongolia. The building is owned by the holding company, Bodi International Co.Ltd. The bank entered into a lease agreement for 6 years until the year 2008. The bank has prepaid the lease payment amounting to MNT3.2 billion in 2003.

24. Related party disclosures (contd.)

f) Loans to key management personnel

Total outstanding balance as at 31 December 2004 of loans granted to key management personnel amounts to MNT48.1 million (2003: MNT82.5 million). The loans to Bank's employees bear interest rate of 6% (2003: 6%) per annum.

Directors' Remuneration

The executive director received remuneration totalling MNT7.5 million (2003 : MNT5.4 million). The non-executive director received fees totalling MNT7.5 million (2003 : MNT5.4 million).

26. Capital adequacy

Bank of Mongolia requires commercial banks to maintain a core capital adequacy ratio of 5% and risk weighted capital ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. The capital adequacy ratios of the Bank as at 31 December are as follows:

	2004 MNT '000	2003 MNT '000
Core capital ratio		
Risk weighted capital ratio	13.10%	15.36%
	13.10%	15.36%
Tier I capital		
Statutory fund		
Retained earnings	10,130,726	7,084,990
Total Tier I Capital/ Capital Base	4,459,621	2,707,761
	14,590,347	9,792,751

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

	2004 MNT '000		2003 MNT '000	
	Assets	Risk Weighted	Assets	Risk Weighted
%				
0	37,575,984	-	23,420,670	-
10	-	-	-	-
20	61,279,977	12,255,995	37,213,395	7,442,679
50	-	-	21,280	10,640
100	99,150,874	99,150,874	56,292,644	56,292,644
Total	198,006,835	111,406,869	116,947,989	63,745,963

27. Commitments and off balance sheet items

a) Financial Commitments and Off Balance Sheet Items

In the normal course of business, the Bank incurs certain commitments with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	2004	2003
	MNT '000	MNT '000
Guarantees and letter of credits	15,201,163	456,781
Lease commitments	-	372,402
Foreign exchange commitments	-	11,409,051
Other off balance sheet items	228,036	2,284,043
	15,429,199	14,522,277

In the year 2001, the Bank has entered into an agreement on letters of credit ("LCs") with a foreign supplier ("beneficiary"). Under the agreement, the Bank is obligated to pay on the LCs to the beneficiary only upon receipts of payments from the buyers. In the event that there are any arrears in the repayment by the buyers on the LCs' amounts, the Bank shall have no liability to the beneficiary.

b) Foreign exchange commitments and derivatives.

In the normal course of the business, the Bank enters into foreign currency exchange contracts with third parties. As at 31 December 2004, the Bank has NIL open positions (2003: 10 open positions) on foreign currency exchange forward contracts amounting to MNT NIL (2003: MNT11.4 billion).

c) Other off balance sheet items.

At 31 December 2004 and 2003, other off balance sheet items comprise loans written off on non-performing loans and the interest suspended.

28. Fair values of financial assets and liabilities

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2004 and 2003 are short term in nature with maturities of less than one year. Based on fair value assessments as indicated above, the estimated fair values of those financial assets and financial liabilities, both short and long term as at the balance sheet date, approximate their carrying amounts as shown in the balance sheet.

29. Currency

All amounts are in Mongolian Togrog unless otherwise stated.

30. 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.

