



MONGOL POST BANK
For every customer

Annual Report
2004

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For every customer

MISSION

To become leading bank furnishing with international standard financial services, acquiring modern technologies via our nation wide branch network throughout Mongolia.



I. Letter from the Chairman of the Representative Governing Board



Ladies and Gentlemen,

I am pleased to present you the activity report of the Mongol Post Bank for the fiscal year of 2004. The past year was a unique year for the activities of the commercial banks, especially our Bank, due to the comparatively high economic growth of the country and the stability of the domestic and international markets. In response to the successful achievement of our goals, the range of the number of borrowers and deposit holders at our Bank greatly expanded the types of the financial services rendered to them increased and the quality of the services improved significantly.

We express to all shareholders of our Bank that we will strive hard in order to reinforce and expand the achievements of 2004.

A handwritten signature in dark ink, appearing to read 'D. Zorig', written in a cursive style.

D.Zorigt

**Chairman of the Representative
Governing Board**

2. Letter from the President and Chief Executive Officer

The senior executive team of the Mongol Post Bank presents this report for 2004 to the shareholders of our Bank, accompanied by the Audited Financial Statements, as audited by Ernst & Young.

As of the end of 2004, the total assets increased by 56.9 percent and reached MNT 73.6 billion compared with the end of 2003, the deposits increased by 60.7 percent and reached MNT 68.1 billion, equity increased by 23 percent and reached MNT 5.5 billion and the net profit has increased by 32 percent. All those figures indicate that the Bank has successfully achieved its goals for the year and strengthened the own position in the Mongolian financial market.

In the last year, the Bank focused its policies mainly on renewing and developing the management and organizational structure, improving the risk management system of the Bank, strengthening our market in relative to the competition, developing and introducing new products and services and bring the banking services closer to the customers by expanding the branch bank networking in Ulaanbaatar. As a result, we have worked out the model to change the structure of the management and organization of the Bank conforming to the scope of the current activity and the international standards and started implementation early in 2005. We deeply hope that this new structure will improve the capacity and competitiveness of the Bank by developing the strategy, policy and planning of the Bank, decreasing the risks, and improving the mechanism of the controls and internal auditing. It will also greatly help us to isolate customer needs and to respond quickly to those needs.

Our Bank is aggressively participating in programs formulated by the government to facilitate the economic growth of Mongolia, support small and medium sized enterprises and businesses, create and increase employment in the



Rural area, alleviate poverty, improve the supply of apartments and houses to the citizens. We also successfully assist in the implementation of the projects financed and supported by international organizations and institutions. Moreover, our Bank will continue to be a major participant in these activities. As a result of the certain policies implemented in 2004, our Bank is developing the capacity to actively participate in the markets and services extended by other larger commercial banks, but also in bring the Bank's own position and view point to bear on the overall banking and financial market of Mongolia.

In conclusion, our Bank has operated fruitfully and successfully in the last year. I hereby acknowledge the indispensable efforts and contributions of the Executive Management Team of the Bank and the all employees and officials and customers who strived hard to reach such success and foreign and domestic organizations and individuals that support and cooperate with our Bank.

Taking this liberty again, I would like to wish all the best to the shareholders, investors, and customers of our Bank and express our determination to work closely with you in the future.

Sincerely yours,

 **D. Oyunjargal**
President and Chief Executive Officer

3. Organizational chart



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4. Executive summary



MONGOL POST BANK
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4.1 Brief Introduction to the Bank

The Mongol Post Bank was established on April 1, 1993. As one of Mongolia's oldest banks, during the past eleven years it has developed into one of the leading commercial banks, holding its own position in the banking system, with a sound financial basis, mobilized with professionally competent human resources and with a wide branch network reaching to every corners of Mongolia.

In 1998, the Mongol Post Bank started to conduct banking services through the post offices in countryside in cooperation with State Owned Mongol Post Company. In 2001, the Bank modified the structure and management of those offices into self-operating and independent branches. By the end of 2004, the Bank provided banking services through the Head Office, one branch and twelve settlement centers in Ulaanbaatar, and 21 branches and 48 settlement centers in all regions of the country.

Since its establishment, the paid-up capital of our bank was steadily increased in accordance with the requirements of Bank of Mongolia (Central Bank), and at the end of the fiscal year the amount of paid-up capital has reached MNT 4.1 billion. We do aim to increase the amount of the paid-up capital up to MNT 8.0 billion before the year 2006.

By the end of 2004, the Bank's total assets reached MNT 73.6 billion, ranking fifth among Mongolian commercial banks.

In commercial banking sector of Mongolia the Bank holds 6.8 % of total assets, 7.7 % of total deposits and 6.7 % of total loans.

In recent years, the Bank has focused on products and services based on advanced technology to meet the customers' needs and requirements. The "Golden Chance" deposit service, Internet Banking, Telephone Banking and Visa Card services can be seen as examples. As a result of introducing services closer to customers needs, the number of customers has reached 16,000, and the number of deposit owners has reached 45,000 at the end of the fiscal year.

We have been selected one of the best 10 commercial banks of 2003 and one of the best 100 business institutions of 2001 and 2002, by the Mongolian National Chamber of Commerce and Industry.

The Bank is successfully participating in various financial projects, such as "Micro Finance Development Project Loan", "Housing Sector Development Project Loan", "Agricultural Development Project Loan" and "SME Project Loan" and in that capacity serves as an agent bank for the World Bank, the Asian Development Bank and KfW of Germany.





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4.2 Highlights of 2004



International Year of
Microcredit 2005



Micro Credit and Business

A national session "Micro Credit and Business" was held in November 2004 to "consolidate achievements and, improve quality" in connection with micro credits and introducing 2005 as a special year for the advancement of micro credit in Mongolia. The Bank supports this activity. A striking example of this is the granting project loans for micro finance development in Uvurkhangai, Umnugobi, Bayankhongor, Dornod aimags.

Visa Card

In 2004, Visa Card service was introduced. We aim at rendering this service all over the Mongolia through branches, settlement centers in the countryside. By introducing this service Visa cardholders started to receive cash by card and also expand non-cash payments and settlements in the countryside. Opening ceremony for this service was held in October 2004 in Bayangol Hotel and it received extensive coverage in the public media.

Internet Banking Service

Since June 2004, to give an opportunity to receive banking services at any time and from any location frame the Bank introduced Internet Banking Service to our customers.

One of the Best Banks of Mongolia

The Bank has been included into 100 best national economic institutions of 2001 and 2002, selection traditionally is done by the Mongolian Chamber of Commerce and Industry.

In 2004 it was selected as one of the best banks of Mongolia, which pointed to our achievements and the positive results of working as a team.

Rewarded with Visa Best Business Development

The annual meeting of Visa International organization, which is the world leading payment system, was held on January 29, 2005 in Beijing, China. During this meeting special honorable reward had been received by the Bank for introduction Best Business Development. We are glad that this organization supported our goal to bring a world standard bank service to the customers. This encourages us to further explore high technology and other well recognized services to our customers.



Bank Total Assets Reached MNT 73.6 million

Our Bank activity is expanding from year to year and the Bank's main financial indicators increase rapidly.

To compare the ending balance of the bank as of December 31, 2004 with last year total assets increased by 56.9 percent, outstanding loan by 33.8 percent, total deposit by 60.7 percent and the Bank total assets reached MNT 73.6 billion.

Training Seminar for the Directors of the Branches

This Bank organized a training seminar of the branches of 21 aimags between January 24 - 28, 2005. During training, seminar the branch directors discussed financial results of the Bank activity for the last year and determined a business direction for 2005. Branch No. 116 in Dornod aimag has been awarded as the best branch in 2004, and Khovd, Gobi-Altai, Orkhon, Gobisumber, Umnugobi, Tuv aimag branches had been followed.

Online Network Introduced

The Bank is moving own branches, settlement centers to an online regime and unified software on a system level. At present, branches in 14 aimags, 13 settlement centers in Ulaanbaatar city are connected.

Also the inner communication station of the Bank Head Quarters was renovated. IP phone was introduced, that gave branches a chance to communicate directly with each other to save not only the cost, but increases opportunity to serve customers operatively. The Bank is the first in banking sector and introduced this IP phone.

Selected as the Best Woman Leader

The President and CEO of Mongol Post Bank, D.Oyunjargal selected as "The best woman leader" in Mongolia in appreciation of her high managerial and organizational skills, over all business success of the Bank, valuable contribution in socio-economic development of Mongolia. The Women-Solidarity Association and TV-9 television jointly selected President D.Oyunjargal for this award.

Opening of New Branch

Mongol Post Bank, rendering service all over the Mongolia through wide network of more than 80 offices, in order to expand activity in the capital city it opened new 4 branches, settlement centers in 2003. The Bank has total 11 branches, settlement centers in Ulaanbaatar city and in December 10, 2004 it opened another 2 settlement centers. By doing this it brought own product, services closer to the customers and deposit owners and created possibilities for better operative service to the customers. The Bank now has 13 branches, settlement centers in Ulaanbaatar city, improving the choices of the customer to select and to be served by the closest branch.

4.3 The Mongolian Economy in 2004

The Gross Domestic Product grew 10.6 percent in 2004, rising from the rate of 5.5 percent in 2003. Comparing with previous year the economic growth has been almost doubled increasing by 92.7%

The main impact of the GDP growth was lead by the mining and transportation and communication industries. Comparing with previous year these industries increased 30.8 percent and 10.4 percent respectively. However, the major industry of Mongolia, the agriculture industry, declined by 11.7 percent, even though a subset of that industry, livestock, and increased 10.0 percent.

Foreign trade turnover totaled to USD1,864.9 million in 2004 which is 31.6% increase compared against the estimation of 2003. The total foreign trade balance turned a deficit of USD 158.3 million, as compared with previous year decreased by 14.5 percent, which shows positive indicator.

At the end of 2004 the money supply increased by MNT 147.7 billion or 20.7 percent reaching MNT 847.0 billion over the previous year. The main indicator of financial intermediation, the ratio of GDP and Total Loan has reached to 36 percent. The total outstanding loan increased by 45 percent and reached MNT 648.9 billion and total deposit increased by 42.5 percent and reached MNT 523.7 billion over the previous year. The inflation rate was 11.6 percent in 2004.

During 2004, the price of 65.1 percent of the 239 items in the consumer products basket increased, while 17.2 percent declined and 21.3 percent has been maintained at the same level. As resulted the increase of consumer price index based inflation by 11.0 percent over previous year.

