TRADE & DEVELOPMENT BANK OF MONGOLIA
ХУДАЛДАА ХӨГЖЛИЙН БАНК

15 Anniversary

2005
ANNUAL REPORT

Contents

Mission

'To maintain the leading position in the market, providing customer-focused, high quality, innovative and low-cost financial services by the customer convenience distribution channels through professional, committed staff'

Chairman of the Representative Governing Board

Fabio CALIA

Message of the CEO

Randolph KOPPA

In this our 15th year, it is my pleasure to report that the Trade and Development Bank of Mongolia has prospered well and delivered outstanding results.

In an ever-changing and challenging business environment, the TDBM has remained the leading corporate and trade bank in Mongolia and was able to report record earnings and to grow its market share to 20%, a growth of three points on 2004.

After tax earnings were MNT 7.4 billion - a growth of 38 percent on 2004, and the highest of all banks in the country. Assets grew 64 percent to MNT 303 billion. Loans reached MNT 157 billion at year end, an increase of 80 percent. Deposits grew 71 percent to MNT 237 billion.

During the year the Bank increased its capital base through the subscription by Globull Investment and Development Inc. (SCA) and other minor shareholders, of MNT 6.1 billion in newly issued shares. The aim was to strengthen the Bank's capital base, and increase its ability to meet the credit requirements of its corporate client base. This, plus the full retention of the Bank's earnings for the year, resulted in the Bank attaining a 22 percent capital adequacy ratio, well above the requirement of 10 percent.

The Bank has focused on customer service, in particular the needs of its most loyal and valued customers, seeking not only to provide a solid foundation for future growth and the challenges ahead, but also to be a more proactive player within the Mongolian banking sector.

During the fiscal year, the management placed increased emphasis on new products, growing commercial lending, and developing and improving its distribution channels. Car loans and residential mortgages were rolled out for the first time. International trade services, such as letters of credit financing and loan syndication were also emphasized, to provide lower cost financing. To our clients in retail banking, in a first for Mongolia, the TDBM introduced an Internet banking service with a 2-step authentication system that is connected to the S.W.I.F.T network, an SMS banking service that is compatible with both GSM and CDMA providers, a Domestic Gold card, and Verified by Visa technology for secure Internet commerce. A Loyalty card program for our rapidly developing cardholder client base has been launched to deliver a value-added financial service. Two new branches have opened in Ulaanbaatar, extending the branch network to sixteen. Our Treasury introduced new gold trading and margin trading services.

One of the reasons we retain our competitive edge in the market is the implementation of the latest information technology for the banking sector. The internal network of the Head Office building was standardized to fibre optic technology and we have seen improvements in the processing of transactions for cash and debit cards and the overall reliability of the card system.

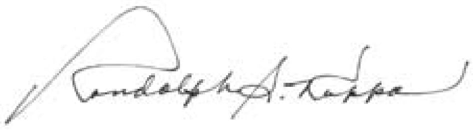
I would like to thank our staff for their dedication and hard work during the year. Through their sustained efforts, the Bank achieved a measurable improvement in revenue, profit, and total asset growth.

The TDBM has always been committed to investing in its staff, not only by providing domestic and overseas training opportunities, both under the ING Management and Technical Assistance Agreement and other programs, but also through tangible assistance, such as the mortgage and salary loans and bonus programs. Three hundred and fifty four Bank employees went on domestic or international training sessions during the year. Eighty six staff had employee mortgage loans granted.

The Bank will certainly have to face new challenges in 2006 as financial intermediation by the banking sector has significantly increased, and competition among banks has became greater than before. Amidst these challenges and opportunities the TDBM has identified priorities for implementation in the near future, including the creation of a department devoted to Small and Medium Enterprises to better meet the needs of SME clients, and the continued expansion of the branch network in line with an organic growth strategy.

Finally, I express our sincere gratitude to all of our esteemed clients and associates for their steadfast support and cooperation, which we trust will continue for years to come.

March 2006



President and Deputy CEO
Siilegmaa MONHBAT

Executive COO
Dennis OPENSHAW

TRADE & DEVELOPMENT BANK OF MONGOLIA
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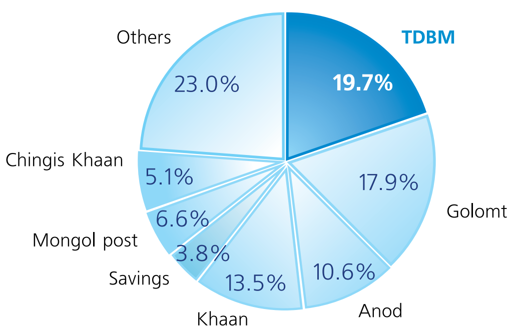
Together towards prosperity

During the reporting period there were seventeen banks operating throughout Mongolia, comprising 732 units.

The top seven banks own 77 percent of the total sector assets and the other ten banks share the remaining 23 percent. TDBM owns the leading 19.7 percent of the total assets of the Mongolian banking sector.

Market share of top seven banks (2005.12)



Preliminary performance of the economy in the year shows that GDP reached MNT 1.3 trillion (by the comparative price of 2000), thus real economic growth was 6.2 percent. The majority of the growth came from the service sector. Industrial products accounted for MNT 813.1, showing a decrease of 4.2 percent on the previous year, which was MNT 35.6 billion. The main reason for this decline was a reduction in the processing industry of 23.9 percent. In summary, the dramatic increase in banking sector lending mainly supported the non-industrial sector.

During the last few years new technologies have been introduced across the banking sector, particularly in non-cash settlements and internet banking. Moreover, types and ranges of traditional products, such as loans and savings have been expanding and diversifying, thus supply of products to all market segments has been increasing. This expansion contributed to the development of micro finance business, which in turn assists greatly in the alleviation of poverty and unemployment.

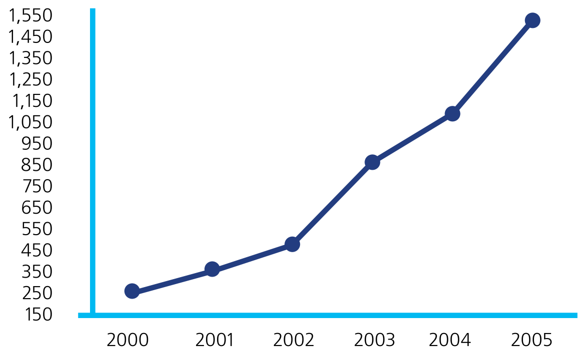
As a result of the increased range of deposit products and services during the reporting period, the number of current account holders increased by 29.9 percent reaching 899.9 thousand; saving account holders increased by 19.5 percent reaching 627.6 thousand; and the number of borrowers increased by 33.2 percent, reaching 322.7 thousand.

During the reporting period M2, the money supply indicator increased by 38.1 percent, representing a 4.8 point increase in the share of GDP. Although the M2 share in GDP decreased in 2004 due to the growth in the economy and the higher inflation rate, it could increase in the reporting period to the level of 2003. The loans ratio to the GDP has been consistently increasing from 2000 and reached 38.2 percent in 2005, growing by 2.3 points on 2004. The money outside banks ratio to the GDP has been in decline during the last four years, an indication of increasing public confidence in the banking sector.

In 2005 the total assets of the banking sector increased by MNT 449.7 billion, the equivalent of a growth of 41.8 percent, representing 69.9 percent of GDP. This was reflected in an increase of MNT 188.4 billion in total saving, an increase of MNT 138.3 billion in the total current account outstanding balance, MNT 52.5 billion in deposits from other banks and financial institutions, and MNT 39.8 billion in equity, representing a respective growth of 36 percent, 65.4 percent, 52.5 percent and 23.8 percent compared with the previous year.

Most of the increased resources of the banking sector contributed to a rise in lending, and the net loan growth represented 57 percent of the total asset growth. The total assets of the sector

Total asset growth of the banking sector (MNT bln)

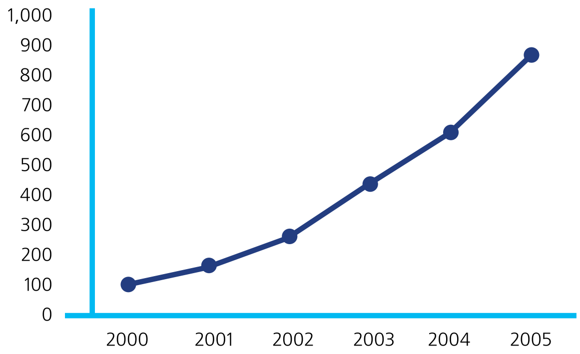


consisted of 56.8 percent from outstanding loans, 17.1 percent from deposits from other domestic and international banks, and 10.4 percent from cash and placements in the Bank of Mongolia. This represents a 3.4 point increase in the ratio of deposits from other domestic and international banks to total assets, although the ratio between other funds and net assets remained largely unchanged.

In the reporting period, most of the deposits were placed into loans, a similar trend to that reported in the last few years. However, there were new trends in, for example, the increasing range of loan products, extending maturity, and decreasing interest rates. Moreover, the banks continue to launch and introduce new products to increase their income, attract new customers and develop the deposit base.

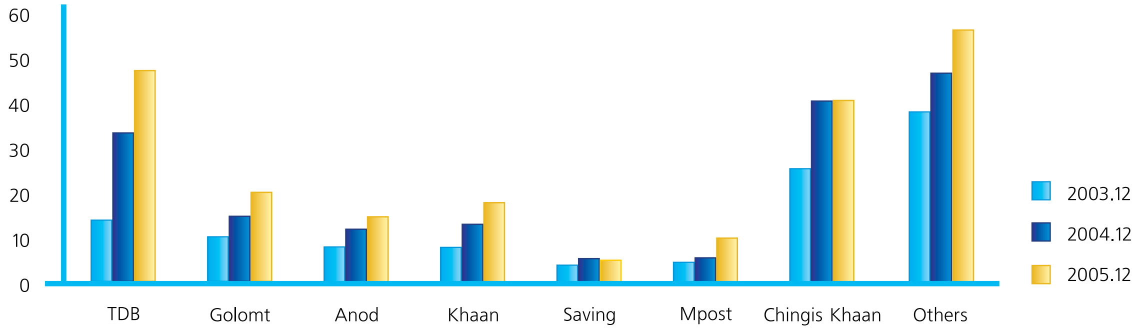
In the reporting period the total income of the Mongolian banking sector increased by 27.9 percent. The total expenditure increased by slightly more, at 28.6 percent. Overall, the total profit of the sector increased by 23.6 percent, which was a net profit of MNT 20.3 billion. Despite the decline in the weighted average of nominal interest rates and average real interest rates, there has been no reduction reported in the nominal interest rate of deposits from customers. This largely shows that financial market competition has been intensifying and banks have been increasingly focused on developing their deposit base to establish a good position within the sector. Due to this competition, the productivity level of the banking sector declined by 0.2 points to 2.2 percent in 2005.

Net loan growth of banking sector (MNT bln)



By the end of the reporting period, the total equity of the banking sector was MNT 207.2 billion, representing a 23.7 percent growth on the previous year. The total risk weighted asset was MNT 1 137.7 billion, representing a 36.1 percent growth on the previous year. As a result, the capital adequacy ratio of the banking sector was 23 percent, a reduction of 1.8 percent on the previous year. However it is still 8.2 percent higher than the prudential amount set by the Bank of Mongolia.

