TRADE & DEVELOPMENT BANK

2006

Annual report

Content

Leading the market

16

Years

Message from the CEO

Randolph KOPPA
CEO

Dear Shareholders, Clients, Partners and Staff,

On behalf of the Executive Board, I am pleased to report the performance of Trade and Development Bank (TDB).

The results for 2006 convincingly demonstrate that TDB continues to develop as a leading corporate bank playing an important role in the national banking system as well as making a significant contribution to the economy of Mongolia.

After tax earnings were MNT 11 773.9 million–a growth of 59.6 percent compared to 2005. Assets grew 40.8 percent to MNT 426 292.1 million.

The Bank has a solid capital base supported by continuous strong performance and capital injections, with a capital adequacy ratio of 18.5 percent at 31 December 2006. This is comfortably above the Central Bank requirement of 10 percent, and the capital represents 21 percent of the capital in the banking sector. Growth in capital allows the Bank to further expand its operations and meet growing demand of its clients.

While continuing to develop its corporate business, the Bank has strengthened its position as a leading lender to the national economy. TDB's corporate loan portfolio increased by 50.3 percent in 2006 reaching MNT 188 321million.

Total volume of credit lines for trade finance activities opened for the Bank by foreign financial institutions tripled reaching USD 86 million, and the Bank concluded a range of agreements on export and import financing. The Bank has become the first Mongolian bank to be included in the Global Trade Finance Program managed by the International Finance Corporation (IFC). China Export & Credit Insurance Corporation SINOSURE extended a 3–year USD 27 million line to support trade transactions between China and Mongolia.

The Bank participates in various on–lending programs to support the private sector and Small and Medium Enterprises (SME) development and environmental protection projects funded by the World Bank and Japan Bank for International Cooperation (JBIC).

A Memorandum of Understanding (MOU) agreement with Korea Development Bank (KDB) was signed in November 2006 covering the development of business cooperation between the two institutions across a broad range of businesses including syndicated loans, project finance, trade finance, natural resource development and other related corporate businesses.

The Bank is placing increased emphasis on retail banking, growing commercial lending, improving its distribution channels and developing high technology banking products. The Retail loan portfolio increased by 37.2 percent reaching MNT 39 831 million. Saving deposits grew by 57.1 percent amounting MNT 123 430.4 million.

The bank is determined to maintain its leading position in card related products by improving existing features of cards and introducing new products. 2006 was a record breaking year in terms of card issuing volume with more than 27000 new bank cards issued and total number reaching 76000, a 56 percent growth compared to the previous year. Besides a successful issuing year TDB has expanded its business range by becoming principal member of MasterCard.

The bank introduced into the Mongolian financial market several sophisticated products such as Bank IP POS, IP POS, E–billing, ShortMessage banking, Lady Card and co–branded card with MobiCom company. Moreover new treasury products– managed account and Singapore Dollar (SGD) account services were launched. Queue management system for the customer service convenience was implemented.

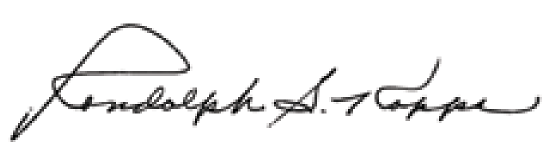
In 2006 TDB became the first bank in Mongolia rated by Moody's Investors Service. The assigned ratings for TDBM include B2 for long and short–term foreign currency deposit ratings, Ba2 for long and short–term local currency deposit ratings, Ba2 for long and short–term foreign currency issuer ratings, Ba2 for long and short–term local currency issuer ratings and D for Bank financial strength. Obtained credit ratings were above the country ceiling, which is an exceptional case.

Credit ratings from Moody's, one of the world leading agencies, improved recognisibility of TDB in international markets. This allowed TDB to successfully complete the first ever public placement of debt by a Mongolian bank in the international capital markets with a USD 75 million senior unsecured bond issue within a USD 150 million Euro Medium Term Notes (EMTN) Program arranged by ING Bank in January 2007.

Relying on the vast experience that TDB has accumulated, as well as on the strong positions that it has secured, we plan for the more distant future. In 2006 the Bank elaborated and approved its Strategy until the year 2009.

We also adopted a new personnel incentive and compensation system. We are convinced that the clarity of goals, motivation, unity and cohesion of our team are the key prerequisites for success in business.

We look forward into the future with optimism and remain convinced that the understanding and trust of our shareholders, partners, and clients will continue to serve as a solid foundation for the successful realization of all our plans.



Financial Highlights

In MNT millions	2004	2005	2006
Summary of Consolidated Statements of Income			
Interest income	16 163,1	21 892,4	36 037,3
Net interest income	11 901,4	15 601,0	21 448,4
Operating income	17 662,6	22 670,1	30 310,4
Net profit	5 356,8	7 378,7	11 773,9
Summary of Consolidated Balance Sheets			
Assets			
Cash and placements with banks and FIs	60 976,7	82 781,6	134 943,0
Loans, advances and securities	87 031,9	156 727,5	240 106,1
Other	36 264,6	63 269,2	51 243,0
Total assets	**184 273,2**	**302 778,3**	**426 292,1**
Liabilties			
Deposits from customers	135 373,7	226 233,2	324 669,4
Due to banks and FIs	14 372,0	23 213,1	36 041,2
Other liabilities	2 125,0	5 723,0	6 561,5
Subordinated loans	9 672,0	9 768,0	9 320,0
Total liabilities	**161 542,7**	**264 937,3**	**376 592,1**
Shareholders equity	22 730,5	37 841,0	49 700,0
Total liabilities and shareholders' equity	**184 273,2**	**302 778,3**	**426 292,1**
Prudential ratios			
Capital adequacy ratio (>10%)	27,0%	22,1%	18,5%
Liquidity ratio (>18%)	41,0%	49,7%	27,5%
Foreign currency exposure(<10%)	0,4%	0,6%	1,5%
Single borrower exposure/ Capital funds (<20%)	17,2%	19,8%	14,8%
Staff loans / Capital funds (<5%)	0,3%	0,1%	0,1%
Profitability ratios			
ROE	23,6%	19,5%	23,7%
ROA	2,9%	2,4%	2,8%