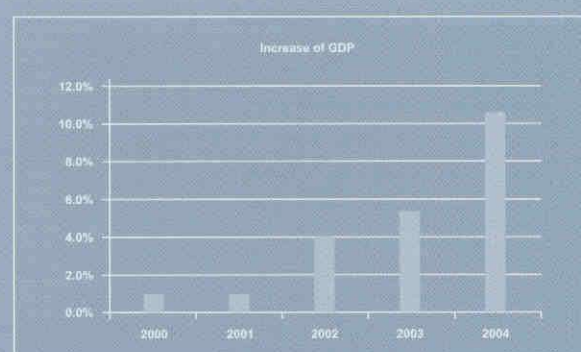
The legal environment and regulations are being streamlined in order to develop and improve financial intermediation in Mongolia.

The implication of this is a broadening of services such as mortgage loan, consumer small loan and financial services based on the advantage of information technology.

As a result of stabilization of legal environment of financial industry, the number of financial institutions is increasing. In 2004, 17 commercial banks, 21 insurance companies, more than 110 non-banking financial institutions, and more than 600 savings credit cooperatives operate in Mongolia.

Comparing with previous year, the banks assets increased by MNT 249.7 million or 30.2 percent, and reached MNT 1,075.8 billion. The outstanding loan of commercial banks reached MNT 649.0 billion, rose by 46.8 percent over last year. Of which 6.0 percent are non-performing loans, more by MNT 18.0 billion in comparison with the previous year. Likewise, for the banks loan average weighted interest rate was 24.8 percent annually, the lowest for the recent years.

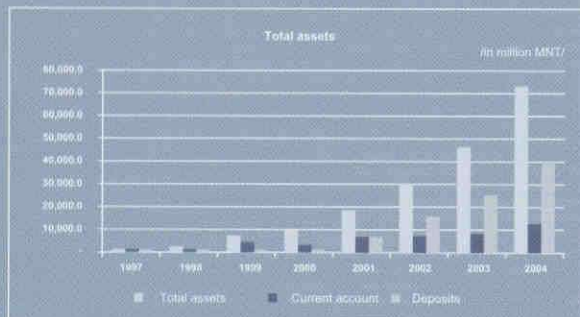
At the end of the year, the number of registered unemployed was 35.6 thousand that increased by 6.7 percent.



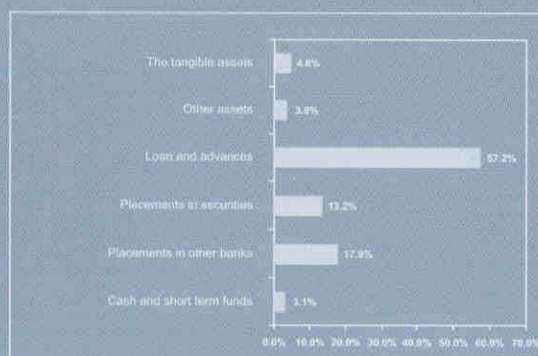
Gross domestic product was 5.5% in 2003, in 2004 it reached 10.6% and in comparison with the previous year economic growth is increased by 92.7% or almost by 2 times.



4.4 Financial Summary



In 2004, the assets of the Bank reached MNT 73.6 billion, up 56.9 percent over MNT 26.7 billion.



As of the end 2004, 17.9 percent of the total assets, or MNT 13.2 billion was placed with the Bank of Mongolia and other financial institutions.

During the reporting year, 13.2 percent of the total assets or MNT 9.7 billion placed to securities. The Bank participated actively in security trading of the Bank of Mongolia and the placement in securities totaled MNT 75.4 billion. Likewise, MNT 42.1 billion have been placed, which equal to 57.2 percent of total assets.

Deposits

At the end of fiscal year, the reserve increased by 60.7 percent and reached MNT 68,1 billion. Of which, MNT 54,2 billion were outstanding of customers deposits, increased by 56.5 percent or MNT 19.6 billion comparing with previous year.

The outstanding of current accounts increased by 46.7 percent or MNT 4.1 billion and the outstanding of savings increased by 60.2 percent or MNT 15.1 billion.

	2003	2004
Account	8 666.5	12 715.3
Savings	25 097.3	40 199.8
Source of project loan	6 547.8	11 804.4

Equity

The equity of the Mongol Post Bank increased by MNT 972.9 million, of which paid up capital increased by 25.2 percent, reaching MNT 824.5 million.

According to the Bank of Mongolia requirement to reach paid up capital to MNT 8.0 billion within March 2006, the Bank is planning to increase paid up capital up to MNT 8.0 billion at the end of 2005.



Profitability

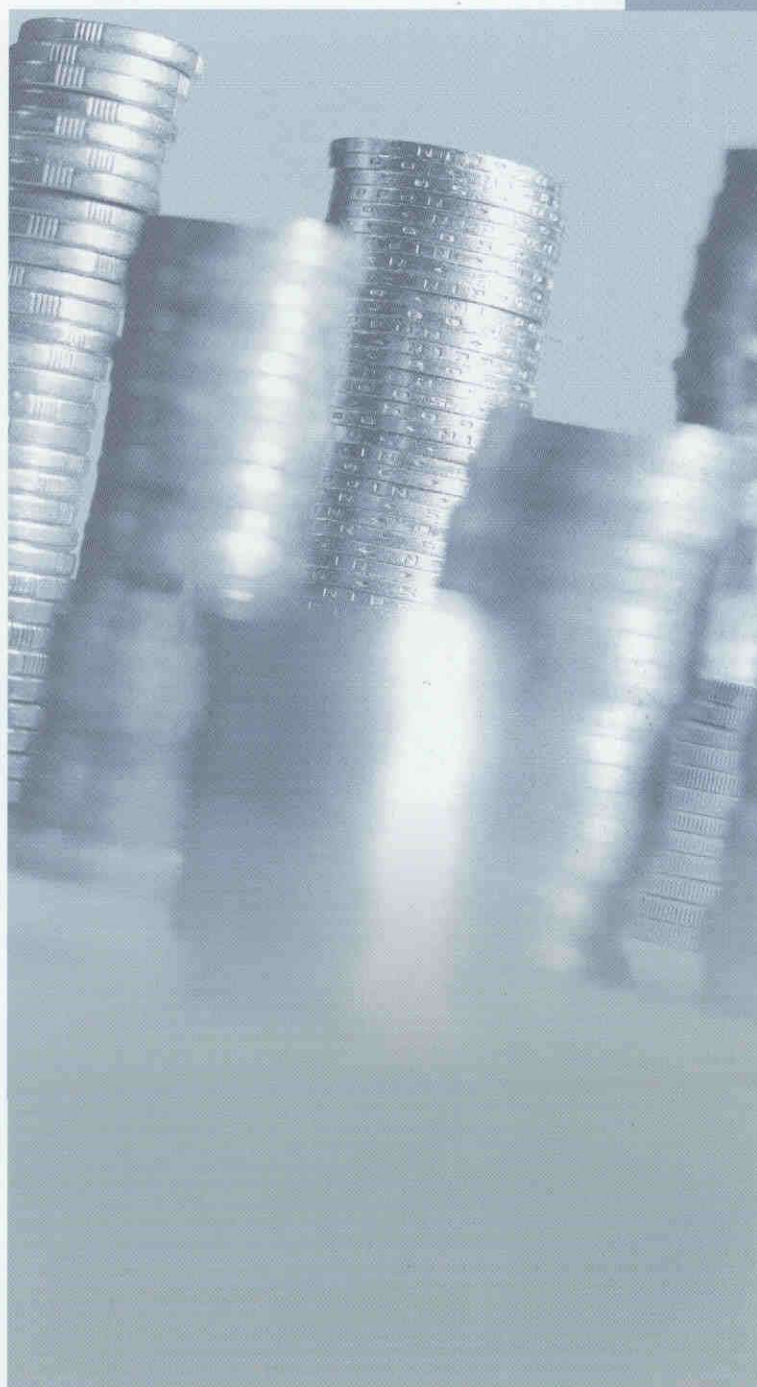
In 2004, the Bank earned MNT 10.2 billion income, incurred expenses were MNT 9.1 billion and the operating profit pre-tax was MNT 1.1 billion.

Indicators	2003	2004
Interest income	9,292.6	6,706.6
Interest cost	4,944.9	3,833.2
Net interest	4,347.6	2,873.4
Non-interest income	930.4	547.4
Total non-interest cost	4,179.32	2,352.76
Balance income	1,098.68	1,068.03

The Bank paid as tax MNT 256.0 million, and the Bank earned net income in MNT 745.7 million, which increased by 32.0 percent or MNT 180.9 million over the last year.

	2003	2004
ROA	1.0%	1.2%
ROE	13.5%	12.5%

During the fiscal year, the return on equity reached 13.5 percent, increased by 1.0 unit compared with previous year. However, return on assets declined by 2.0 units, which resulted mainly from a 56.9 percent growth of assets.



4.5 Loan Activity

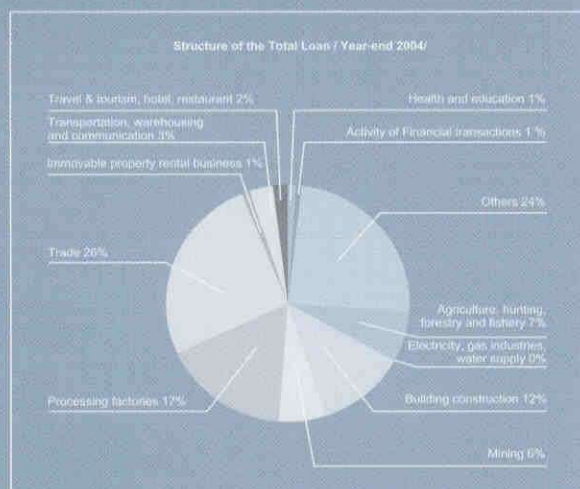
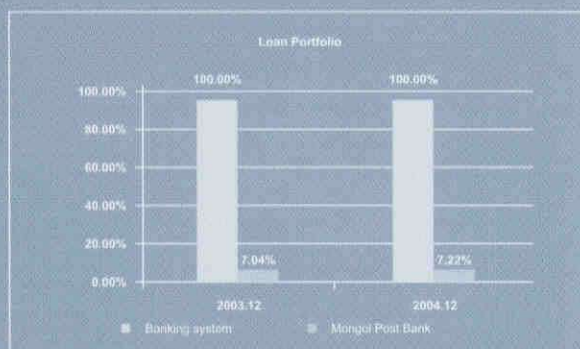
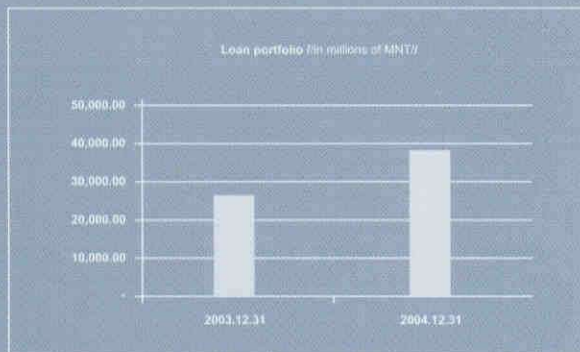
Loan Portfolio

As of 4th quarter of 2004, the total outstanding loan reached MNT 42,769.3 million and it increased by 37.3 percent compared to the previous year.