Equity of banks (MNT bln)



Following a Governor resolution by the Bank of Mongolia, all Mongolian banks are obliged to raise their paid-in capital to a minimum of MNT 8 billion by the end of March 2006. By the end of 2005 TDBM had met this requirement, along with three other banks.

BANK PROFILE

On 1st January 1991 TDBM became the first bank in Mongolia to commence commercial banking operations.

In December 2001 the Bank was privatized and a majority share of TDBM was bought from the Government of Mongolia, which had owned a 76 percent share, by Globull Investment and Development Inc. (SCA), a consortium of Banca Commerciale Lugano of Switzerland and Gerald Metals Inc. of the USA.

Today, 65.45 percent of the share capital is owned by the Globull Investment and Development Inc. (SCA) consortium, 7.26 percent by International Finance Corporation, and 7.26 percent by Asian Development Bank, and the remaining 20.03 percent by other minority shareholders. The investment into TDBM by Asian Development Bank and International Finance Corporation, which is a private sector development arm of the World Bank in developing countries, was the first instance of each organization's investment into the Mongolian banking sector.

Moreover, since 2003 the globally renowned ING bank has assisted in the management and provided technical support to the Bank. The partnership with ING has enabled TDBM to maintain its leading position in the local banking sector during a very competitive period in banking and the financial sector in Mongolia, and to expand internationally.

The TDBM slogan is "Together towards prosperity with its stakeholders". Today the Bank offers over 60 types of international-standard banking products, has 530 high professional staff, eighteen branches throughout the country, and utilizes the same technology as our international partners.

By the end of the reporting period, the Bank's total assets were MNT 302.8 billion, representing 19.7 percent of the total banking sector assets. And the Bank still maintaining its biggest and leading position in Mongolian banking and financial market.

Achievements

2005 "Best Bank of the Year"
(The Bank of Mongolia)

2003 Outstanding Marketing Performance
(VISA International)

2002 Best Bank in Mongolia
(The Banker)

2001 Best Bank in Mongolia
(The Banker)

2001 New Market Development Award
(VISA International)

TRADE & DEVELOPMENT BANK OF MONGOLIA

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Prosperous and successful **15th** anniversary

HIGHLIGHTS of the YEAR 2005

- TDBM celebrated its 15th anniversary.
- New branches “Sansar” and “Gurvaljin” opened.
- Internet banking complex service introduced with two-step customer authentication system using, for the first time in Mongolia, VASCO equipment.
- Car loan launched.
- Mortgage loan introduced with the most favorable condition among Mongolian banks.
- Following customer demand, domestic Gold VISA card introduced.
- New Zealand dollar account service started, making the Bank to serve the greatest number of currencies in the market.
- Margin trade introduced to enable customers to participate in the international financial market.
- “Children’s saving” product launched with higher interest than similar products on the market, to support parents who are investing for the future of their children.
- Promotional rate saving product for new and extended saving account holders launched.
- New technology “Verified by VISA” from VISA International implemented to ensure the reliability and authenticity of internet transactions.
- VISA International travelers cheque online verification services implemented for encashment from Travelex Global & Financial Services Limited, Interpayment Services Limited and & other VISA travelers cheque issuers.
- A more rigorous credit decision making process implemented designed to better meet the needs of business sectors, such as gold and construction.
- Two monitoring systems introduced to manage credit risk on an individual loan basis.
- A nine-grade credit risk rating system introduced, which, besides informing credit decisions and loan pricing, is used for controlling excessive exposure to businesses with lower credit ratings.
- Software updated and ALLWEB consolidated reporting system developed with the potential to download Head Office reports from an online database.
- JIRA system implemented to transfer internal banking communication documents to an electronic format.
- To increase the speed of the card system, the internal network of the Head Office building was standardized to fibre optic technology and CISCO Systems equipment.
- The card system was replaced by new complex high speed equipment with automatic back-up recovery resource.

- Mrs. Nyamsuren Navaansharav, an account manager of the Corporate Banking Department was awarded “Best Banker of the Year” due to Mongolian Bankers Association criteria.

- Mrs. Nandin-Erdene Davaa, an account manager of the Corporate Banking Department was awarded “Best Loan Officer of the Year” due to Mongolian Bank’s Association criteria.

- Mr. Sugar Sainkhuu, who is manager of Darkhan branch was awarded “Best Branch Manager of the Year” due to Mongolian Bank’s Association criteria.

- Five TBDM staff received Mongolian Government honors and another five received Bank of Mongolia awards.

STRATEGY

- To strengthen leading position in the banking and financial markets by expanding the deposit base.
- To provide loan and saving products which fully meet the Bank's target customers and the needs of the market.
- To strive to continually deliver new and leading edge technology products to customers.
- To increase the deposit base by attracting new resources from the international financial market, and to respond fully to major clients' working capital and trade finance needs.
- To provide a customer-focused outstanding service through the professionalism and care of our staff.
- To continue to implement best international banking practice in its internal operations.

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Synergy creates success

CORPORATE BANKING

In 2005 the Corporate Banking Department (CBD) continued its aggressive growth by offering a wider range of products and services to existing as well as new customers.

Besides the increase of traditional corporate finance, strong growth in fees and commissions and volume of trade finance show a continued commitment from the staff of CBD to provide its customers with all available products and services across the whole bank.

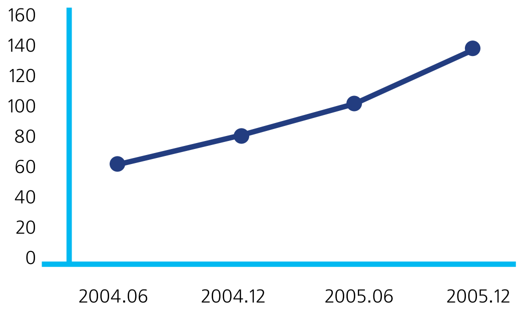
As of the end of 2005 the total corporate loan outstanding was MNT 130.3 billion, which represented 82 percent of the total loan book of the bank. Compared to the loan outstanding for the previous year, which was MNT 87.6 billion this was an 82 percent increase.

The average amount of loans has increased from MNT 53.7 billion in 2004 to MNT 88.7 billion in 2005. This is a 65 percent increase on the previous year.

A much stronger loan base had a direct effect on interest revenues of the CBD. In 2004, the total interest income earned by the CBD was MNT 10.1 billion while the same income reached MNT 13.3 billion by the end of 2005, i.e. there was a 31 percent increase on 2004 results.

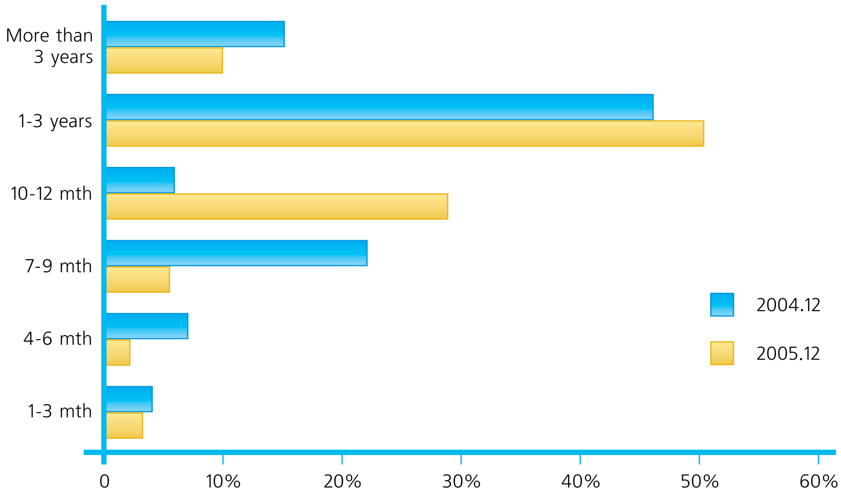
An influx of new shareholders and a resultant increase in the lending capacity of the Bank, in terms of both the size and tenor, also contributed to the expansion of the loan portfolio.

Corporate loan portfolio (MNT bln)

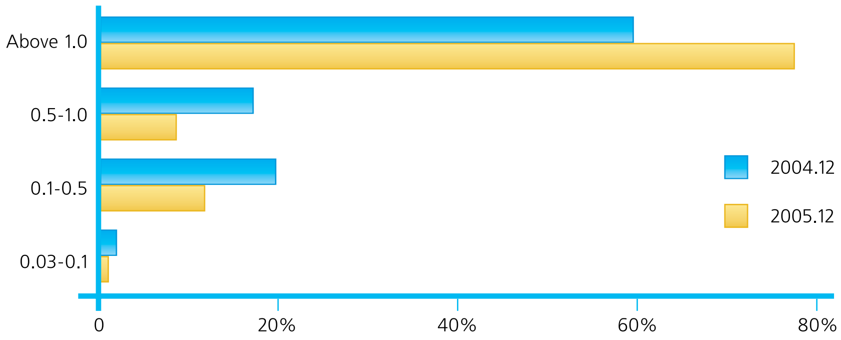


The average loan size and tenor of corporate loans has increased as follows:

Loan tenor percentage

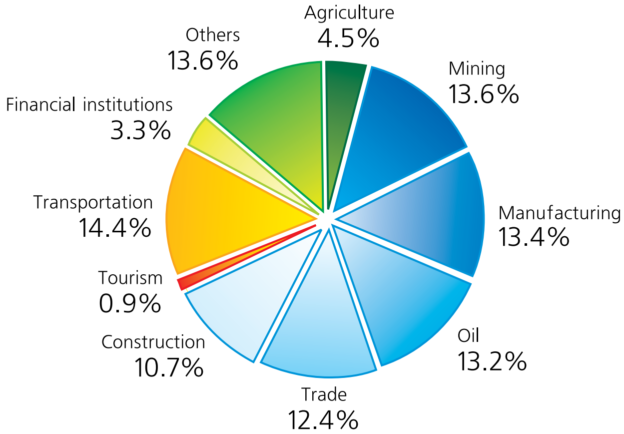


Percentage breakdown by average loan size (MNT bln)



Being the bank of choice for almost all of the main players in particular sectors and industries emphasizes the importance of the Bank for the growth of the local economy. The Bank finances all major economy drivers, as illustrated by the exposure of the Bank to particular industries:

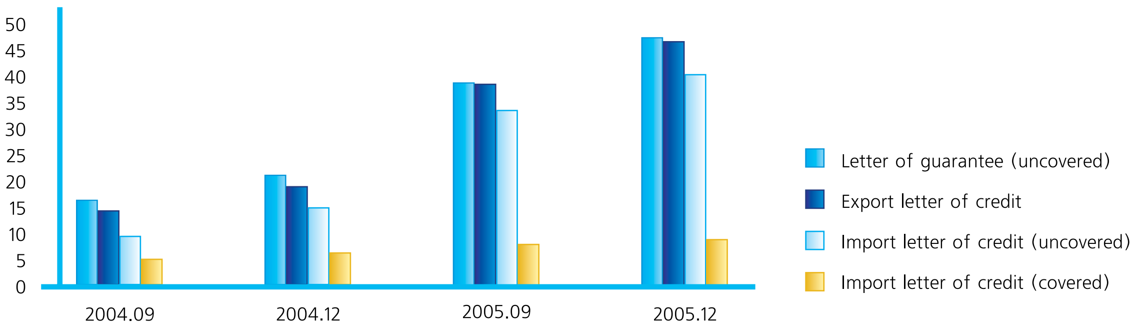
Percentage sector exposure



The Bank also achieved strong growth in its fees and commission earnings, which are derived from providing corporate customers with cash management services, and remittances.