As of December 2004, the percentage of the loan portfolio in the banking system increased by 2.5 percent than the previous year.

Structure of the Loan Portfolio

- 1.6 percent of the total loan portfolio is extended to the state-owned organizations, 54.6 percent is for the private sector organizations, and 39.9 percent is for the individuals. This structure shown that the Bank emphasized on the development of the private-owned business, particularly on trading, production and services.
- 43.0 percent of the total loan portfolio is extended to the industrial sector, 26.2 percent is for the building construction, and 42.8 percent is for the processing factories.
- 60.0 percent of the total loan portfolio is extended to the non-industrial sector, 46.8 percent is for the trade, 12.6 percent is for the service and 40.6 percent is for the micro business and individual consumers. We strive to extend loans by covering all of the economic sectors.





Project Loans

In the last year, we have successfully implemented the project loans of following types:

Housing Sector Finance Development of the Asian Development Bank:

This project was implemented from June 2003 to December 2004 and during this time; we have extended loan to 237 citizens and 80 employees of 3 organizations based upon mortgage collateral such as apartments and houses. We granted them totally MNT 3,210.9 million of loan and repayments of the principals and interests are implemented 100% according to the repayment schedule.

Long term project loan dedicated to develop the SME under the project by KfW, Germany:

Since 2001 our Bank has started granting this type of loan. During the past period, we issued the loan amounting to MNT 6,027.5 million to 14 SME and manufacturers. Repayments of the principal and the interests are fully satisfactory. An amount of to single borrower is limited up to Euro 500.000.

Project Loan for Developing the Agricultural Sector financed by the Asian Development Bank:

According to the agreement concluded between the Government of Mongolia and the Asian Development Bank on the Project Loan for Developing the Agricultural Sector, our Bank is granting this loan in Darkhan-Uul, Zavkhan, Gobi-Altai, Khovd, Selenge and Uvs aimags as an agent bank. This type of project loan is granted to the individuals, business entities, and organizations dealing with the activity in the field of livestock husbandry and cropland.

Following purposes are included in the activity related to the livestock husbandry:

- Preparing and purchasing the reproductive livestock,
- Purchasing equipment,
- Building the winter shelters for livestock,
- Producing milk and milk products,
- Producing meat and meat products,
- Preparing the raw materials.

Other items to be included in the activity related to the agriculture (cropland):

- Harvesting (lubricating materials),
- Purchasing the agricultural machinery and equipment, repairing,
- Production of agricultural products,
- Others.

In the frame of this Project consequently grant loans that cover all of the agricultural activities and providing the possibility for herdsman and cultivators to improve their living standards and expand their business activity.

Consumer Loan

The Mongol Post Bank started providing the small sized consumer loans in 2001. This service not only provides the borrowers with the possibility to control their individual cash flows but also provides them with the possibility to get loans for their family and private small businesses pledged on their business activity.

Activities Directed to the Branches and Settlement Centers

Quality of the loan portfolio

The average level of non-performing loan was 3.52 percent in 2003 and this level has increased up to 4.94% in 2004. The reason has incurred that it is resulted from a large loan issued to one sector, which performed bad. Now Bank has paid a great attention not to granting large amount of loans to one particular sector and concerned measures had been taken.

Type of Small Sized Loan

■ Salary Pledge Loan

This is the type of the loan to be granted to the employees who pledged the salary or pay off. The Bank makes a contract with any institutions in order to grant loan to their employees. The amount of the loan equals to 80 percent of the salaries of 6 months with the interest rate of 2.5%-3.5% per month. The term of loan is 6 months.

■ Pension Pledge Loan

This is the type of a loan to be granted to pensioners whose pensions paid through our Bank. The amount of the loan equals to 90 percent of the pension of 6 months and the term is 6 months. In 2004, we granted pension pledge loan

amounting to MNT 2616.4 million to 27,528 pensioners in the rural area.

■ Savings Deposit Pledge Loan

We issue loans to the individuals who have their money deposited at our Bank for the certain period pledging their fixed deposits. The amount of loan equals to 80 percent of the savings in the account. The interest rate is 1.6%-2.0% and the term is 6 months.

The whole procedures of these loans are taken 2 working days.

In the fiscal year, the branches and settlement centers in Ulaanbaatar City have granted loans of MNT 21,171.5 million and the branches and settlement centers in rural area have issued loans amounting to MNT 3,890.6 million.

Loan Activity

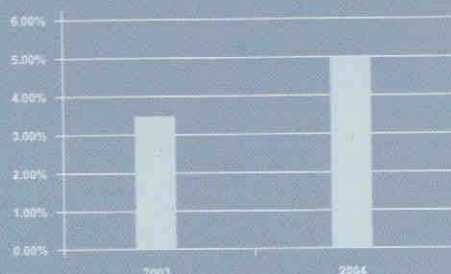
1. Micro Finance Loans

Within the frame of the "Program for Supporting the Household Life", which is funded by the World Bank, we are granting the "Micro Finance Loan" to the poor and low income individuals dwelling in the remote area from the aimag and soum centers. In 2004, this loan was granted to the following sectors as,

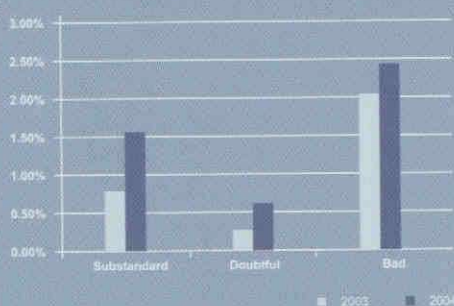
Trade and service	MNT 656.1 million
Agriculture	MNT 334.1 million
Food production	MNT 49.5 million
Household consumer	MNT 15.0 million
Others	MNT 27.5 million



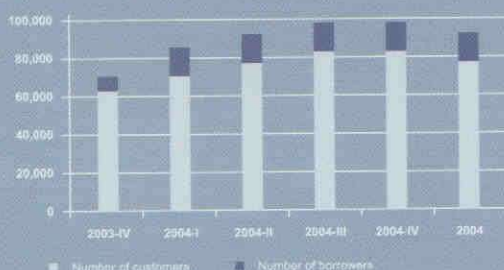
Percentage of the bad loan (by the average of the year)



Structure of the bad loan



Percentage of the borrowers to the total customers of the Bank



2. Project Loans for Developing the Agricultural Sector Financed by the Asian Development Bank:

Our Bank grants this loan to the individuals and private sector entrepreneurs dwelling in the rural areas. The ending balance of outstanding loans is MNT 1812.3 million of the 981 borrowers as of December 31, 2004, of which MNT116.2 million extended to 23 borrowers from private-owned sector and MNT 1696.1 million to 958 individuals.

3. Housing Sector Finance Development Project, funded by the Asian Development Bank

This type of loan is granted by the Head Office and by those branches in Orkhon and Darkhan-Uul aimags. The outstanding loan as of December 31, 2004 equals MNT 22.2 million in those aimags.

4. Loan for Supporting the Small and Medium Sized Enterprises

The "Loan for Supporting the Small and Medium Sized Enterprises" implementing by the Mongolian Chamber of Commerce and Industry is granted through our branches in rural area.



4.6 Organizational Development and Human Resource

Human Resources Policy

At the beginning of 2004, the Bank had 461 employees, and the end of 2004 the number of employees reached 524, increasing by 63.63 percent of the employees is female and 37 percent is male. Sixty four percent of the employees has bachelor, master and higher degrees, 16 percent has special mid level education and the rest has mid level educations.

During 2004, the Bank hired numerous young and talented individuals, educated by the larger private and state universities of Mongolia. The Bank also hired well-experienced managers at senior and mid level of management. It allows the Bank to meet the increasing competitive requirements on the banking sector.

In the past period, the Bank has been deciding the social problems of all bank staff. Particularly, the Bank granted loans to 30 staffs, solving a social need of them. Even, some of staffs have been granted by loans under the project funded by Asian Development Bank. Also in cooperation with Kyokushyuzan Development Foundation, apartments were given to some employees who performed well to the Bank for many years.

Training

In 2004, MNT 44.3 million were spent for domestic and foreign seminars in order to improve the skills of the Bank staffs and to prepare the new generation or officers as successors. Special efforts were also made by Bank of Mongolia Training Center, Mongolian National Chamber of Commerce and Industry and Mongolian Employers' Federation in this field.

Administration Team



P.MUNKH-ERDENE, Executive Vice President

CH.ENKHBAT, Executive Vice President & CFO

D.OYUNJARGAL, President & CEO

O.KHURELBAATAR, Executive Vice President

D.KHURELBAATAR, Executive Vice President & COO



▲
B.BOLORTSETEG,
Director of Human Resource Department



▲
B.ENKHBAYAR,
Director of Card Center

D.DEMID,
Director of Information & Technology
Department

L.TSETSGEE,
Director of Accounting Department



▲
H.PEERS BREWER,
Director of Corporate Customer Department

P.MUNKHJARGAL,
Director of Small & Medium
Credit Department

O.ERDENEJARGAL,
Director of Credit Policy Department



▲
TS.ENKHTSENGEL,
Director of Legal Department

G.MANDALTSETSEG,
Director of Internal Audit Department

B.OYUNTSETSEG,
Director of Supply and
Maintenance Department



▲
CH.BATSUKH,
Director of Financial Reports Department



▲
CH.SAINBILEG,
Director of Treasury Department

G.BATBAYAR,
Director of Strategic Planning & Risk
Management Department

4.7 Bank Branche Network and the Activity

The Mongol Post Bank branches offer multilateral banking services for the business entities and individuals, such as cash and non-cash settlements, withdraw pensions, deposits, loans, money transfers, and receiving and transferring of the remittances in accordance to the guidelines and policies set forth by the Bank of Mongolia and the Head Office of the Bank.

As of the 4th quarter of the 2004, totally 391 employees work in 82 units, including 21 branches in aimags and 48 settlement and clearing centers in the rural area, one branch and 12 settlement centers in capital city of Ulaanbaatar. In the fiscal year, the Settlement Centers No. 2, 3 and 6 that reported to the Accounting Department was transferred to the Branch Management Department. In November of 2004, we opened two settlement centers in Ulaanbaatar, Settlement Center No. 12 and Settlement Center No. 13.

Branches in 21 aimags are considered as the branches and units in rural area and the branches and units in Ulaanbaatar City and settlement centers in Baganuur and Bor-Undur are considered as the branches and units in Ulaanbaatar City.

The branches and settlement centers of our Bank are offering the services, such as cash and non-cash settlements, loans and deposit, currency

Exchange, POST EXPRESS domestic money transfer, Money Gram, international money transfer to the customers and deposit holders in the rural area.

Also, in the fiscal year, we introduced the VISA Card service that can be used in every corner of Mongolia.

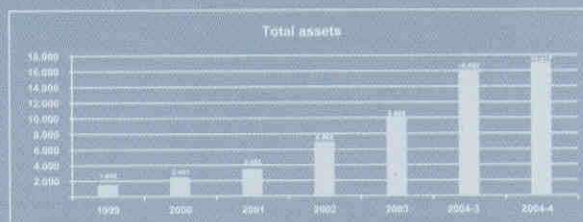
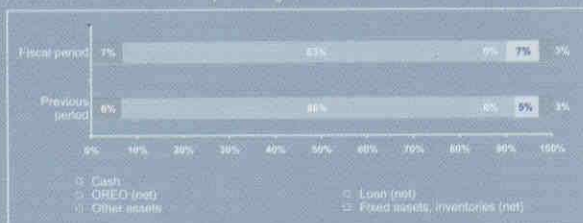
The branches conducted outgoing transfer of 82,351 individuals amounting MNT 14,118.3 million and incoming transfer of 39,826 individuals amounting MNT 10,539.6 million. At the first half year, the branches and settlement centers served the pensions and subsidies amounting to MNT 3,529.4 million for 96,995 pensioners and receivers of the subsidies. There are 13,076 borrowers in the branches, of which, 4,729 borrowers with business loans, 398 borrowers pledged their savings with the Bank, 6,216 borrowers pledged their pensions, and 1,733 project loan borrowers.

The branches and settlement centers providing services for 23,328 current account holder business entities and citizens that hold about 33,085 current accounts. Besides, withdrawal and deposit transactions through the deposit accounts of 38,846 individuals are made regularly. Totally 62,174 business entities and individuals are being served by the branches of the Mongol Post Bank

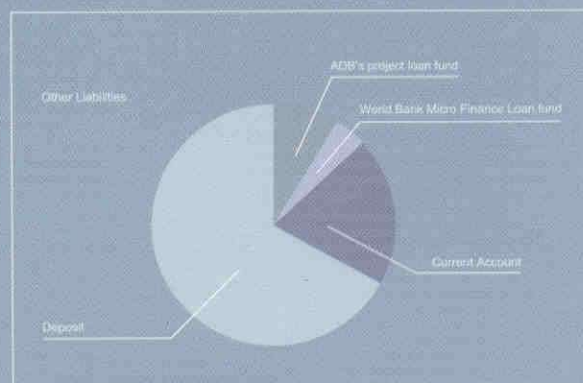




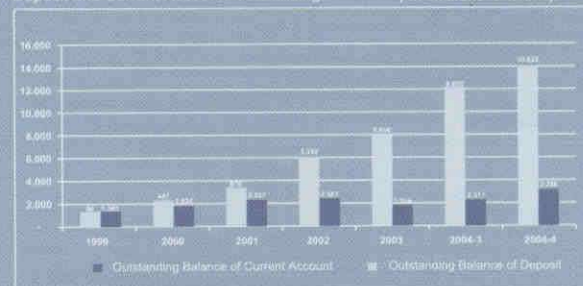
/Structure of the assets, in percentage/



The structure of deposits as follows



Deposit and Current Accounts outstanding /in millions of MNT/



The total loan outstanding by type:

- Business loan: MNT 6,903.3 million, 62.2 percent;
- Deposit pledged loan: MNT 443.9 million, 4.1 percent;
- Pension pledged loan: MNT 672.4 million, 6.0 percent;
- Loan funded by SME: MNT 167.6 million, 1.5 percent;
- Agriculture Sector Development Loan fund: MNT 1,812.3 million, 16.3 percent;
- Micro Finance Development Project Loan fund: MNT 1,082.3 million, 9.7 percent;
- ADB's HSFD Project: MNT 22.2 million, 0.2 percent;

As of end 2004, the Mongol Post Bank branches and settlement centers have issued loan totaling MNT 24,672.36 million and of which MNT 20,649.85 million have been repaid and outstanding loan is MNT 11,104.1 million of the 13,076 business entities and individuals. To compare with the end of 2003 it increased by MNT 4,022.4 million or 56.8 percent.

Loan amounting MNT 9,123.6 million or 82.2 percent of total loan portfolio is laid on 12,270 borrowers of 21 branches in rural area, and loan amounting MNT 1,980.35 million or 17.8 percent is laid on 806 borrowers of branches and settlement centers in Ulaanbaatar city.

Structure of the Assets

(MNT Million)

№	Items	2002	2003	2004-3	2004-4		Changes /Year-end/ 2004/2003	
		MNT	MNT	MNT	MNT	%	MNT	%
1	Cash	534.41	708.13	824.01	901.31	7%	195.2	28%
2	Loan (net)	3,217.54	6,956.27	10,895.99	10,787.02	83%	3,830.7	55%
3	OREO (net)	-	-	3.47	4.21	0%	4.2	100%
4	Fixed assets inventory (net)	293.16	560.12	824.23	934.98	7%	374.9	67%
5	Other assets	2,842.52	219.25	382.41	332.44	3%	113.2	52%
	Total assets	6,887.64	8,441.77	12,730.10	12,959.97		2,804.73	54%

Ratio of Deposit Changes

(MNT Million)

№	Items	2002	2003	2004-3	2004		Changes	
		MNT	MNT	MNT	MNT	%	MNT	%
	Deposit	6,767.10	9,985.20	14,532.95	16,278.48	1.00	6,293.3	63%
1	Current account	2,567.00	2,169.30	2,310.84	3,228.26	20%	1,059.0	49%
2	Savings	3,332.20	6,421.80	9,888.60	10,821.84	66%	4,400.0	100%
3	Other liabilities	20	23.2	35.21	29.07	0%	5.9	25%
4	ADB's loan fund	847.9	1,075.20	1,562.20	1,536.50	9%	461.3	43%
5	Micro Finance Development Fund's loan fund	-	295.7	736.11	662.82	4%	367.1	124%

Current Account Outstanding Growth

(MNT Million)

№	Current accounts	2003	2004		Changes	
		MNT	MNT	%	MNT	%
1	State organizations	692.7	1,036.1	32%	343.38	50%
2	Private sector	222.5	369.9	11%	147.40	66%
3	Other institutions	222.6	357.3	11%	134.68	61%
4	Individuals	159.1	184.9	8%	25.79	16%
5	Governmental organizations	290.1	725.8	22%	435.68	150%
	Total current account	2,169.29	3,228.30	83%		

Savings Outstanding Growth

(MNT Million)

№	Savings deposits	2003	2004		Changes /Year-end/ 2004/2003	
		MNT	MNT	%	MNT	%
1	Demand deposits in MNT	687.09	829.4	8%	142.3	21%
2	Fixed deposits up to 1 year in MNT	5,570.70	9255.1	88%	3,684.4	66%
3	Fixed deposits up to 1 year in foreign currency	73.08	535.2	5%	462.1	632%
	Total deposits	6,421.76	10,821.80		4,288.82	



As shown above, the total assets of the branches of the Mongol Post Bank had reached to MNT 16,917.1 million, which 23 percent of Bank total assets, increased by MNT 7,019.0 million or 71 percent over 2003.

The current account outstanding had increased by 49 percent or MNT 1,059.0 million, deposit outstanding had increased by 100 percent or MNT 4,400.0 million and the deposit has reached MNT 16,278.48 million increasing by 63 percent or MNT 6,293.3 million comparing with the end of previous year. The ADB loan fund had increased by MNT 461.3 million and Micro Finance Development Fund had increased by MNT 367.1 million respectively.

The current account outstanding is MNT 3,228.3 million, the savings outstanding is MNT 10,821.8 million, ADB's Agriculture Sector Development Project loan fund is MNT 1,536.5 million and the Micro Finance Development Fund's loan fund is MNT 662.8 million respectively.

Meanwhile, fixed deposit outstanding is 91 percent or MNT 9,819.2 million of the total savings.

The ratio of Bank total deposit to branches deposit is 24 percent, of which, current account outstanding is 25.4 percent and individuals savings outstanding is 27 percent.

Profitability

In the fiscal year, the Bank has operated with the profit of MNT 942.1 million.

Ratio of the profit growth:

(MNT Million)

№	Items	2002	2003	2004-3	2004-4	Changes Year-end 2004/2003	
		MNT	MNT	MNT	MNT	MNT	%
	Profit	203.9	588.1	889.8	942.1	376	66.4%



4.8 Information Technology

The Information Technology Department's basic functions are to support daily activity of the Bank. This includes responsibility for software, computers, and equipments used by the Bank, networking and communications and their maintenance and repair.

The IT Department has a total of 16 highly educated personnel, of which, 9 are programmers and technical workers, and the rest 7 are economists and accountants.

Likewise, in order to improve Management Information System implementing new technologies, the Department continually does develop new software, rationally does organize the external and internal computer networks, and does provide the high security of the overall information system.

Maintenance service

The Department is permanently receiving the calls and accomplishing repairs and maintenance on time with the purpose to provide the complete and normal operation of the equipments and software. Moreover, Headquarter computers are under regular inspection. From June to December of 2004, the Department received 639 calls from the entire bank network, inquiring prompt technical solutions.