The increase in the volume of trade finance in the year was remarkable. This shows the continued commitment of TDBM to finding optimum financing options for its customers, mitigating the potential risks associated with cross-border trade, and to developing internationally accepted standards of support for client businesses.

Trade finance growth (USD mln)



Trade finance	2004.09	2004.12	2005.09	2005.12
Import letter of credit				
Import letter of credit (covered)	5.64	6.46	8.08	10.65
Import letter of credit (uncovered)	7.06	10.72	27.21	35.67
Export letter of credit	3.29	3.79	4.89	7.4
Letter of guarantee (uncovered)	1.51	1.95	0.51	3.41
Total	**17.5**	**22.92**	**40.69**	**57.13**

The financial institutions area within the CBD has continued to expand its syndicated loan and direct business activities with foreign institutions.

During the financial year 2005, the portfolio of syndicated loans and direct deals with foreign institutions grew by over USD 22 million, a growth of over 300%. The interest and fee income has also increased by more than seven times.

The Bank was chosen as one of two participating banks in the second World Bank Private Sector Development Project, which has a total fund of USD 10 million. TDBM has also been accepted into the Trade Facilitation Program of ADB and IFC which has a total fund of USD 10 million.

RETAIL BANKING

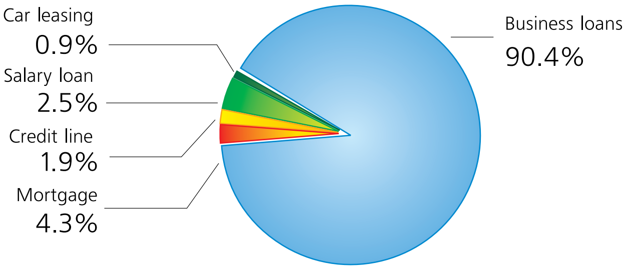
The Retail Banking goal of the Bank is to provide its target market that have high business growth; high-income individuals who are owners, executives and staff of companies which are the Bank's corporate customers and affluent individuals who are unaffiliated with corporate customers - with a full range of banking products, distinguished by outstanding service.

During 2005, the Bank achieved this goal, providing more products, enhanced service and capacity, and successfully launching new products to the market, such as consumer loans, mortgage loans, car loan, Complex Internet Banking Service, children's saving, and the domestic VISA gold card.

Loan

During the reporting period, retail banking income amounted to MNT 5.4 billion, which equals 24.8 percent of the total interest income of the Bank.

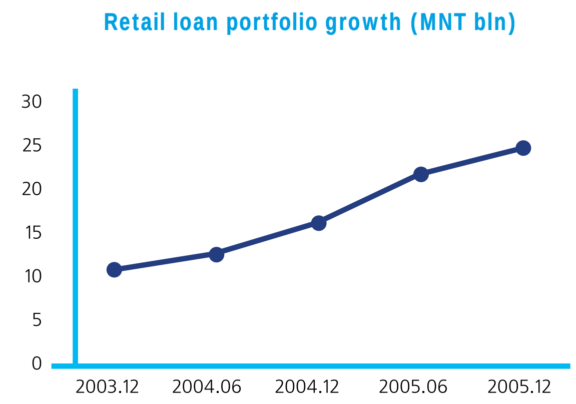
Percentage breakdown of retail loans (by types)



Retail Banking arm issued MNT 93.3 billion worth of loans, equivalent to 26.4 percent of the total loans issued, through five types of products.

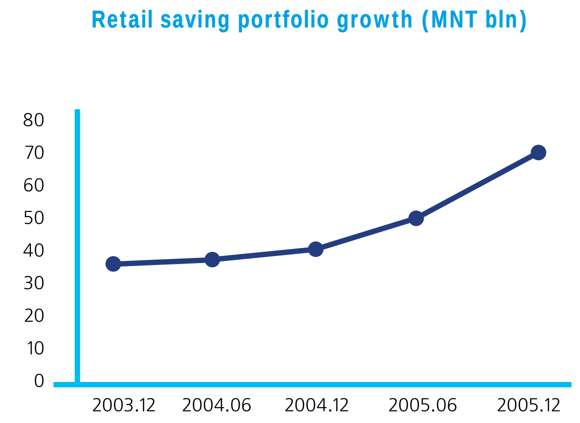
To support its client small businesses, the Bank reduced small loan interest for them as follows: MNT small loan interest 2.4-1.2 points for each product type and USD small loan interest 2.4-1.2 points for each product type.

The small loan portfolio increased by 60 percent on the previous year through the continued emphasis on traditional products and the development of new products and improved service.



Saving

TDBM has an extensive range of saving products, including traditional, conditional, advanced interest, and children's saving options. By the end of the year, savings from private individuals reached MNT 68.3 billion. This amount represents a 72.5 percent increase from the end of the previous year.



Moreover, the Bank increased its saving interest rate and extended deposit term in December 2005 to meet the demand from deposit holders and fend off increasing competition. New saving product "Children's saving" with higher interest than the same products in the market was launched to support parents who are investing for the future of their children.

Card and payment services

Card products are one of the main emphases of Retail Banking and the Bank maintained its leading position in this product market. By the end of the reporting period the number of card holders had reached 48800, representing 43.1 percent growth on the previous year end.

TDBM is the only bank in the country that allows its clients to accept transactions from all of the cards of the world's leading financial institutions, such as American Express, VISA, Mastercard and JCB. Moreover the Bank cooperates with 530 merchant organizations which serve by TBDM cards.

TDBM is still the only bank to introduce automated teller machines (ATM) to the Mongolian market as a part of VISA card service. Today the Bank has 25 ATMs 21 in Ulaanbaatar and 4 in countryside) With the new membership of Ulaanbaatar City Bank into the ATM service network, the number of agent banks for this service increased in addition to Saving and Mongol Post banks.

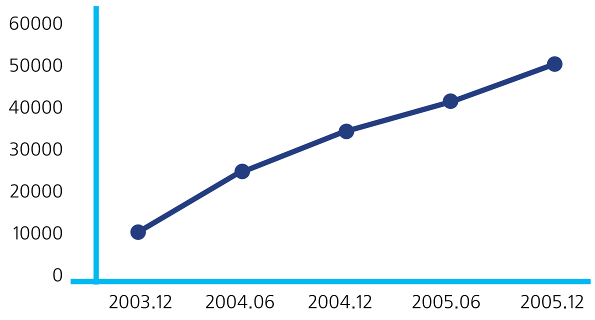
To widen the range of card products the domestic Gold card was launched. TDBM now offers the following VISA card products:

- Domestic Classic card
- Youth card
- Salary/Payroll card
- International Classic card
- International Gold card
- Corporate Business debit card
- AMEX Corporate credit card with USD 80.000 limit.
- Corporate Business credit card with USD 40.000 limit.
- Platinum card with USD 20.000 thousand's credit right

New services, such as a limited overdraft on debit cards (subject to status), salary loans up to ten months of card holder's salary, and selling of Mobicom, Skytel, Railcom, MCS, Sky C&C and National Communication Company's domestic and international prepaid credits through the Bank's ATMs were implemented.

New advanced technology from VISA International to support reliability of payment through internet, to prevent arguments between merchants and card holders, and to serve for each participant's right Verified by VISA was implemented.

VISA card holders growth (in numbers)



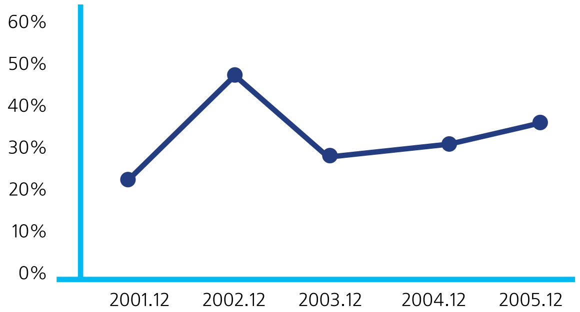
Moreover, further advances were made in payment activities such as the implementation of the new VISA traveller's cheque online verification service, the extended availability of the MoneyGram service to 24 hours, using the VISA Call Center to provide a faster service for receiving and sending money safely around the world.

The main priorities of the Bank's treasury, trading and asset liability management activities are not only to increase profitability through rationalizing financial management but also to assist the financial management of clients by providing sound financial and investment products. The Treasury Department is responsible for these activities.

Gold trading

TDBM has been the leading player in the domestic gold market since receiving a gold trading license in 2000; the first among Mongolian commercial banks. During the reporting period the number of the Bank's gold mining clients increased and gold trading was done with more than 60 clients who are gold miners, commercial and central banks. A further development was in the cross selling of service including gold options and forwards, tangible gold collateralized forward, and orders to minimise the clients' exchange rate risks and to assist their short term financial engineering. As a result of these activities net trading profit from gold business reached MNT 749 million at the end of year.

TDBM's share in domestic tangible gold market (by percentage)

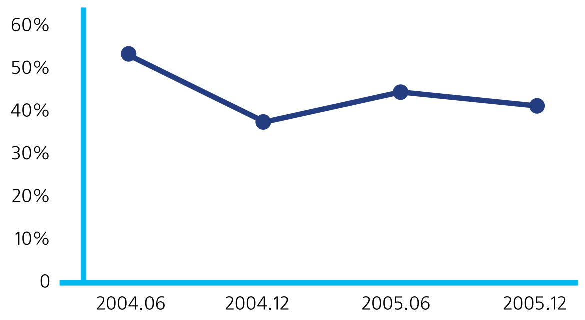


Foreign exchange

As a result of activities to increase liquidity in the domestic currency market and to speed up turnover, the number of customers and its related profit increased. Within the Mongolian banking sector, TDBM holds the largest portfolio of foreign assets, making it the lead player in the foreign exchange market. The Bank's actions to develop the currency trading service and to launch new products to reduce the trading risk were very much appreciated by customers.

Although exchange rate fluctuation was high in the international financial market, TDBM was able to intensify its proprietary trading activity in the international and domestic markets. As a result, turnover of currency trading increased and profit from exchange activities reached MNT 2.5 billion.

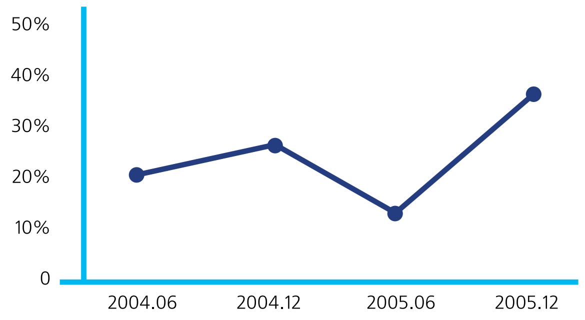
TDBM`s share in foreign exchange market (by percentage)



Securities trading and liquidity management

The Bank has been participating in the Central Bank and Government Bills markets, regularly maintaining its leading position in each of these markets. To optimize cash and liquidity management the Bank has actively participated in the secondary market of securities and the amount of trading reached MNT 312 billion. Moreover, participation in the international financial market was vigorous. Through this activity excess liquidity was used to earn profit successfully, thus interest income increased. Total income and arbitrage trading profit from these activities from the international and domestic markets reached MNT 3.2 billion.