Software

In 2004, the Information Technology Department programmer had developed the following software and introduced these programs into the banking system:

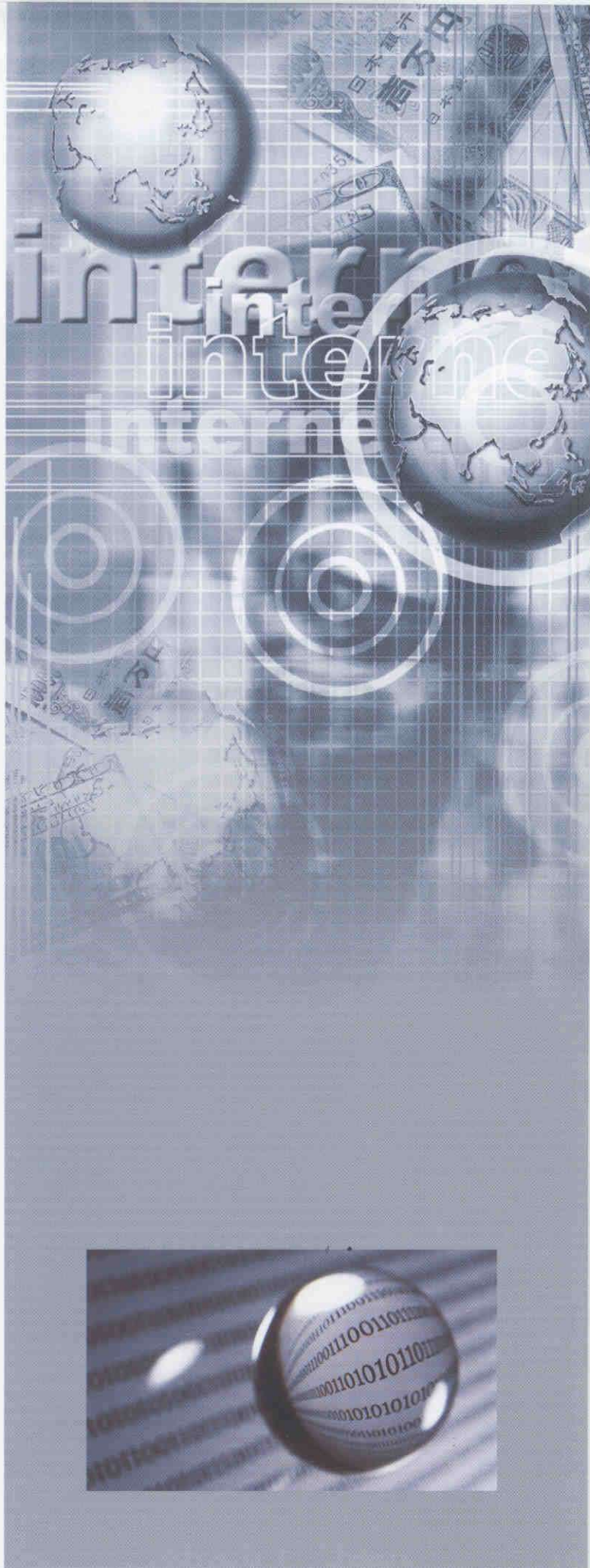
- Salary software
- Personnel software
- Inventory software
- Cash transfer software
- Off balance item recording software
- Housing payment software

Moreover, the Department wrote the online reporting software for BANCS, the software for VISA card account detailed statement, and the software enabling to identify list of the deposit account transaction.

Others

- Successfully implemented transfer to the SWIFT-NET network.
- Been responsible for required changes of the E-Office System on time and its organization. In addition, the department has introduced the internal messenger and E-Office software to all online branches and settlement centers.
- Introducing the Internet banking software and providing its security.
- The branches and settlement centers of 12 aimags have been transferred to the online system of BANCS software.

- The investment in order to improve internal network of Headquarters equaled to USD 15,508.00, includes five switches with the mark Cisco Catalyst 2950 and one Cisco PIX 515 Firewall. Thus, reflected to the speed of the internal network, which been increased by 10 times and parallel the security has improved.
- In order to increase the capacity of the Bank Automatic Telephone Station there is installed the HIPATH 3550 IP station. This enables to make calls through internal 76 and external 16 channels. Besides, it has the advantage to make calls to up 40 (furthermore, it can be extended up to 92) online branches and settlement centers without any additional communication expenses.
- The Mongol Post Bank website has been designed with a dynamic new design.



4.9 Marketing and Public Relations

In 2004, in line with the Bank goals and strategies, Marketing and Public Relations Departments fulfilled all planned activities. The Departments worked under the motto "FOR EVERY CUSTOMER" focusing on introducing customer oriented products and services meeting their needs and requirements and towards enhancing the image of the Bank. In order to enhance the Bank image and reputation among the public, we cooperated with the public television channels, radio stations, daily newspapers and other press on a regular basis and as a result reached the desired goals for the year.

The Bank sponsored boy band "Nomin Talst", the one of Mongolian best rock and pop bands and created "Devjin deeshlehiin duu" as Bank hymn. In cooperation with the boy band and with maintenance of the regional Bank branches, presented band's "Journey Concert of Best Songs" for all customers and local residents of 18 aimags, which was exceptionally well received by existing and potential customers.

Marketing Activities

In 2004, we also introduced several new services for our customers based on advanced technology. For instance, Telephone-banking and Internet-banking services, enables customers to have access to banking services no matter what time or location. Visa Card international payment service adds significantly to the customer's options. Also we have introduced "**Golden Chance**" savings service with flexible conditions and possibilities. Furthermore, our Bank's well known "**Golden Horse**" savings award has been doubled. It makes our customers even more satisfied.



Products and Services

"Golden Horse" Savings with awards

The Bank first organized the savings deposit service with the lottery GOLDEN HORSE throughout the country starting from May 2001 with the purpose to encourage the owners of the



savings account and awarded the 25 lucky owners of the savings account with the fund about MNT 3 million. Starting from the seventh lottery or from July 2004, we have doubled the award fund and started awarding one GOLDEN HORSE both in Ulaanbaatar City and rural area each.

T.Gansukh, owner of the savings account from Ulaanbaatar City and S.Gantulga, owner of the savings account from Arkhangai aimag were randomly selected as the lucky owners of the savings account in the 7th lottery organized by the Bank during the national celebration "Naadam" and won the GOLDEN HORSE that are cast with fresh silver gilded with the gold and diamond mosaics on the hips.

The service of the savings deposit account with the lottery GOLDEN HORSE is organized once in every 6 months and/or twice a year and owners of the savings deposit account with the term of 6 months will receive one right per MNT 500,000 in Ulaanbaatar City and MNT 200,000 in rural area to attend the lottery.



"Altan Bolomj" (Golden Opportunity) Savings

One new type of savings account service introduced by the Bank in 2004 with the purpose to encourage the owner of the savings account is the Golden Opportunity savings account service. This type of service is the product that has the advantage of providing the following flexible

conditions and possibilities that met the needs and requirements of the customers:

- The annuity due (on the monthly basis) will be calculated for that savings account.
- Customers can get the interest income every month.
- When getting the interest income, the term for the savings account remains valid.
- If the owner of the savings account wishes, the term for the account can be automatically prolonged.
- Moreover, any of the owners of the savings account can be covered by the savings deposit account service with the lottery GOLDEN HORSE depending on the amount in their accounts.

Child's Savings

Our Bank introduced at first time in Mongolia the service of "Child's savings" in 2002 identifying the small children that are our generation. The service of "Child's Savings" of the Mongol Post Bank hands over the gift to all children who opened the savings deposit account and moreover, providing the children who opened the savings deposit account during the New Year, Mothers' and Children's Day and their Birthdays with the savings book free of charge.

The shortest term of the Child's Savings service is one year, the annual interest rate is 19.2%, and the minimum required amount in the account is MNT 50,000.

Students' Bank Account

Our Bank was the first to initiate this service directed to the students and their needs. We introduced the service named "Students' Bank Account" with the purpose to support students in having the accumulated cash capital and assist them in having the systemized understanding and knowledge in the field of banking and finance.

This type of service uniquely offers services such as providing with the possibility to be served all of the bank account services free of charge, place their needed money in the Bank, and transferring and receiving the cash through their own bank accounts. In addition, our Bank calculates an interest payment for the stable residual balance of more than MNT 50,000 in their bank accounts.

Escrow Account

Mongol Post Bank introduced this type of service starting from the May 2003. The bank account is opened with the purpose to regulate the market relations that arise between the business entities and individuals in transferring the property rights and getting paid or traded is named as the "Escrow Account". The main principle of this service is that both parties, upon the negotiation basis, opens the bank account and one of the parties places the money in the bank account and the Bank releases the fund to the other party after the contract procedure is accomplished or the condition negotiated by the both parties have completed. Escrow account has been developing as one type of the reliable financial services that regulates the relations that arise between the business entities, organizations, and individuals.

Telephone Banking

We have introduced Telephone Banking service, which is one of the up-to-date banking services that is widely used in international banks, and for our Bank, this is one important part of our program to reach the goal to expand the customer-oriented services and more simplify the banking service.

This service was introduced in December 2001. In the beginning, this service was conducted at the level of common consumers, used only to get the information about the bank and banking services. Starting from July 2002, we provided the possibility for our customers to make bank transfers done by telephone calls. As of the end of the last year of 2004, 193 business entities and organizations have made 1526 bank transfers amounting to MNT 10,411.32 million and USD 2,110.10 through the phone calls.

The main special aspect of the telephone banking service of our Bank is that we provide our customers with the possibility to make bank transfers by the phone calls and other additional possibilities. This product saves the customer time and enables the funds to be transferred with a high security level.





Visa Card

Mongol Post Bank joined the Visa International organization as the associate member in November 2003 and introduced the internationally highly reputable Visa Card to the banking and financial market in October 2004. As of today, our Bank serves the customers with cards such as, Domestic common card, Golden Card, and Classic Card and also, we have provided our customers with the possibility to be served by 400 service organizations and about 20 automatic cash machines for 24 hours in Ulaanbaatar City. Moreover, our customers have the possibility to be served by 80 branches and settlement centers in 21 aimag of Mongolia.

We authorize the holders of the Visa Card of our Bank to use the telephone banking and Internet banking and besides of getting the information by directing to those services, they can also check the balance of their accounts.



Internet Banking

Our Bank newly introduced the Internet banking service in June 2004. By using the internet banking, there would be no difficulties or waiting problems that are currently exist in the banking system. We are providing our customers with the opportunity to get the information or services from their offices or homes at any time they want by using any computer that is connected to the internet by not requiring any special software.

According to the contract, a bank official shall open an ID of the customer, security code, and password in the name of the customer and the ID of the customer and secret code provided by the Bank will not be repeated.

Before using the Internet banking and during the usage period, the customer can change his/her password at any time he/she wants in order to provide the security.

<http://www.postbank.mn/internetbank>



Post Express Money Transfer

Every person is familiar with the Individuals Money Transfer, which is a brand name service of the Mongol Post Bank. The range of this service that could be used daily by students, especially who came from the rural area, has been expanding and the number of customers transferring their money through our Bank sharply increased during the last years. In relation to the transferring to the online system, that connects all the branches and settlement centers, our Bank has made the Individuals Money Transfer with the new brand name. Customers using the **Post Express Money Transfer** can transfer their money at any time, from any place and from any of the branches and settlement centers in all 21 aimags of Mongolia and Ulaanbaatar City. Especially, the money transferred from the branches and settlement centers that are connected to the online system can reach the receiver within 5 minutes only.



Money Gram

From May 2002, our Bank started organizing the activity of the service of Money Gram international money transfer in Ulaanbaatar City and rural area in cooperation with the Trade and Development Bank. By introducing this type of service, we could provide the customers to transfer the money to and from the Head Quarter and any of the branches and settlement centers in Ulaanbaatar City and rural area to and from about 150 countries of the world.





Loan Service

We are delivering the customers with the apartment mortgage small sized loan services through the Head Quarter, branches and settlement centers in Ulaanbaatar City and branches and settlement centers in rural area with the purpose to support the citizens' and individuals' small businesses. Moreover, we have moved the Department of the Small and Medium Sized Loans of our Bank to the new building constructed in the western side of the Mongolian Children's Palace in order to centralize the service of the small and medium sized loan activity and to serve the customers faster and closer.

We have increased the types of the loan by introducing the loan for small business entrepreneurs, salary's mortgage loan, pension pledge loan, and loan pledged the savings deposit for the small business entrepreneurs, state servants and officials and elder people in response to the great needs of the citizens of Mongolia for loans needs. By doing that, the possibilities for the individuals to be covered by the loan services are increasing. We are providing this type of a loan more intensively through the branches in the rural area.

Foreign Currency Exchange

One of the specific and important events of 2004 is the event that our Bank joined as the user the REUTERS, which offers high standard information on Banking and Finance from international financial markets and highly equipped dealing system. Own risks in FX and MM and to actively participate in those fields in order to satisfy our customer needs in foreign currency activities.

Moreover, three years ago our Bank joined the SWIFT, an international banking and financial payments and settlements network. We have been doing the international payments and settlements faster, through our international correspondent banks.

5. Report of the auditors



'To the Board of Directors of Mongol Post Bank LLC

We have audited the accompanying financial statements of Mongol Post Bank LLC as at 31 December 2004 set out on pages 3 to 35. 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 applicable 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 of 31 December 2004 and of the results of its operations and its cash flows for the year then ended.

Ernst & Young Mongolia Audit Co.



INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 MNT '000	2003 MNT '000
Interest income	4	9,292,572	6,706,561
Interest expense	5	(4,944,938)	(3,833,173)
Net interest income		4,347,634	2,873,388
Non-interest income	6	930,368	547,398
Operating profit		5,278,002	3,420,786
Operating expenses	7	(2,745,990)	(1,962,429)
Profit before allowances		2,532,012	1,458,357
Allowances	8	(1,433,334)	(390,328)
Profit before taxation		1,098,678	1,068,029
Taxation	9	(352,984)	(503,273)
Net profit for the year		745,694	564,756

**BALANCE SHEET AS AT 31 DECEMBER 2004****ASSETS**

	Note	2004 MNT '000	2003 MNT '000
Cash and short term funds	12	2,258,652	2,482,610
Deposits and placements with other banks and financial institutions	13	13,152,604	3,874,945
Investment in securities	14	9,677,765	3,650,359
Loans and advances	15	42,111,481	31,203,622
Other assets	16	2,792,979	2,730,334
Property, plant and equipment	17	3,564,625	2,940,626
TOTAL ASSETS		73,558,106	46,882,496

LIABILITIES

	Note	2004 MNT '000	2003 MNT '000
Deposits from customers	18	54,217,416	34,634,126
Deposits and placements of other banks and financial institutions	19	1,220,730	350,400
Loans from foreign financial institutions	20	11,591,597	6,547,600
Other liabilities	21	856,428	659,246
Tax payables		167,984	166,573
TOTAL LIABILITIES		68,054,155	42,357,945

EQUITY

	Note	2004 MNT '000	2003 MNT '000
Statutory fund	22	4,092,927	3,268,390
Revaluation surplus		582,380	582,380
Retained earnings		796,355	615,416
Social development fund	11	32,289	58,365
TOTAL EQUITY		5,503,951	4,524,551
TOTAL EQUITY AND LIABILITIES		73,558,106	46,882,496
COMMITMENTS AND OFF BALANCE SHEET ITEMS	26	4,838,408	6,860,584

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	Non-distributable			Distributable	Total MNT '000
		Statutory fund MNT '000	Revaluation surplus * MNT '000	Social Development fund MNT'000	Retained earnings MNT '000	
At 1 January 2003		2,104,574	582,380	11,488	625,142	3,323,584
Net profit for the year		-	-	-	564,756	564,756
Dividends	10	-	-	-	(471,075)	(471,075)
Transfer to social development fund		-	-	103,407	(103,407)	-
Utilised during the year		-	-	(56,530)	-	(56,530)
Issue of shares		1,163,816	-	-	-	1,163,816
At 31 December 2003		3,268,390	582,380	58,365	615,416	4,524,551
Net profit for the year		-	-	-	745,694	745,694
Dividends	10	-	-	-	(564,755)	(564,755)
Utilised during the year		-	-	(26,076)	-	(26,076)
Issue of shares		824,537	-	-	-	824,537
At 31 December 2004		4,092,927	582,380	32,289	796,355	5,503,951

* Revaluation surplus arises from the revaluation of the Bank's building carried out by an independent appraiser in 2000.



**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

	2004 MNT '000	2003 MNT '000
Profit before taxation	1,098,678	1,068,029
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	198,598	151,318
Property, plant and equipment written off	16,849	5,731
Allowance for loan losses	1,371,073	232,924
Allowance for impairment of other assets	53,193	157,404
Allowance for impairment of investment in securities	9,068	-
Gain on disposal of property, plant and equipment	(6,397)	(265)
Operating profit before working capital changes	2,741,062	1,615,141
<i>Increase in operating assets:-</i>		
Loans and advances	(12,278,932)	(15,385,095)
Other assets	(115,838)	(1,266,966)
<i>Increase/(decrease) in operating liabilities</i>		
Deposits from customers	19,583,290	10,130,279
Deposits and placements of other banks and financial institutions	870,330	12,341
Other liabilities	197,182	223,517
Cash generated from/(used in) operations	10,997,094	(4,670,783)
Income tax paid	(351,573)	(345,571)
Net cash generated from/(used in) operating activities	10,645,521	(5,016,354)

CASH FLOW FROM INVESTING ACTIVITIES

	2004 MNT '000	2003 MNT '000
Net (increase)/decrease in investment securities	(6,036,474)	2,927,063
Proceeds on disposal of property, plant and equipment	20,141	4,742
Purchase of property, plant and equipment	(853,190)	(847,672)
Net cash flow (used in)/generated from investing activities	(6,869,523)	2,084,133

CASH FLOWS FROM FINANCING ACTIVITIES

	2004 MNT '000	2003 MNT '000
Net increase in loans from foreign financial institutions	5,043,997	4,653,451
Increase in statutory fund	824,537	1,163,816
Social development fund utilized	(26,076)	(56,530)
Dividend paid	(564,755)	(471,075)
Net cash flow generated from financing activities	5,277,703	5,289,662
Net increase in cash and cash equivalents	9,053,701	2,357,441
Cash and cash equivalents brought forward	6,357,555	4,000,114
Cash and cash equivalents carried forward	15,411,256	6,357,555
Cash and cash equivalents comprises:		
Cash and short term funds	2,258,652	2,482,610
Deposits and placement with other banks and financial institutions	13,152,604	3,874,945
	15,411,256	6,357,555

**INTEREST INCOME**

	2004 MNT '000	2003 MNT '000
Loans and advances	8,546,100	6,247,763
Deposits and placements with other banks and financial institutions	147,364	107,874
Government securities	19,571	-
Promissory notes	168,655	-
Bank of Mongolia treasury bills	410,882	350,924
	9,292,572	6,706,561

INTEREST EXPENSE

	2004 MNT '000	2003 MNT '000
Time and saving account deposits	4,622,873	3,606,267
Current account deposits	207,151	134,040
Placements of other banks and financial institutions	10,171	18,396
Loans from foreign financial institutions	104,743	74,470
	4,944,938	3,833,173

NON-INTEREST INCOME

	2004 MNT '000	2003 MNT '000
Fee and commission income:		
Commission	424,752	447,993
Service charges and fees	253,193	1,578
	677,945	449,571
Investment income:		
Net gain on disposal of investment securities	-	20,428
Other income:		
Realised foreign currencies gain	203,886	93,545
Unrealised foreign currencies gain	(129)	(52,822)
Rental	2,346	12,271
Gain on disposal of property, plant and equipment	6,397	265
Net recoveries on allowance on impairment of other assets	738	-
Income from cash settlement centres	23,948	9,929
Income from accommodation charges	-	4,906
Income from phone charges	11,370	2,342
Other non-operating income	3,867	6,963
	252,423	77,399
Total non-interest income	930,368	547,398

OPERATING EXPENSES

	2004 MNT '000	2003 MNT '000
Staff costs		
- Salaries and wages	938,060	674,412
- Social and health insurance	176,566	134,251
Directors' remuneration	32,720	23,720
Communications	254,673	168,394
Advertising	117,028	115,315
Depreciation of property, plant and equipment	198,598	151,318
Training	44,441	7,462
Stationery	117,846	43,084
Business trips	75,118	105,829
Transportation and fuel supplies	52,072	36,508
Utilities	61,640	47,896
Maintenance of property, plant and equipment	29,329	28,613
Rental expenses	138,051	57,252
Repair costs	135,203	118,345
Loans and cash collection expenses	46,286	36,873
Property, plant and equipment written off	16,849	5,731
Entertainment expenses	20,878	39,553
Security expenses	45,246	38,346
Other operating expenses	245,386	129,527
	2,745,990	1,962,429

Other operating expenses include administrative expenses, branches' expenses, insurance, audit fees, periodicals and subscription expenses, janitorial costs and real estate and property tax.

The total number of employees of the Bank at year end was as follows:

	2004 MNT '000	2003 MNT '000
Directors and head of departments	11	11
Branch managers	22	22
Officers	377	372
Clerks	103	58
	513	463
Of which:		
- Head office	119	119
- Branches	394	344
	513	463

**ALLOWANCES**

	2004 MNT '000	2003 MNT '000
Allowance for loan losses	1,371,073	232,924
Allowance for impairment of investment in securities	9,068	-
Allowance for impairment of foreclosed properties	38,711	21,797
Allowance for impairment of other assets	14,482	135,607
	1,433,334	390,328

TAXATION

	2004 MNT '000	2003 MNT '000
Current income tax:		
Based on results for the year	352,984	503,273

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 the 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.

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 years ended 31 December is as follows:

	2004 MNT '000	2003 MNT '000
Profit before taxation	1,098,678	1,068,029
Tax at statutory rate of 30% (2003: 40%)	329,603	427,212
Effect on income subject to lower tax	(15,000)	(15,000)
Effect of income not subject to tax	(5,871)	-
Effect of expenses not allowable for tax purposes	44,252	91,061
Tax expense for the year	352,984	503,273

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.

DIVIDENDS

	2004 MNT '000	2003 MNT '000
Equity dividends on ordinary shares		
Declared and paid in the year	564,755	471,075
Dividends per share (MNT)	173	144

SOCIAL DEVELOPMENT FUND

Social Development Fund represents fund allocated for the purposes of employees' social and welfare expenses. In prior year, at the Shareholders' Meeting of the Bank on 17 April 2003, a distribution of retained earnings to the social development fund of the Bank amounting to MNT103.4 million was approved. There was no distribution being approved during the financial year.