TDBM's share in money market (by percentage)



Asset liability management

Substantial progress has been made as a result of a continued effort to focus on effective management of assets and liabilities, and to reduce interest risk. Some of the achievements are:

- Although the interest margin reduced during the reporting period as a result of activities to optimize the balance sheet structure, net interest income increased by 31.2 percent.
- To improve financial leverage a strategy to attract deposits was initiated, which was a success: total deposits increased by 61 percent on the previous year.
- House position was developed to protect investors from exchange rate risk. The efficiency of asset liability management has increased as a consequence of the implementation of the system to evaluate asset liability management efficiency.

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High technology - development gate

Risk Management includes four separate functions for managing the main types of risk the Bank is exposed to: credit risk, market risk, liquidity risk and interest rate risk.

Independent Risk Management functions are in place, designed to identify and assess the risks inherent in the various types of business conducted by the Bank, establish and monitor limits, conduct on-going assessment of asset quality (portfolio and transactional basis), monitor for compliance with Bank policies and practices, and establish and implement risk policies and procedures. Generally, the risk management objectives and policies underpin the overall business strategy, being implemented through specific policies and procedures.

The Credit Committee analyses the credit risk profile of the Bank and issues decisions and recommendations in order to mitigate credit risk. Market risk, liquidity risk and interest rate risk are the responsibility of the Assets and Liabilities Committee.

Credit risk

In order to mitigate this risk, Credit Risk Management is mainly responsible for the following activities:

- Set up, review and update of credit risk policies and procedures, including rating systems and limits;
- Design of the credit risk measurement, monitoring and warning signals system
- Analysis of the credit portfolio in order to highlight the risk profile of the Bank;
- Setting up tools and measures for preventing and covering credit risks.

We closely examine credit risk from both a transaction perspective, which concerns credit risk of individual customers, and a portfolio perspective, which considers overall quality of credit portfolio.

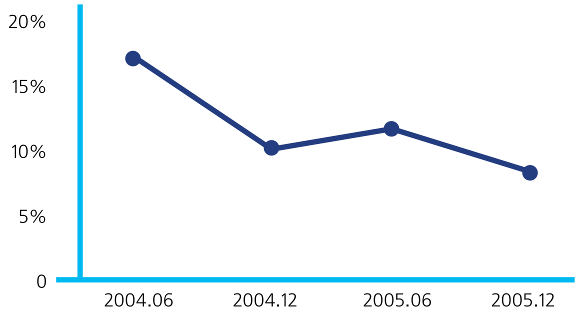
As a transaction credit risk management, the Bank places utmost importance on new credit decisions. It is our practice that every credit risk decision is based on an independent risk opinion from a business proposal. In 2005, some of the initiatives we have taken to improve our credit decision making were the introduction of financing policies for different business sectors. We have also concentrated on improvement of our analysts' qualitative and quantitative skill for identifying credit risk.

In an effort to monitor customer credit status i.e. existing exposure more accurately, the Bank has also improved follow up management functions. In 2005, the Bank introduced two monitoring systems, including “Excess control” and “Review system” to manage its credit risk on an individual loan basis.

The Bank's credit risk exposure is controlled and limited not only by thorough economic and financial analyses and close monitoring of the corporate clients, but also by diversification of the portfolio. Portfolio risk management focuses on three areas. First, we avoid concentration of exposure to particular business sectors by controlling limits for single borrowers, as well as analysing and monitoring portfolios by industry sectors. Second, the Bank controls industry specific risk by using financing policies which defines underwriting standards for industries such as gold mining, construction where relatively high concentration exists. Third, in late 2005, the Bank has introduced a nine grade rating system which, besides credit decision and loan pricing, will be used for controlling excessive exposure to businesses with lower credit ratings.

As a result sequential complex credit risk management actions, there has been tangible improvement in the quality of loan portfolio. For instance where as of December 2004 Non Performing Loan in the total loan was 10 percent, as of December 2005, this percentage has decreased down to 8 percent.

Non-performing loans in total portfolio (by percentage)



Market risk

Market Risk Management monitors the evolution of the main market risk measurement indicators: maturity mismatches, interest rate sensitivity, and foreign currency positions, assets and liabilities structure. Risk policies are set up in order to monitor Treasury limits, while interest rates are discussed and adjusted to the environment within the Asset and Liabilities Committee.

The bank uses the VaR concept to monitor its trading and currency position risk. The foreign currency positions are daily monitored by Treasury and Risk Management.

VaR summarizes the worst loss over a target horizon under normal market conditions with a given level of confidence. To manage market risk we monitor if the risk amount determined by our VaR method is within the accepted VaR limit.

Actual VaR values in the reporting period

Reporting Period	Maximum VaR value	Minimum VaR value	Average VaR value
2005	MNT 186.2 million	MNT 13.9 million	MNT 75.5 million

Our VaR criteria:

1. Confidence level: 99% (standard deviation of 2.33 times)
2. Observation period for market data: 250 business days
3. Correlation among price fluctuations of financial instruments: taken into account

Moreover TDBM does back-testing for its VaR method to verify its correctness. The results confirmed that the VaR method used by the Bank is in line with the Basel rule.

Interest Rate and Liquidity Risk

The Bank fulfilled its liquidity requirements throughout the year. The main focuses of liquidity management were the monitoring of the daily liquidity of the Bank, rationalizing of medium and long term liquidity management, and creation and maintenance of the optimal structure of the balance sheet in terms of liquidity.

By the end of the year the Bank's liquid assets reached MNT 129.7 billion, 220% increase on the previous year end.
Interest rate risk management focused on reducing the real effect of interest rate fluctuation on the Bank's income, and the creation and monitoring of a balance sheet structure that would benefit from the fluctuation of interest rates. In other words, the Bank placed particular emphasis on:

1. The management of the portfolio to prevent a net interest income decline resulting from interest rate fluctuation.
2. The management of a decline in the real value of the Bank portfolio resulting from interest rate fluctuation.

Further to this aim, the interest rate was measured, reported and managed monthly on the basis of GAP and duration GAP methods. By the end of 2005, the interest rate sensitive assets and liabilities were MNT 154.5 billion and MNT 148.2 billion respectively, representing a difference of MNT 14.7 billion, which is MNT 25 billion less than the previous year's, representing the bank's risk management`s growth.

INFORMATION TECHNOLOGY

One of the reasons for TDBM's ability to provide the best products for the market is that the Bank frequently updates its information technology.
During the reporting period the Bank's objectives for the IT operation were to create wider possibilities for immediate implementation of modern international-standard technology in its products and services, and to improve reliability and efficiency of existing technologies.

In relation to the Bank's activity, card products have been increasing, and the card accounting and online transaction system has been expanded. In addition, the system solutions were renewed to enhance reliability.

The number of ATMs increased to 24. To facilitate the continuous use of the service a 24 hour operating team responsible for the technical services of ATMs was assembled.

To increase the speed of the card system, the internal network of the Head Office building was standardized to fibre optic technology and CISCO equipment. As a result of Host Security Model /HSM/, Network Access Controller /NAC/ and other equipment changes by high speed and with automatic back-up and recovery equipment, reliability of the system and the speed of transactions has enhanced.
We introduced the Internet Banking Complex Service with a two-step authentication system, which is the first use of VASCO equipment in Mongolia.

To transfer internal banking communication documents into an electronic format the JIRA system was implemented. With this system the Bank management and staff are able to control the information flow between departments, access work reports within a particular period, and to get other useful information in time. Implementation of this system was a success and an advance towards increased efficiency of employees.

Moreover the development technology of user software was renewed and transferred into module software method and ALLWEB consolidated reporting system was developed. This work created possibility to get head office reports from information fund online.

User software updated and ALLWEB consolidated reporting system developed with the potential to download Head Office reports from an online database.

HUMAN RESOURCES

Human Resource management at TDBM follows the maxim "Organizational development depends on staff development". During the reporting period the Human Resource Department's main emphases were to improve the skills of Bank staff, to provide conditions for full utilization of their abilities, to encourage their initiatives to learn and improve their careers, to sustain a remuneration and bonus system based on their skill and performance, and to support their social issues.

In order to provide additional tangible benefits to our deserving staff and to maintain their loyalty the Bank introduced an employee mortgage loan program, earmarking an initial MNT 2 billion to be available for reduced rate loans. By the end of the year, 86 such loans had been approved.

In 2005, 354 of the Bank staff were sent on domestic or international training sessions and their skill and professional knowledge enhanced.

TDBM spent MNT 31.6 million for the support and non-returnable aid of 165 of its staff.

The Bank recruited many of the best educated and highly skilled graduates in the region. Many existing staff were redeployed or promoted. With respect to this, 125 staff were recruited, 50 left or retired, and the total number of Bank staff rose to 530.

To strengthen the culture of the organization, a new internal web-site and information board were created and are updated constantly providing fresh, in-time information to the staff.

Finally, ten TDBM staff were awarded Mongolian Government medals and titles.

Staff by gender and education:

1	**Indicators**	**Head office**	**Branches**	**Total**	**Percentage**
1.	Total staff	338	192	530	
2.	Male	171	59	230	43.3%
3.	Female	167	133	300	56.7%
4.	University gradutes	280	140	420	79.2%
5.	Non-graduates	56	54	110	20.7%

Trade and Development Bank of Mongolia LLC

Financial Statements for the year ended 31 December 2005

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Corporate information

Registered office and Principal place of business	Juulchny Street-7 Ulaanbaatar-11 Mongolia
Board of Directors	Fabio Calia Jean Baudois Roberto Bonzi Rick Smith Dashzeveg Zorigt
Company Secretary	D. Davaajav
Auditors	KPMG Kuala Lumpur

STATEMENT BY DIRECTORS AND EXECUTIVE

We, FABIO CALIA, and JEAN BAUDIOS, being two of the directors of Trade and Development Bank of Mongolia LLC /"the Bank"/ and DENNIS OPENSHAW, being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statement set out on pages 4 to 38 are drawn up in accordance with applicable International financial Reporting Standards so as to give a true and fair view of the financial position of the Bank as at 31 December 2005 and of the results of its operations and its cash flows for the year then ended.

FABIO CALIA	JEAN BAUDOIS	DENNIS OPENSHAW

ULAANBAATAR, MONGOLIA

DATE: MARCH 30, 2006

KPMG (Firm No.AF0758)
Chartered Accountants
Wisma KPmg
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388
Fax +60 (3) 2095 0971
Internet www.kpmg.com.my

Аудиторын тайлан

Report of the auditors to the members of Trade and Development Bank of Mongolia LLC.

We have audited the financial statements of Trade and Development Bank of Mongolia LLC on pages 4 to 38. The preparation of the financial statements is the responsibility of the Bank's Board of Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and reform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statement. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 4 to 38 present fairly, in all material aspects, the state of affairs of Trade and Development Bank of Mongolia LLC as at 31 December 2005 and the results and cash flows for the year then ended on that date in accordance with international Financial Reporting Standards.

The comparative figures were audited by another firm of auditors as we were appointed as auditors only for the current year's financial statements. Accordingly, we do not express any opinion on the comparative figures. The prior year auditors report dated 31 March 2005 expressed an unmodified opinion.