CASH AND SHORT TERM FUNDS

Cash and short term funds:	2004 MNT '000	2003 MNT '000
In local currencies	1,276,324	1,651,480
In foreign currencies	982,328	831,130
	2,258,652	2,482,610

DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Current accounts with Bank of Mongolia	6,316,660	1,354,066
Placements with other banks and financial institutions	6,835,944	2,520,879
	13,152,604	3,874,945

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 institution and short term deposits with local financial institutions. Current accounts with foreign financial institutions are generally denominated in USD and bear interest at annual rates ranging from 9.5% to 11.0% (2003 : 9% to 27.6%), while those with local financial institutions bear interest ranging from 12% to 21% (2003: Nil).

**INVESTMENT IN SECURITIES**

	2004 MNT '000	2003 MNT '000
Securities held-to-maturity:		
Bank of Mongolia treasury bills	8,083,920	3,018,963
Accretion of discounts	10,986	999
	8,094,906	3,019,962
Promissory notes	961,155	-
Allowance for impairment losses	(9,068)	-
	952,087	-
Net securities held-to-maturity	9,046,993	3,019,962
Securities available-for-sale:		
Shares - quoted	7,484	7,484
- unquoted	623,288	622,913
Net securities available-for-sale	630,772	630,397
	9,677,765	3,650,359
Market value of quoted shares	6,692	11,139

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 8.5% to 15.9% (2003 : 8.5% to 14%).

Promissory notes are issued by a private corporation with a 120 days maturity period. The annual interest rate is 24% (2003: nil) per annum.

LOANS AND ADVANCES

	2004 MNT '000	2003 MNT '000
Term loans	44,260,517	31,991,552
Staff loans	222,544	209,472
Gross loans and advances	44,483,061	32,201,024
Allowances for loan losses		
- specific	(1,970,844)	(700,636)
- general	(400,736)	(296,766)
Net loans and advances	42,111,481	31,203,622

	2004 MNT '000	2003 MNT '000
Maturity structure		
Maturing within one year	29,560,103	26,078,298
One to five years	10,916,816	1,173,080
After five years	4,006,142	4,949,646
	44,483,061	32,201,024

Included in the gross loans and advances amount is interest receivable amounting to MNT 914 million (2003: MNT 564 million).

Gross loans and advances analysed by their economic purposes are as follows:

	2004 MNT '000	2003 MNT '000
Agriculture	3,162,638	2,262,970
Mining	2,341,693	1,543,787
Manufacturing and processing	7,799,916	6,747,943
Petroleum importation	1,535,956	1,037,960
Textile	865,376	4,451,268
Trading	11,921,470	6,936,835
Financial services	800,000	-
Others	16,056,012	9,220,261
	44,483,061	32,201,024

Others include individuals and companies in industries such as health, telecommunication, tourism and hospitality management and utilities.

**Movements in the past due loans ("PDLs") are as follows:**

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	-	-
Reclassified from NPLs	1,560,173	-
Addition during the period	396,770	-
Recoveries/regularised during the period	(766,696)	-
Gross balance at end of year	1,190,247	-
Less: Specific allowance	(59,512)	-
Net balance at end of year	1,130,735	-

Arising from changes of Regulations on Assets Classification and Provisioning in November 2004, the classification of loans have been changed. No comparative figures are available.

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

	2004 MNT '000	2003 MNT '000
Balance at beginning of year	1,963,245	2,163,170
NPLs during the year - gross	3,887,224	654,766
Reclassified to PDLs	(1,560,173)	-
Recoveries/regularised during the year	(1,974,296)	(27,461)
Amount written off	-	(1,871)
Transferred to other assets	(10,828)	(825,359)
Gross balance at end of year	2,305,172	1,963,245
Less: Specific allowance	(1,911,332)	(700,636)
Net balance at end of year	393,840	1,262,609
Gross NPLs ratio as a percentage of gross total loans	5.2%	6.1%
Net NPLs ratio as a percentage of net total loans	0.9%	4.0%

Movements in the allowance for loan losses are as follows:

	2004 MNT '000	2003 MNT '000
Specific Allowance		
Balance at beginning of year	700,636	623,667
Allowance made during the year	1,600,594	260,385
Amount written back in respect of recoveries	(330,386)	(27,461)
Amount written off	-	(155,955)
Balance at end of year	1,970,844	700,636

	2004 MNT '000	2003 MNT '000
General Allowance		
Balance at beginning of year	296,766	142,682
Allowance made during the year	103,970	154,084
Balance at end of year	400,736	296,766

At 31 December 2004, all loans and advances to borrowers are denominated in Togrog except for EURO loans and USD loans amounting to MNT 5,754 million and MNT 7,412 million (2003: MNT 3,100 million and MNT 6,383 million) respectively. Interest rate ranges from 7.75% to 39% per annum (2003 : 7.75% to 50.2% per annum) respectively.

Loans and advances amounting to approximately MNT 41,024 million at 31 December 2004 (2003 : MNT 30,238 million) were classified as normal and provided with a loss reserve. Further, loans amounting to MNT 3,495 million (2003 : MNT 1,963 million) were classified as NPLs for the year and provisions of MNT 1,971 million (2003 : MNT 700 million) have been allocated against these NPLs.

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

**OTHER ASSETS**

	2004 MNT '000	2003 MNT '000
Foreclosed properties	1,691,628	2,097,552
Less: Allowance for impairment of foreclosed properties	(41,527)	(21,797)
	1,650,101	2,075,755
Other assets	190,232	99,326
Less: Allowance for impairment of other assets	(73,562)	(70,715)
	116,670	28,611
Prepaid expenses	441,005	172,236
Advances	295,166	218,714
Consumables and other inventories	290,037	235,018
	2,792,979	2,730,334

The carrying value of the foreclosed properties are based on directors' valuation, taking into consideration the estimate recovery rates and features of these properties in current conditions. No independent valuation has been performed on the foreclosed properties.

On 21 October 2004, the Bank has also obtained a waiver from Bank of Mongolia from complying with the Regulation on Asset Classification and Provisioning specifically on allowances for impairment of foreclosed properties. Under the waiver, the Bank has been given a grace period until 31 December 2005 to comply with the related regulations.

DEPOSITS FROM CUSTOMERS

	2004 MNT '000	2003 MNT '000
Time deposits	38,198,301	21,816,128
Current account deposits	12,715,346	8,969,908
Demand deposits	3,303,769	3,848,090
	54,217,416	34,634,126

The maturity structure of time deposits are as follows:

	2004 MNT '000	2003 MNT '000
Due within six months	24,572,145	10,003,467
Six months to one year	13,592,481	11,812,661
One year to three years	33,675	-
	38,198,301	21,816,128

The deposits are sourced from the following categories of customers:

	2004 MNT '000	2003 MNT '000
Individuals	40,622,866	22,414,927
Business enterprises	11,335,121	10,127,355
State Enterprises	2,259,429	2,091,844
	54,217,416	34,634,126

Current account deposits bear no interest. Demand deposits are interest bearing and may be withdrawn upon demand. Demand deposits for foreign currencies and local currency bear an annual interest rate of approximately 4.8% (2003 : 4.8%) and 7.2% (2003 : 7.2%), respectively.

Time deposits for foreign currencies and local currency bear an annual interest rate ranging from 7.2% to 8.4% (2003 : 7.2% to 8.4%) and 14.4% to 19.2% (2003 : 14.4% to 19.2%), respectively.

DEPOSITS AND PLACEMENTS OF OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004 MNT '000	2003 MNT '000
Foreign currency current account deposits	11,475	350,400
Foreign currency time deposits	1,209,000	-
Local currency current account deposits	255	-
	1,220,730	350,400

Foreign currency current account deposits generally bear interest ranging from 5% to 8.5% (2003: 5%). The foreign currency time deposits bear interest of 1.5%. Local currency current account deposit bear no interest.

**LOANS FROM FOREIGN FINANCIAL INSTITUTIONS**

	2004 MNT '000	2003 MNT '000
Loan from Kreditanstalt fuer Wiederaufbau ("KfW")	5,812,131	3,218,308
Loan from Asian Development Bank ("ADB")		
- housing	3,066,927	2,254,108
- agricultural	1,518,760	1,075,184
Loan from World Bank	530,959	-
Loan from International Development Association ("IDA")	662,820	-
	11,591,597	6,547,600

Loan from KfW

The loan was obtained from a German government bank- KfW via the Bank of Mongolia. The loan is denominated in EURO and the interest rate is fixed at 1.75% per annum for the Bank, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. The principal sum is repayable, in accordance with the repayment schedule for each disbursement made to final borrower and the amount above will be fully paid by December 2010. The loan is used to provide financing to various customers at preferential interest rates.

Loan from ADBHousing

The loan is disbursed by ADB upon approval of loan application by ADB, with the Bank acting as intermediary to channel the loans to final borrowers. The loan principal has no fixed term of repayment. However, the Bank is required to channel the principal repaid by the final borrowers within 6 months of the actual payment date. The loan bears interest at 8%, payable in October and April annually.

Agricultural

The loan is only disbursed to borrowers from 7 aimags; Hovd, Darkhan, Selenge, Uvs, Zavhan, Bayankhongor and Gobi Altay. The loan bears interest at 5.5% (2003: 5.5%) annually, payable by the Bank on a monthly basis. Principal amounts are repayable within one year of disbursement.

Loan from World Bank

The loan is utilised for the financial capacity development project. The interest rate of the loan is fixed at 3% (2003 :Nil) per annum with principal repayment commencing on January 2008 and final repayment due in July 2022 in accordance with the repayment schedule.

Loan from International Development Association ("IDA")

The loan is only disbursed to borrowers from 4 aimags; Dornod, Umnugobi, Bayankhongor and Uvurhangai. The loan bears interest at 5% per annum with principal repayment commencing on November 2004 and final repayment due in August 2005 in accordance with the repayment schedule.

OTHER LIABILITIES

	2004 MNT '000	2003 MNT '000
Payables	398,182	178,321
Foreign remittance under request	51,576	6,203
Collateral deposits and escrow account	406,590	429,925
Other payables	80	44,797
	856,428	659,246

STATUTORY FUND

Number of Ordinary
Shares of MNT1,000 each

	2004	2003	2004 MNT '000	2003 MNT '000
At 1 January	3,268,390	2,104,574	3,268,390	2,104,574
Issued during the year	824,537	1,163,816	824,537	1,163,816
At 31 December	4,092,927	3,268,390	4,092,927	3,268,390

During the financial year, the Bank increased its statutory fund by MNT825 million (2003: MNT1,164 million) by issuance of 824,537 ordinary shares of MNT1,000 at par. The increase was approved by Bank of Mongolia. The new funds rank pari passu with the existing funds.

As required by Bank of Mongolia, the Bank would need to raise the minimum statutory fund to MNT8 billion by the first quarter of 2006. Currently, the Bank is taking active actions to meet with this requirement.