KPmg

KPMG
Ulaanbaatar, Mongolia
30 March 2006

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Balance sheet at 31 December 2005

	Note	2005 MNT'000	2004 MNT'000
ASSETS			
Cash on hand	**3**	11,771,646	12,190,256
Deposits and placements with banks and other financial institutions	**3**	62,183,406	43,577,199
Balances with Bank of Mongolia	**3**	8,826,580	5,209,340
Investment securities – held-to-maturity	**4**	46,598,605	23,929,116
Loans and advances	**5**	156,727,476	87,031,880
Property, plant and equipment	**6**	9,735,893	7,585,263
Intangible assets	**7**	384,406	603,551
Other assets	**8**	6,550,261	4,146,627
TOTAL ASSETS		**302,778,273**	**184,273,232**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from customers	**9**	226,233,195	135,373,721
Deposits and placements of banks			
and other financial institutions	**10**	10,769,825	3,319,414
Loans from foreign financial institutions	**11**	12,443,261	11,052,549
Taxation		851,258	182,040
Other liabilities	**13**	4,871,696	1,942,980
Total deposits, loans, taxation and other liabilities		255,169,235	151,870,704
Subordinated loans	**12**	9,768,000	9,672,000
Total liabilities		**264,937,235**	**161,542,704**
Shareholders' equity			
Share capital	**14**	6,607,477	5,150,691
Other reserves		12,155,904	5,902,340
Retained earnings		19,077,657	11,677,497
Total shareholders' equity		**37,841,038**	**22,730,528**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**302,778,273**	**184,273,232**

The notes set out on pages 29 to 38 form an part of these financial statements

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of income for the year ended 31 December 2005

	Note	2005 MNT'000	2004 MNT'000
Interest income	15	21,892,444	16,163,121
Interest expense	16	(6,291,421)	(4,261,748)
Net interest income		**15,601,023**	**11,901,373**
Net fees and commissions income	17	3,583,693	2,603,021
Other operating income	18	3,485,364	3,158,220
Net non-interest income		**7,069,057**	**5,761,241**
Operating income		22,670,080	17,662,614
Operating expenses	19	(10,255,523)	(8,691,906)
Allowance for impairment losses	20	(2,092,626)	(1,580,578)
Profit from operations		**10,321,931**	**7,390,130**
Corporate income tax	21	(2,943,258)	(2,033,343)
Net profit after tax		**7,378,673**	**5,356,787**

The notes set out on pages 29 to 38 form an part of these financial statements

Statement of changes in equity for the year ended 31 December 2005

	Note	Non-distributable			Distributable	
		Share capital MNT'000	Share premium MNT'000	Revaluation reserve MNT'000	Retained earnings MNT'000	Total MNT'000
Balance at 1 January 2004		2,000,000	-	3,152,619	8,320,710	13,473,329
Net profit for the year		-	-	-	5,356,787	5,356,787
Issue of share capital	**14**	1,150,691	2,749,721	-	-	3,900,412
Capitalisation of retained earnings	**14**	**2,000,000**	**-**	**-**	**(2,000,000)**	-
Balance at 31 December 2004		5,150,691	2,749,721	3,152,619	11,677,497	22,730,528
Net profit for the year		-	-	-	7,378,673	7,378,673
Issue of share capital	**14**	1,456,786	4,625,601	-	-	6,082,387
Revaluation on property, plant and equipment	**6**	-	-	1,649,450	-	1,649,450
Transfer of reserve		-	-	(21,487)	21,487	-
Balance at 31 December 2005		**6,607,477**	**7,375,322**	**4,780,582**	**19,077,657**	**37,841,038**
		Note 14				

The notes set out on pages 29 to 38 form an part of these financial statements

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows for the year ended 31 December 2005

	Note	2005 MNT'000	2004 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,321,931	7,390,130
Adjustments for			
Depreciation and amortisation		861,808	814,391
Revaluation deficit of property, plant and equipment		11,576	-
Property, plant and equipment written off		-	7,306
Loss on disposal of property, plant and equipment		76,709	53,170
Allowance for impairment losses		2,092,626	1,580,578
Operating profit before changes in operating assets and liabilities		**13,364,650**	**9,845,575**
Increase in loans and advances		(72,845,378)	(32,777,776)
Increase in other assets		(1,110,685)	(3,847,347)
Decrease/(Increase) in deposits from customers		90,859,474	(43,349,266)
Increase in deposits and placements of banks and other financial institutions		7,450,411	1,564,617
Increase in other liabilities		2,987,798	1,445,601
		40,706,270	(67,118,596)
Corporate income tax paid		(2,274,040)	(2,015,904)
Net cash flows generated from/(used in) operating activities		**38,432,230**	**(69,134,500)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (acquisition) /disposal of investment securities			
– held-to-maturity		(22,639,681)	29,729,224
Purchase of property, plant and equipment		(1,355,982)	(880,011)
Purchase of intangible assets		(107,796)	-
Proceeds from disposals of property, plant and equipment		2,967	168,276
Acquisition of non-banking financial institutions		-	(205,208)
Net cash flows (used in)/generated from investing activities		**(24,100,492)**	**28,812,281**

The notes set out on pages 29 to 38 form an part of these financial statements

CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,082,387	3,900,412
Proceeds from loans from foreign financial institutions		1,390,712	2,753,698
Proceeds from subordinated loans		-	9,695,624
Net cash flows generated from financing activities		**7,473,099**	**16,349,734**
Net increase/(decrease) in cash and cash equivalents		**21,804,837**	**(23,972,485)**
Cash and cash equivalents at the beginning of the year		**60,976,795**	**84,949,280**
Cash and cash equivalents at the end of the year		**82,781,632**	**60,976,795**

The notes set out on pages 29 to 38 form an part of these financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

Corporate information and principal activities
The holding company of the Bank is Globull Investment and Development (SCA), incorporated in Luxembourg, a joint venture company between Banca Commerciale Lugano of Switzerland and Gerald Metals, Inc. of Stamford.

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No.13 issued by the Bank of Mongolia. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors on 30 March 2006.

Summary of significant accounting policies

The following significant accounting policies have been adopted by the Bank in the preparation of these financial statements.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The financial statements are presented in Mongolian Tugrug ("MNT"), rounded to the nearest thousand. MNT is the Bank's measurement currency. The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value.

The accounting policies set out below have been consistently applied by the Bank and are consistent with those used in the previous year.

(c) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to MNT at foreign exchange rates ruling at the dates that the fair values were determined.

(d) Financial instruments

Classification
Trading instruments are those that the Bank principally holds for the purposes of short-term trading and liquidity management. These include certain derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term trading. Originated loans and receivables comprise loans and advances to customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. This include certain investment securities held by the Bank.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

Initial recognition
Financial instruments are measured initially at cost, which should equal its fair values, when purchased or originated by the Bank.

If the transaction is not based on market terms, or if a market price cannot be readily determined, then an estimate of future cash payments or receipts, discounted using the current market interest rate for a similar financial instrument, should be used to approximate the fair value. The difference between the fair value of the financial instruments and the consideration given or received is recognised directly in the income statement unless it qualifies for recognition as financial asset/liability under another applicable IFRS.

Subsequent measurement

Subsequent to initial recognition, all trading instruments and all available-for-sale assets are measured at fair market value, except that any instrument that does not have a quoted market price in an active market and whose fair market value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognised in the income statement and directly in equity, respectively.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(e) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits and placements with banks and other financial institutions and balances with Bank of Mongolia.

(f) Loans and advances

Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are reported net of allowances to reflect the estimated recoverable amounts (refer to accounting policy (j)).

(g) Property, plant and equipment

(i) Cost

Property, plant and equipment are stated at cost/valuation less accumulated depreciation (refer below) and impairment losses (refer to accounting policy (j)). The initial cost of an item of property, plant and equipment comprises its purchase price, including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

The Bank revalues its property, plant and equipment frequently enough to ensure that the fair value of revalued assets does not differ materially from its carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement.

(ii) Depreciation

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

buildings	40 years
office equipments and motor vehicles	10 years
computers	5 years

(h) Construction in progress

Construction in progress represents the cost of construction of new buildings and premises, which have not been fully completed or installed. No depreciation is provided for construction in progress during the period of construction.

(i) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated impairment losses (refer Note 1(j)).

(ii) Cost

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation (refer below) and impairment losses (refer to Note 1 (j)).

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful live is as follows:-

Software and licenses	5 years

(j) Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

(i) Originated loans and advances

Loans and advances are presented net of allowances for uncollectability. Allowances are made against the carrying amount of loans and advances that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and advances to their recoverable amount. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

(ii) Assets other than loans and advances

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised in the income statement.

(k) Repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

Non-trading financial liabilities

Non-trading financial liabilities include deposits from customers and from other financial institutions, interest-bearing borrowings and other amounts payable. Non-trading financial liabilities are initially stated at cost. Subsequent to the initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of income over the period of the instrument on an effective interest basis.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability.

Revenue

Interest income

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense include the amortisation of any discount or premium or other differences between the carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee income and commission

Fee and commission income is charged to customers for the financial services provided. Fee and commission income is recognised when the corresponding service is provided.

Rental income

Rental income from leased property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates approved at balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates approved at balance sheet date. Deferred tax assets are recognised in the financial statements only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits

Defined contribution plan

Employee benefits include statutory social insurance payments to the State Social Insurance Scheme. Contributions to this defined contribution plan are recognised as an expense in the income statement as incurred.

Cash and cash equivalents

	2005 MNT'000	2004 MNT'000
Cash on hand	11,771,646	12,190,256
Deposits and placements with banks and other financial institutions	62,183,406	43,577,199
Balances with Bank of Mongolia	8,826,580	5,209,340
	82,781,632	**60,976,795**

Balances are maintained with the Bank of Mongolia in accordance with the Bank of Mongolia's requirements and bear no interest. Balances are determined based on average deposits and liabilities balances.

Investment securities – held-to-maturity

	2005 MNT'000	2004 MNT'000
Bank of Mongolia Treasury bills	43,937,244	1,661,914
Government securities	-	16,681,125
Promissory notes	2,607,173	5,640,804
	46,544,417	**23,983,843**
Accretion of discounts	80,260	1,153
Allowance for impairment loss	(26,072)	(55,880)
	46,598,605	**23,929,116**

Loans and advances

	2005 MNT'000	2004 MNT'000
Loans and advances to customers	168,493,508	96,373,216
Loans to staff	417,042	370,515
	168,910,550	**96,743,731**
Allowances for loan losses	(12,183,074)	(9,711,851)
Net loans and advances	**156,727,476**	**87,031,880**

Included in the gross balance of loans and advances is an amount of non-performing loans of MNT12,239,185,000 (2004: MNT9,154,703,000).

Loans and advances (continued)

i) Movements in the allowance for loan losses during the year are as follows:

	Total MNT'000
Allowance for loan losses	
At 1 January 2004	9,755,753
Charge for the year	4,252,831
Written back	(4,641,061)
Written off	(45,591)
Exchange difference	**389,919**
At 31 December 2004 / 1 January 2005	9,711,851
Charge for the year	3,352,912
Written back	(203,130)
Written off	(290,354)
Exchange difference	**(388,205)**
At 31 December 2005	**12,183,074**

ii) Loans and advances can be analysed by industry as follows:

	2005 MNT'000	2004 MNT'000
Agriculture	6,812,569	12,721,920
Mining and quarring	18,778,249	15,219,859
Manufacturing	20,649,339	17,695,088
Petrol import and trade	18,540,848	9,773,679
Trading	18,683,173	8,045,353
Construction	15,521,553	7,903,724
Electricity and thermal energy	1,521,645	484,804
Hotel and tour	1,497,552	1,802,278
Financial services	20,995,950	4,861,223
Transportation	19,619,960	2,482,036
Individuals	20,262,303	11,697,350
Others	6,027,409	4,056,417
	168,910,550	**96,743,731**

Others include borrowers in insurance, education and etc.

Property, plant and equipment

	Buildings MNT'000	Office equipments and motor vehicles MNT'000	Computers MNT'000	Construction in progress MNT'000	Total MNT'000
At cost/valuation					
At cost	791,018	1,049,269	1,620,060	-	3,460,347
At valuation	5,379,808	1,039,121	424,436	-	6,843,365
At 1 January 2005	**6,170,826**	**2,088,390**	**2,044,496**	**-**	**10,303,712**
Additions	468,504	353,963	335,013	198,502	1,355,982
Disposals	(85,581)	(68)	(762)	-	(86,411)
Elimination against					
accumulated depreciation	(906,140)	(1,140,796)	(1,428,328)	-	(3,475,264)
Revaluation surplus/ (deficit)	1,596,302	53,148	(11,576)	-	1,637,874
At 31 December 2005	**7,243,911**	**1,354,637**	**938,843**	**198,502**	**9,735,893**
Representing items at:					
Cost	-	-	-	198,502	198,502
Directors' valuation	7,243,911	1,354,637	938,843	-	9,537,391
	7,243,911	**1,354,637**	**938,843**	**198,502**	**9,735,893**
Accumulated depreciation					
At 1 January 2005	753,456	916,263	1,048,730	-	2,718,449
Charge for the year	159,402	224,550	379,598	-	763,550
Disposals	(6,718)	(17)	-	-	(6,735)
Elimination against cost	(906,140)	(1,140,796)	(1,428,328)	-	(3,475,264)
At 31 December 2005	**-**	**-**	**-**	**-**	**-**
Net book value					
At 31 December 2005	7,243,911	1,354,637	938,843	198,502	9,735,893
At 31 December 2004	**5,417,370**	**1,172,127**	**995,766**	**-**	**7,585,263**
Depreciation charge for year ended					
31 December 2004	**154,160**	**193,617**	**341,069**	**-**	**688,846**

Property, plant and equipment (continued)
Details of the latest independent professional valuations of property, plant and equipments valued by Asset Valuation Centre LLC are as follows:

Date of valuation	Description of property	Valuation amount MNT'000	Basis of valuation
31 December 2005	All property, plant and equipment	9,735,893	Market value

Had the revalued property, plant and equipment been carried at historical cost less accumulated depreciation, the net book value of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	2005 MNT'000	2004 MNT'000
Buildings	3,119,776	2,071,526
Office equipments and motor vehicles	1,287,074	483,050
Computers	**950,417**	**-**

7. INTANGIBLE ASSETS

	Software and licenses MNT'000	Goodwill	Total
Cost	**MNT'000**	**MNT'000**	**MNT'000**
Opening balance	543,881	228,683	772,564
Addition during the year	107,796	-	107,796
Closing balance	**651,677**	**228,683**	**880,360**
Amortisation/Impairment losses			
Opening balance	169,013	-	169,013
Amortisation charge for the year	98,258	-	98,258
Impairment losses	-	228,683	228,683
Closing balance	**267,271**	**228,683**	**495,954**
Net book value			
At 31 December 2005	384,406	-	384,406
At 31 December 2004	**374,868**	**228,683**	**603,551**

8. OTHER ASSETS

	2005 MNT'000	2004 MNT'000
Precious metals	3,035,714	1,496,014
Accrued interest receivables	2,113,318	1,772,605
Prepaid expenses	271,745	265,918
Inventory supplies	199,438	172,693
Foreclosed properties	38,091	129,341
Other receivables	891,955	310,056
	6,550,261	**4,146,627**

8. OTHER ASSETS (CONTINUED)

Foreclosed properties and other receivables are presented net of impairment losses amounting to MNT360,027,000 (2004: MNT2,363,615,000). During the year, foreclosed properties amounting to MNT710,639,000 (2004: MNT23,345,000) was written off against impairment losses.

9. DEPOSITS FROM CUSTOMERS

	2005 MNT'000	2004 MNT'000
Current accounts	153,568,960	91,790,082
Savings deposits	26,490,633	16,706,309
Time deposits	44,041,822	25,459,439
Other deposits	2,131,780	1,417,891
	226,233,195	**135,373,721**

Current account deposits and other deposits generally bear no interest. However, for depositors maintaining current account balances above a prescribed limit, interest is provided at rates of approximately 1% and 3% (2004: 1% and 3%) per annum for foreign and local currencies accounts, respectively.

Foreign and local savings deposits bear interest at a rate of approximately 1.8% and 6.2% (2004: 1.8% and 6%), respectively.

Foreign currency and local currency time deposits bear interest at a rate of approximately 5.4% and 15.7% (2004: 4.75% and 15.1%), respectively.

10. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005 MNT'000	2004 MNT'000
Current account deposits:		
Foreign currency deposits	10,698,224	3,231,909
Local currency deposits	20,234	45,041
Foreign currency cheques for selling	51,367	42,464
	10,769,825	**3,319,414**

11. LOANS FROM FOREIGN FINANCIAL INSTITUTIONS

	2005 MNT'000	2004 MNT'000
Kreditanstalt fuer Wiederaufbau ("KfW")	3,741,036	6,329,225
World Bank Loan I	2,069,790	2,891,956
World Bank Loan II	384,000	522,147
World Bank Loan III	399,289	398,618
Asian Development Bank ("ADB")	166,392	182,739
International Development Association ("IDA")	742,280	727,864
Export-Import Bank of the Republic of China	51,590	-
Donau Bank	4,888,884	-
	12,443,261	**11,052,549**

Kreditanstalt fuer Wiederaufbau (KfW)
The KfW loan amounting to EUR2.6 million (2004: EUR3.8 million) is obtained via Bank of Mongolia for the purpose of providing financing to various customers at preferential interest rates. The interest rate is fixed at an annual rate of 1.75%, of which 0.75% is payable to KfW and 1% to Bank of Mongolia. Principal repayment is on a semi-annual basis, which commenced in December 2001.

World Bank Loan I
The World Bank USD loan amounting to USD1.7 million (2004: USD2.4 million) is obtained via the Ministry of Finance and Economy. This is to channel funds to various borrowers under the Private Sector Development Credit Programme. The loan bears interest at rate of LIBOR 6 months USD rate + 3% per annum (2004: LIBOR 6 months USD rate + 3% per annum). The loan is repayable on a quarterly basis with the final repayment due in September 2010.

World Bank Loan II
The World Bank MNT loan is obtained via the Ministry of Finance and Economy. The loan is channeled to various borrowers under the Private Sector Development Credit Programme. The loan bears interest at rate of LIBOR 6 months USD rate + 3% per annum + a margin equal to the last 12 months moving average changes in prices (C.P.I) + a margin to cover the foreign exchange risk (2004: LIBOR 6 months USD rate + 3% per annum + a margin equal to the last 12 months moving average changes in prices (C.P.I) + a margin to cover the foreign exchange risk). The loan is repayable on a quarterly basis with the final repayment due in December 2008.

World Bank Loan III
The World Bank Training Program loan amounting to USD298,000 (2004: USD329,000) is obtained via the Ministry of Finance and Economy in 2003 for the purpose of financing the Bank's implementation of institutional development programme, including credit management system renewal, staff training, provision of equipment and consultants' services. The loan bears interest at a fixed rate of 2% per annum (2004: 2% per annum). The loan is repayable semi-annually or quarterly until final repayment due in December 2024.

Asian Development Bank ("ADB")
The ADB loan amounting to USD136,000 (2004: USD151,000) is obtained via Bank of Mongolia for accounting information system upgrading purpose. The loan is interest free and is repayable in 30 annual instalments commenced from year 2002.

International Development Association ("IDA")
The IDA loan amounting to USD581,000 (2004: USD581,000) is to finance the Twinning Agreement with Norwegian Banking Resources Ltd ("NBR") where NBR will transfer operational knowledge and technical skills to the Bank. Principal repayments will commence in August 2007 with the final repayment due in February 2037.

Export-Import Bank of the Republic of China ("EXIM Bank of China")
The EXIM Bank of China loan amounting to USD41,000 is to onlend to various borrowers to finance their purchases of machinery and other manufactured goods from Republic of China manufacturers. The loan bears interest at rate of LIBOR 6 months USD rate + 1.25% per annum and is repayable semi-annually commencing in February 2006.

Donau Bank
The Donau Bank loan amounting to USD4 million is to on lend to a borrower under the Participation Agreement entered into between Donau Bank and the Bank on 28 December 2005. The loan bears fixed interest rate of 9% per annum and the Bank shall pay to Donau Bank a participation fee of 0.2% on USD 4 million. Under the Participation Agreement, Donau Bank is at its sole risk and have no right of recourse against the Bank for any loss it incurs as a result of default by the borrower. Principal repayment will commence in April 2006 and the final repayment will be in June 2007.

12. SUBORDINATED LOAN

	2005 MNT'000	2004 MNT'000
Loan from Asian Development Bank ("ADB")	5,494,500	5,440,500
Loan from International Finance Corporation ("IFC")	4,273,500	4,231,500
	9,768,000	**9,672,000**

The objective of the loan from ADB and IFC amounting to USD4,500,000 and USD3,500,000 is to strengthen the Bank's capital base, operational abilities and to assist the Bank to be a well managed commercial bank according to the international best practices. The loan is utilised for new product development and new lending initiatives. The loan bears interest at rate of LIBOR + 7% per annum. The loan is to be repaid in full on 15 December 2009.

13. OTHER LIABILITIES

	2005 MNT'000	2004 MNT'000
Foreign remittance under request	594,084	251,450
Delay on clearing settlement	1,332,615	616,749
Other payables	2,944,997	1,074,781
	4,871,696	**1,942,980**

Included in other payables is an amount of MNT1,282,050 due to a counterparty in relation to a matured spot contract.

Share capital

	Number of ordinary shares of MNT2,000 each		Amount	
	2005	2004	2005 MNT'000	2004 MNT'000
At 1 January	2,575,346	1,000,000	5,150,691	2,000,000
Issued during the year	728,393	575,346	1,456,786	1,150,691
Capitalisation of retained earnings	-	1,000,000	-	2,000,000
At 31 December	**3,303,739**	**2,575,346**	**6,607,477**	**5,150,691**

During the year, the Bank issued 728,393 new ordinary shares of MNT2,000 each through private placements for a total consideration of MNT6,082,387,000. The share premium arising from the private placements are credited to the share premium account.

15. INTEREST INCOME

	2005 MNT'000	2004 MNT'000
Loans and advances	18,717,654	13,738,295
Investment securities	1,350,013	1,686,112
Deposits and placements with banks and financial		
other financial institutions	1,806,047	708,800
Sale and repurchase agreements	18,730	29,914
	21,892,444	**16,163,121**

16. INTEREST EXPENSE

	2005 MNT'000	2004 MNT'000
Deposits from customers	4,926,998	3,703,760
Loans from foreign financial institutions	346,412	378,936
Subordinated loans	1,005,384	23,624
Sale and repurchase agreements	12,627	155,428
	6,291,421	**4,261,748**

17. NET FEES AND COMMISSIONS INCOME

	2005 MNT'000	2004 MNT'000
Fees and commissions income	3,854,291	2,828,987
Fees and commissions expenses	(270,598)	(225,966)
	3,583,693	**2,603,021**

Net fees and commissions income includes commission on letters of credit and guarantee, money transfer service charges, credit card service fees and charges, current account withdrawal charges etc.