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	2003
Core capital ratio	9.59%	10.21%
Risk weighted capital ratio	10.79%	11.89%
	MNT'000	MNT'000
Tier I capital		
Statutory fund	4,092,927	3,268,390
Retained earnings	796,355	615,416
Total Tier I Capital	4,889,282	3,883,806
Tier II capital		
Revaluation surplus	582,380	582,380
Social development fund	32,289	58,365
Total Tier II Capital	614,669	640,745
Total Capital Base	5,503,951	4,524,551







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	16,746,312	-	6,856,638	-
10	-	-	-	-
20	8,362,605	1,672,521	2,546,550	509,310
50	4,205,567	2,102,784	114	57
100	47,217,333	47,217,333	37,535,643	37,535,643
Total	76,531,817	50,992,638	46,938,945	38,045,010

ADDRESSES OF BRANCHES AND SETTLEMENT CENTERS IN ULAANBAATAR

	Head office	<p>Kholboochdyn street 4, Ulaanbaatar-13, Mongolia</p> <p>Phone: 976-11-310 103 976-11-311 270</p> <p>Fax: 976-11-328 501</p> <p>Website: www.postbank.mn</p> <p>E-mail: post_bank@mongol.net</p> <p>SWIFT: MGPMNUB</p>
	<p>Director N.Batsaikhan</p>	<p>Branch 130</p> <p>Ulaanbaatar, Peace Avenue Behind Luchy Center, House Nr. 22</p> <p>Phone: 316 136</p>
	<p>Director O.Chuluunchimeg</p>	<p>Settlement center 01</p> <p>Bayangol district, 10th khoroolol, South Wing of Kjokushusan Development Foundation Housing Building</p> <p>Phone: 360910</p>
	<p>Director T.Bolormaa</p>	<p>Settlement center 02</p> <p>Chinggis Avenue, Skytel Center, Main Building</p> <p>Phone: 313149</p>
	<p>Director Ya.Baigalmaa</p>	<p>Settlement center 03</p> <p>Sukhbaatar district, Baga Toiruu street (Behind the Government Palace)</p> <p>Phone: 312689</p>
	<p>Director E.Unurbileg</p>	<p>Settlement center 04</p> <p>Bayangol district International Traveler train ticket sales center, Nr.114</p> <p>Phone: 90155270</p>

ADDRESSES OF BRANCHES AND SETTLEMENT CENTERS IN ULAANBAATAR

	<p>Director B. Tsog-Erdene</p>	<p>Settlement center 05</p> <p>Bayangol district, 4th khoroolol, Building Nr 36a</p> <p>Phone: 368608</p>
	<p>Director G. Tserennadmid</p>	<p>Settlement center 06</p> <p>Bayanzurkh district, 12th khoroolol, West Wing of Sansar Service Center</p> <p>Phone: 452400</p>
	<p>Director B. Khishigsuren</p>	<p>Settlement center 09</p> <p>Sukhbaatar district, 11th khoroolol, Khamilton Center</p> <p>Phone: 351382</p>
	<p>Director S. Khishigjargal</p>	<p>Settlement center 11</p> <p>Songinokhairkhan district, 1st khoroolol, Left Wing of Pyramide Service Centre</p> <p>Phone: 682292</p>
	<p>Director B. Badamsuren</p>	<p>Settlement center 12</p> <p>Sukhbaatar district, UB Mart Shopping Center</p> <p>Phone: 330816</p>
	<p>Director Ts. Munkhtuya</p>	<p>Settlement center 13</p> <p>Bayangol district, West Side of Urguu Cinema Khishig Center Building</p> <p>Phone: 362297</p>



Contacts of the regional branches

Branch 101	Khovd aimag, Jargalant soum Tel: 01-432-23079 Fax: 01-432-22040	Branch 113	Bajinhongor aimag, Bayankhongor soum Tel: 01-442-22671 Fax: 01-442-23209
Branch 102	Bulgan aimag, Bulgan soum Tel: 01-342-22169 Fax: 01-342-22169	Branch 114	Gobi-Altai aimag, Altai soum Tel: 01-482-24531 Fax: 01-482-24531
Branch 103	Orkhon aimag, Bajn-Undur soum Tel: 01-352-25777 Fax: 01-352-20269	Branch 115	Khentii aimag, Undurkhaan soum Tel: 01-562-22797, 23091 Fax: 01-562-22797
Branch 104	Darkhan-Uul aimag, Darkhan soum Tel: 01-372-23257 Fax: 01-372-27985	Branch 116	Dornod aimag, Choibalsan soum Tel: 01-582-221806 Fax: 01-582-21017
Branch 105	Selenge aimag, Mandal soum Tel: 01-362-23080 Fax: 01-362-23635	Branch 117	Sukhbaatar aimag, Baruun-Urt soum Tel: 01-512-21033 Fax: 01-522-21034
Branch 106	Uvs aimag, Ulaangom soum Tel: 01-452-22187 Fax: 01-452-22187	Branch 118	Dornogobi aimag, Sainshand soum Tel: 01-522-22772 Fax: 01-522-22558
Branch 107	Zavkhan aimag, Uliastai soum Tel: 01-462-21110 Fax: 01-462-23686	Branch 119	Bayan-Ulgii aimag, Ulgii soum Tel: 01-422-22462 Fax: 01-422-23751
Branch 108	Arkhangai aimag, Erdenebulgan soum Tel: 01-332-21304 Fax: 01-332-21304	Branch 120	Gobisumber aimag, Choir soum Tel: 02-542-23451 Fax: 02-542-23451
Branch 109	Uvurkhangai aimag, Arvaikheer soum Tel: 01-322-23899 Fax: 01-322-22399	Branch 121	Tuv aimag, Zuunmod soum Tel: 01-272-22635 Fax: 01-272-22635
Branch 110	Huvsgul aimag, Murun soum Tel: 01-382-22569 Fax: 01-382-24010	Settlement Center 07	Khentii aimag, Bor-Undur soum Tel: 01-5651-21282, 21128
Branch 111	Umnugobi aimag, Dalanzadgad soum Tel: 01-532-22171 Fax: 01-532-22166	Settlement Center 10	Ulaanbaatar, Baganuur district Tel: 01-21-20037 Fax: 01-21-22783
Branch 112	Dundgobi aimag, Mandalgobi soum Tel: 01-592-23985 Fax: 01-532-22166		

Correspondent banks

DRESDNER BANK AG, FRANKFURT AM MAIN, GERMANY

COMMERZBANK AG, FRANKFURT AM MAIN, GERMANY

RAIFFEISEN ZENTRALBANK OESTERREICH AG, VIENNA, AUSTRIA

DBS BANK LTD. SINGAPORE

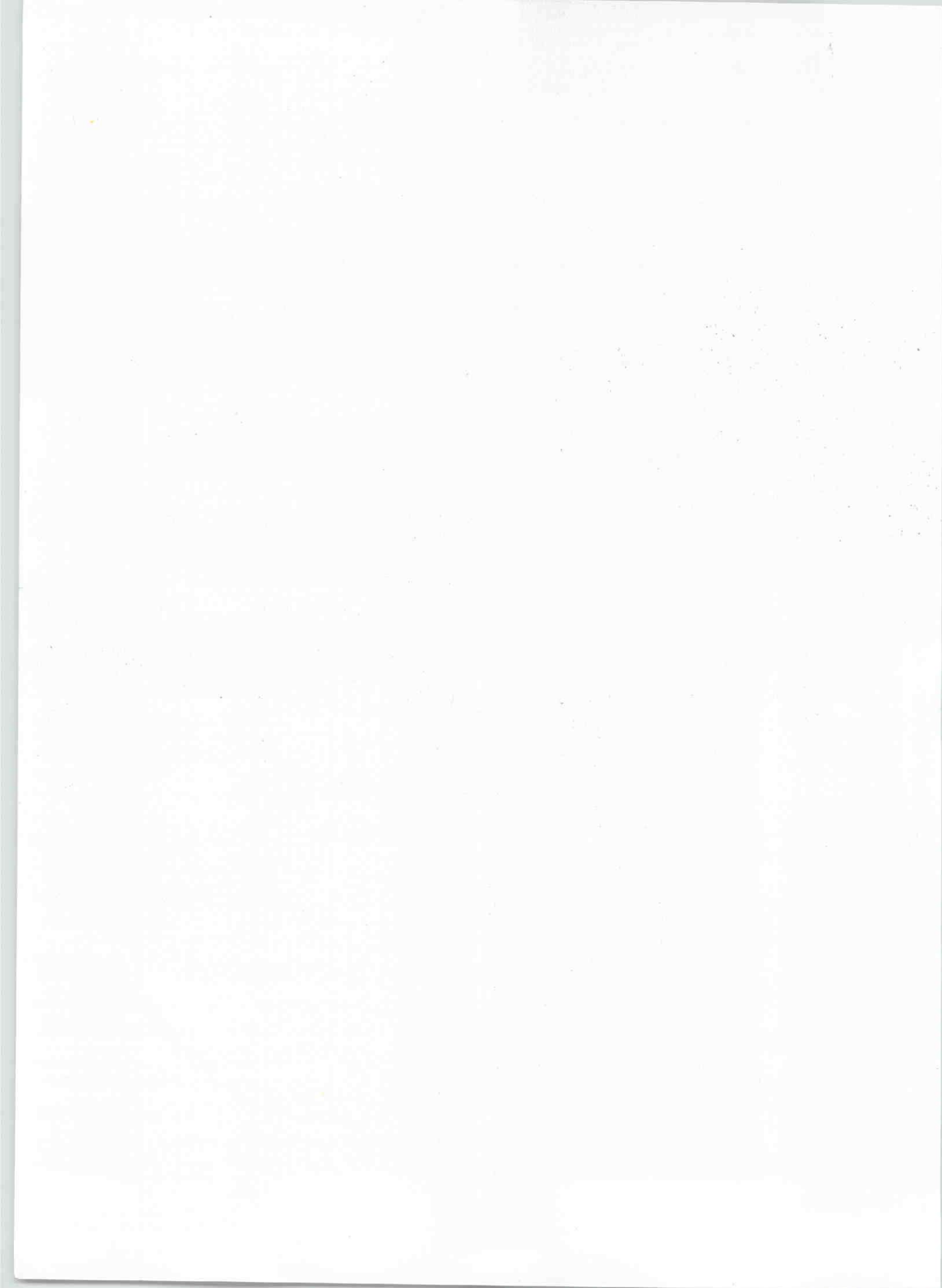
KOREA EXCHANGE BANK, SEOUL, KOREA

BANKTURANALEM, ALMATY, REPUBLIC OF KAZAKSTAN

UNION BANK OF CALIFORNIA INTERNATIONAL, NEW YORK
(TOKYO BRANCH, HONG KONG BRANCH)

INDUSTRIAL AND COMMERCIAL BANK OF CHINA
(INNER MONGOLIA AUTONOMOUS REGION BRANCH)







MONGOL POST BANK