Other operating income

	2005 MNT'000	2004 MNT'000
Foreign exchange and translation gains, net	3,277,933	2,704,496
Rental income	100,527	110,415
Recoveries from loans written-off	-	226,211
Other operating income	106,904	117,098
	3,485,364	**3,158,220**

Operating expenses

Included in operating expenses are:

	2005 MNT'000	2004 MNT'000
Staff costs	2,910,571	2,066,255
ING technical assistance fees	1,989,280	2,488,350
Depreciation on property, plant and equipment	763,550	688,846
Amortisation on intangible assets	98,258	125,545
Maintenance of property, plant and equipment	96,951	60,329
Rental expense	**315,286**	**272,299**

20. ALLOWANCE FOR IMPAIRMENT LOSSES

	2005 MNT'000	2004 MNT'000
Investment securities	(29,808)	27,964
Allowance/(Write back) for loan losses, net	3,149,782	(388,230)
Intangible assets	228,683	-
(Write back)/Allowance for other assets	(1,292,949)	1,934,949
Letters of credit and guarantee	36,918	5,895
	2,092,626	**1,580,578**

21. CORPORATE INCOME TAX

Recognised in the income statement:

	2005 MNT'000	2004 MNT'000
Current tax expense	**2,943,258**	**2,033,343**

21. CORPORATE INCOME TAX (CONTINUED)

Reconciliation of effective tax rate

	2005 MNT'000	2004 MNT'000
Profit before tax	**10,321,931**	**7,390,130**
Tax at income tax rate of 30%	3,096,579	2,217,039
Tax effect of non-deductible expenses	121,547	85,435
Tax effect of non-taxable income	(259,868)	(254,131)
Tax effect of progressive tax rate of 15% (2004: 15%) on the portion of taxable income up to MNT100 million	(15,000)	(15,000)
Income tax expense	**2,943,258**	**2,033,343**

The calculation of income tax is subject to the review and approval of the tax authorities.

According to Mongolian Tax Laws, the Bank has an obligation to pay the Government Income Tax at the rate of 15% (2004: 15%) of the portion of taxable profits up to MNT100 million and 30% (2004: 30%) of the portion of taxable profits above MNT100 million.

22. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

The Bank has a controlling related party relationship with Globull Investment and Development (SCA), a joint venture company between Banca Commerciale Lugano of Switzerland and Gerald Metals, Inc. of Stamford incorporated in Luxembourg.

The Bank also has a related party relationship with its executive officers.

22. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

During the year, the Bank had the following transactions with related parties:

	2005 MNT'000	2004 MNT'000
i) Interest income from Gerald Metals, Inc.	**157,062**	**46,086**
ii) Loans to executive officers	57,863	86,814
Allowance for loan losses	(579)	(868)
	57,284	**85,946**

The loans to executive officers are included in loans and advances of the Bank (see note 5).

Total remuneration to the executive officers for the year amounted to MNT212,159,676 (2004: MNT135,102,322).

23. CAPITAL ADEQUACY

The Bank of Mongolia requires banks to maintain a minimum capital adequacy ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. As at 31 December 2005, the Bank's core capital ratio and risk weighted capital ratio are 16.00% (2004: 13.50%) and 23.05% (2004: 22.38%) respectively.

23. CAPITAL ADEQUACY (CONTINUED)

Components of Tier I and Tier II capital:

	2005 MNT'000	2004 MNT'000
Tier I capital		
Share capital	6,607,477	5,150,691
Share premium	7,375,322	2,749,721
Retained earnings	19,077,657	11,677,497
Foreign currency risk	-	(88,419)
Total Tier I capital	**33,060,456**	**19,489,490**
Tier II capital		-
Revaluation surplus	4,780,582	3,152,619
Subordinated loans	**9,768,000**	**9,672,000**
Total Tier II capital	**14,548,582**	**12,824,619**
Total Tier I and Tier II capital	47,609,038	32,314,109

Breakdown of risk weighted assets as follows:

Risk weighted factor (%)	2005 MNT'000	2004 MNT'000
0	-	-
10	-	-
20	11,626,294	7,338,095
50	8,374,041	6,847,698
100	186,544,298	130,216,714
Total	**206,544,633**	**144,402,507**

24. RISK MANAGEMENT DISCLOSURE

(i) Derivatives

The Bank maintains strict control limits on net open derivative positions, ie the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (ie assets), which in relation to derivatives is only a small portion of the contracts used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with borrowers, together with potential exposures from market movements. Collateral or other securities are not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

(ii) 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.

(iii) Liquidity risk

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. 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. RISK MANAGEMENT DISCLOSURE (CONTINUED)

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment:

As at 31 December 2005

	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000	Total MNT'000
Financial assets						
Cash on hand	11,771,646	-	-	-	-	11,771,646
Deposits and placements with banks and other financial institutions	62,183,406	-	-	-	-	62,183,406
Balance with the Bank of Mongolia	8,826,580	-	-	-	-	8,826,580
Investment securities - held-to-maturity	44,855,627	1,742,978	-	-	-	46,598,605
Loans and advances	11,434,520	25,764,199	59,203,544	56,809,508	3,515,705	156,727,476
Other assets	6,550,261	-	-	-	-	6,550,261
	145,622,040	**27,507,177**	**59,203,544**	**56,809,508**	**3,515,705**	**292,657,974**
Financial liabilities						
Deposits from customers	198,814,213	12,532,912	13,814,167	1,071,903	-	226,233,195
Deposits and placements of banks and other financial institutions	10,769,825	-	-	-	-	10,769,825
Loans from foreign financial institutions	412,148	-	173,955	10,639,299	1,217,859	12,443,261
Subordinated loans	-	-	-	9,768,000	-	9,768,000
Other liabilities	4,871,696	-	-	-	-	4,871,696
	214,867,882	**12,532,912**	**13,988,122**	**21,479,202**	**1,217,859**	**264,085,977**
Net financial assets/(liabilities)	(69,245,842)	14,974,265	45,215,422	35,330,306	2,297,846	28,571,997
Cumulative total	**(69,245,842)**	**(54,271,577)**	**(9,056,155)**	**26,274,151**	**28,571,997**	

24. RISK MANAGEMENT DISCLOSURE (CONTINUED)

As at 31 December 2004

	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000	Total MNT'000
Financial assets						
Cash on hand	12,190,256	-	-	-	-	12,190,256
Deposits and placements with banks and other financial institutions	43,069,419	-	507,780	-	-	43,577,199
Balance with the Bank of Mongolia	5,209,340	-	-	-	-	5,209,340
Investment securities – Held-to-maturity	13,251,073	10,678,043	-	-	-	23,929,116
Loans and advances	22,139,281	23,779,243	29,895,873	10,619,463	598,020	87,031,880
Other assets	4,146,627	-	-	-	-	4,146,627
	100,005,996	**34,457,286**	**30,403,653**	**10,619,463**	**598,020**	**176,084,418**
Financial liabilities						
Deposits from customers	121,720,148	6,367,409	7,286,164	-	-	135,373,721
Deposits and placements of banks and other financial institutions	3,319,414	-	-	-	-	3,319,414
Loans from foreign financial institutions	181,904	1,710,707	1,519,927	6,575,224	1,064,787	11,052,549
Subordinated loans	-	-	-	9,672,000	-	9,672,000
Other liabilities	1,942,980	-	-	-	-	1,942,980
	127,164,446	**8,078,116**	**8,806,091**	**16,247,224**	**1,064,787**	**161,360,664**
Net financial (liabilities)/assets	**(27,158,450)**	**26,379,170**	**21,597,562**	**(5,627,761)**	**(466,767)**	**14,723,754**
Cumulative total	**(27,158,450)**	**(779,280)**	**20,818,282**	**15,190,521**	**14,723,754**	

24. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(iv) 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.

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.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Committee.

The table below summarises repricing mismatches on the Bank's financial assets and liabilities at the balance sheet date. The carrying amounts of interest rate sensitive assets and liabilities are presented in the periods in which their next reprice to market rate or mature, and are summed to show the interest rate sensitivity gap.

24. RISK MANAGEMENT DISCLOSURE (CONTINUED)

As at 31 December 2005

	Effective interest rate %	Total MNT'000	Non-interest sensitive MNT'000	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000
Financial assets								
Cash on hand	-	11,771,646	11,771,646	-	-	-	-	-
Deposits and placements with banks and other financial institutions	3.56	62,183,406	-	62,183,406	-	-	-	-
Balances with Bank of Mongolia	-	8,826,580	8,826,580	-	-	-	-	-
Investment securities	5.03	46,598,605	-	44,855,628	1,742,977	-	-	-
Loans and advances	16.81	156,727,476	-	11,434,520	25,764,199	59,203,544	56,809,508	3,515,705
Other assets	-	6,550,261	6,550,261	-	-	-	-	-
		292,657,974	**27,148,487**	**118,473,554**	**27,507,176**	**59,203,544**	**56,809,508**	**3,515,705**
Financial liabilities								
Deposits from customers	3.20	226,233,195	5,993,823	192,820,390	12,532,912	13,814,167	1,071,903	-
Deposits and placements of banks and other financial institutions	-	10,769,825	10,769,825	-	-	-	-	-
Loans from foreign financial institutions	5.79	12,443,261	-	-	2,488,263	51,590	908,672	8,994,736
Subordinated loans	11.25	9,768,000	-	9,768,000	-	-	-	-
Other liabilities	-	4,871,696	4,871,696	-	-	-	-	-
		264,085,977	**21,635,344**	**202,588,390**	**15,021,175**	**13,865,757**	**1,980,575**	**8,994,736**
Net financial assets/(liabilities)		**28,571,997**	**5,513,143**	**(84,114,836)**	**12,486,001**	**45,337,787**	**54,828,933**	**(5,479,031)**

RISK MANAGEMENT DISCLOSURE (CONTINUED)

As at 31 December 2004

	Effective interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
		MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets								
Cash on hand	-	12,190,256	12,190,256	-	-	-	-	-
Deposits and placements with banks and other financial institutions	1.99	43,577,199	-	43,069,419	-	507,780	-	-
Balances with Bank of Mongolia	-	5,209,340	5,209,340	-	-	-	-	-
Investment securities – held-to-maturity	4.80	23,929,116	-	13,251,073	10,678,043	-	-	-
Loans and advances	19.88	87,031,880	-	22,139,281	23,779,243	29,895,873	10,619,463	598,020
Other assets	-	4,146,627	4,146,627	-	-	-	-	-
		176,084,418	21,546,223	78,459,773	34,457,286	30,403,653	10,619,463	598,020
Financial liabilities								
Deposits from customers	3.12	135,373,721	7,935,288	113,784,860	6,367,409	7,286,164	-	-
Deposits and placements of banks and other financial institutions	-	3,319,414	3,319,414	-	-	-	-	-
Loans from foreign financial institutions	4.98	11,052,549	-	-	3,414,103	-	910,603	6,727,843
Subordinated loans	10.00	9,672,000	-	9,672,000	-	-	-	-
Other liabilities	-	1,942,980	1,942,980	-	-	-	-	-
		161,360,664	13,197,682	123,456,860	9,781,512	7,286,164	910,603	6,727,843
Net financial assets/ (liabilities)		14,723,754	(8,348,541)	(44,997,087)	24,675,774	23,117,489	9,708,860	(6,129,823)

24. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(v) Foreign 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. These limits also comply with the minimum requirements of the Bank of Mongolia.

The Bank's transactional exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency. These exposures are as follows:

	31 December 2005			31 December 2004		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash on hand	5,319,365	6,452,281	11,771,646	3,350,750	8,839,506	12,190,256
Deposits and placements with banks and other financial institutions	2,126,162	60,057,244	62,183,406	-	43,577,199	43,577,199
Balances with Bank of Mongolia	6,957,719	1,868,861	8,826,580	2,533,813	2,675,527	5,209,340
Investment securities – held-to-maturity	44,017,504	2,581,101	46,598,605	2,059,067	21,870,049	23,929,116
Loans and advances	38,879,266	117,848,210	156,727,476	33,518,309	53,513,571	87,031,880
Other assets	2,216,292	4,333,969	6,550,261	1,401,018	2,745,609	4,146,627
	99,516,308	193,141,666	292,657,974	42,862,957	133,221,461	176,084,418
Financial liabilities						
Deposits from customers	67,478,176	158,755,019	226,233,195	39,758,121	95,615,600	135,373,721
Deposits and placements of banks and other financial institutions	20,234	10,749,591	10,769,825	45,041	3,274,373	3,319,414
Loans from foreign financial institutions	384,000	12,059,261	12,443,261	522,147	10,530,402	11,052,549
Subordinated loans	-	9,768,000	9,768,000	-	9,672,000	9,672,000
Other liabilities	603,458	4,268,238	4,871,696	527,603	1,415,377	1,942,980
	68,485,868	195,600,109	264,085,977	40,852,912	120,507,752	161,360,664
Net financial assets/(liabilities)	31,030,440	(2,458,443)	28,571,997	2,010,045	12,713,709	14,723,754

25. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

As there is no active market for a large part of the Bank's financial instruments, judgement is necessary in estimating fair value, based on current economic conditions and specific risk attributable to the instrument. Based on these estimates, fair value of financial assets and liabilities are considered to not differ significantly from their carrying amount. The following methods and assumptions are used in estimating the fair value of financial instruments:

25. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(i) Loans and advances

The fair value of the loan portfolio is based on the credit and interest rate characteristics of each individual loan. The estimation of the allowance for loan losses includes consideration of risk premium applicable to various types of loans based on factors such as the current situation of the borrower and collateral obtained. Accordingly, the allowance for loan losses is considered a reasonable estimate of the discount required to reflect the impact of the credit risk. The carrying amount of loans is a reasonable estimate of their fair value.

(ii) Deposits from customers

For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. As most of the deposits matures or reprices in less than one year and the rates offered by the Bank are similar to the market rate, the carrying amount of deposits is considered to be a reasonable estimate of fair value.

(iii) Other financial assets and financial liabilities

The majority of other financial assets and financial liabilities of the Bank matures or reprices in less than one year. Accordingly, their fair values do not significantly differ from their respective carrying amounts.

26. COMMITMENT AND CONTINGENT LIABILITIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of less than one year. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions. The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2005 MNT'000	2004 MNT'000
Letters of credit and guarantees	12,352,800	7,187,852
Loan and credit card commitments	13,669,300	8,980,000

These commitments and contingent liabilities have off balance-sheet credit risk because only accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

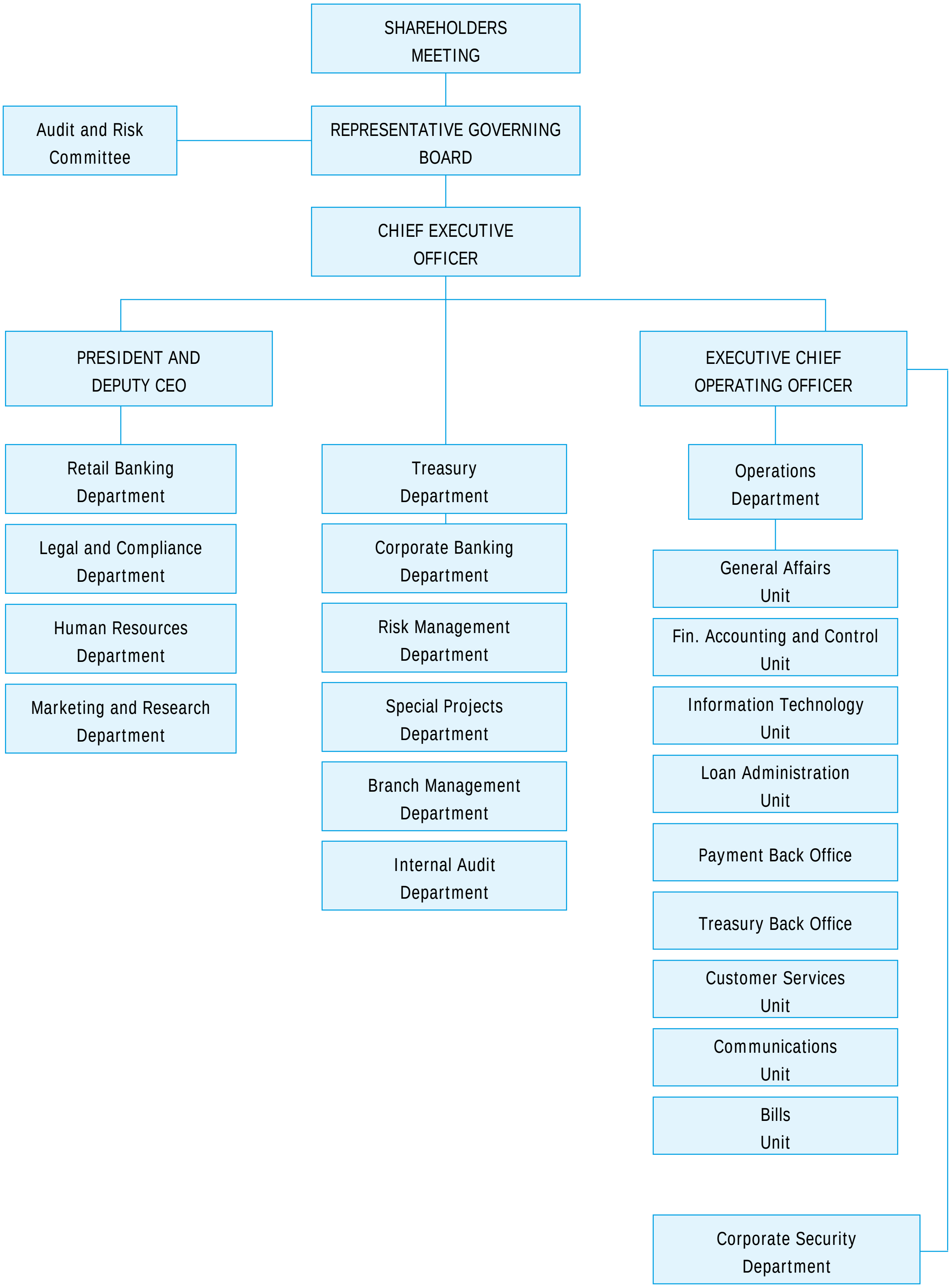
27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

28. 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.

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS

Corporate Banking
Director
Ch. Sainbileg

Retail Banking
Director
B. Erdenesanaa

Chief Operating
Officer
B. Javkhlan

Treasury
Director
J. Bataa

Marketing
Director
M. Bayarmagnai

Internal Audit
Director
D. Bayarmaa

Corporate Security
Director
D. Davaatulga

Risk Management
Director
U. Odonsuren

Deputy Executive
Director
I. Roussine

Legal and Compliance
Director
Sh. Enkhtur

Branch Management
Director
D. Enkhtogtoh

Chief Financial
Officer
G. Munkhbayar

Head of Information
Technology Unit
E. Enkhbold

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www.tdbm.mn, www.ebank.mn,
www.bankcard.mn,
www.cardcentre.mn,
www.mongolianbusinessguide.mn

DORNOD Branch
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Fax: (976-01582) 23632

SELENGE Branch
Sukhbaatar sum, Selenge aimag
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Fax: (976-01362) 23076

DARKHAN Branch
Darkhan sum, Darkhan-Uul aimag
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Fax: (976-01372) 37761

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Ulaanbaatar
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Bayangol District
Ulaanbaatar
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Fax: 976-21-244818

BOGDKHAN Branch
Chinggis Avenue 10
Khan-Uul District
Ulaanbaatar
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Fax: 976-11-341295

ERDENET Branch
Bayan-Undur sum, Orkhon aimag
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Sainshand sum, Dornogovi aimag
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Baga toiruu -17
Chingeltei Duureg
Ulaanbaatar
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Fax: 976-11-311994

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Zamiin Uud sum, Dornogovi aimag
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Fax: (976-015245) 21168

ZUUN KHARAA Branch
Mandal sum, Selenge aimag
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Fax: (976-023647) 43903

URGUU Branch
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Bayangol District
Ulaanbaatar
Tel: 976-11-361968
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Bayanzurkh District
Ulaanbaatar
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Songinokhairkhan district
Ulaanbaatar
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Sukhbaatar District
Ulaanbaatar
Tel: 976-11-310386
Fax: 976-11-318765

CORRESPONDENT BANKS

No.	Bank Name	Country	Swift Address	Currency
1	AGRICULTURAL BANK OF CHINA	ERLIAN, INNER MONGOLIA, CHINA	ABOCCNBJ050	USD
2	AMERICAN EXPRESS BANK LTD.	NEW YORK, USA	AEIBUS33	USD
3	CITIBANK N.A.,	NEW YORK, USA	CITIUS33	USD
4	HSBC BANK USA	NEW YORK, USA	MRMDUS33	USD
5	INTERNATIONAL MOSCOW BANK	MOSCOW, RUSSIA	IMBKRUMM	USD
6	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	USD
7	CHINA CONSTRUCTION BANK	ERLIAN, INNER MONGOLIA, CHINA	PCBCCNBJNME	USD
8	COMMERZBANK AG	FRANKFURT AM MAIN	COBADEFF	EUR
9	DRESDNER BANK AG	FRANKFURT AM MAIN	DRESDEFF	EUR
10	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010	EUR
11	CREDIT SUISSE FIRST BOSTON	ZURICH	CRESCHZZ80A	CHF
12	BANK OF TOKYO-MITSUBISHI LTD	TOKYO	BOTKJPJT	JPY
13	HSBC BANK PLC LONDON	LONDON	MIDLGB22	GBP
14	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	KRW
15	AGRICULTURAL BANK OF CHINA	ERLIAN, INNER MONGOLIA, CHINA	ABOCCNBJ050	CNY
16	CHINA CONSTRUCTION BANK	ERLIAN, INNER MONGOLIA, CHINA	PCBCCNBJNME	CNY
17	HSBC BANK AUSTRALIA LMT.	SYDNEY	HKBAAU2S	AUD
18	HSBC BANK CANADA	TORONTO	HKBCCATT	CAD
19	INTERNATIONAL MOSCOW BANK	MOSCOW	IMBKRUMM	RUB
20	HSBC, NEW ZEALAND	AUCKLAND	HSBCNZ2A	NZD
21	HANG SENG BANK LTD	HONG KONG	HASEHKHH	HKD