Highlights of the Year

- Corporate loan portfolio increased by 50.3 percent compared to 2005, reaching MNT 188 321 million.
- Retail loan portfolio increased by 37.2 percent from 2005, reaching MNT 39 831 million.
- SME department established separately from Corporate Banking Department (CBD).
- Saving deposit increased by 57.1 percent.
- The bank introduced into the Mongolian financial market several sophisticated products such as Bank IP POS, IP POS, E–billing, Principal Protected Service, ShortMessage banking, Lady Card, co–branded card with MobiCom, Queue management machine, SGD account services and managed account.
- TDB has became the first Mongolian bank to be included in the Global Trade Finance Program managed by IFC.
- Accepted as participating bank for China Export & Credit Insurance Corporation SINOSURE facility and was allocated USD 27 million line to support trade transactions between China and Mongolia.
- Trade finance lines from major international financial institutions increased to USD 86 million compared to USD 25 million the previous year.
- Accepted as participating bank for the JBIC two–step on–lending program for the SME development in Mongolia.
- Became the first bank in Mongolia to be rated by Moody's Investor Services.
- The Bank signed MOU agreement for Strategic Partnership in a broad range of businesses with the KDB.
- Entered into the "Bloomberg" system.
- Number of issued cards increased by 56 percent from 2005, reaching 76 000.
- The Bank became principal member of MasterCard.
- Merchant and agent bank network of VISA card business widened by signing of Khan bank as an agent bank.
- Card management system upgraded to launch revolving credit products into Mongolian market for the first time.
- TDB and VISA International joint summer tourist promotion was successfully organized.
- Received 2006 Quality Recognition Award from Citigroup for achieving a straight through processing rate.
- New branches "Gurvan gal" and "Seoul" opened.

Banking Sector Review

By the end of the December of 2006, money supply (M2) increased by MNT 396.4 billion or 34.8 percent from the previous year, reaching a level of MNT 1.5 trillion.

Annualized growth rates of money supply and its components (quasi money and M1) have been similar to the previous years. The majority of money supply growth has been provided by the growth of quasi money in recent years; in particular, main growth of money supply has been due to the increase in savings accounts. Quasi money reached to MNT 1.2 trillion, which is higher by MNT 333.6 billion or 38.3 percent from the same period of the previous year. The major component of quasi money growth has been MNT denominated deposits in recent years. It was caused by increasing confidence in national currency and higher rates on MNT deposits than on foreign currency savings.

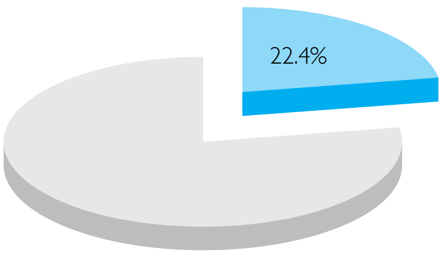
Total deposits increased by MNT 323.7 billion or 48.2 percent on the previous year to MNT 995.4 billion. Deposits of individuals increased by MNT 284.6 billion or 44.6 percent to MNT 923.0 billion. M1 increased by MNT 62.8 billion or 23.3 percent from the same period of last year reaching MNT 331.9 billion. 52.2 percent of annual growth in M1 came from change in currency outside banks and remaining 47.8 percent from change in current account balances.
Cash outside banks accounted for 75.5 percent of currency in circulation, which is lower by 3.9 percentage points from the same period of last year. Cash in circulation increased by MNT 53.4 billion or 27.9 percent from the same period of last year to MNT 245.1 billion.

On the asset side, net foreign assets comprised 73.4 percent of money supply and net domestic assets 26.6 percent. However, for the same period of last year, these ratios were each 50.0 percent respectively. This indicates faster growth of foreign assets.

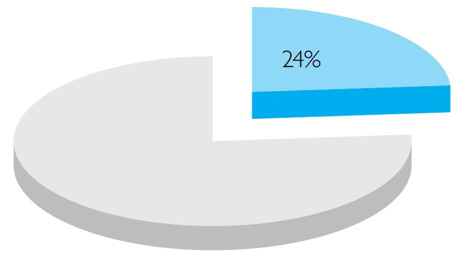
As of the end of the reporting year, loans to business entities and individuals were up by MNT 363.4 billion or 42.3 percent from the same period of last year, and by MNT 41.9 billion or 3.5 percent from the previous month, reaching MNT 1.2 trillion. Performing loans accounted for 92.4 percent of total loans, past due in arrears 2.7 percent, and non–performing loans 4.9 percent, respectively. According to classification of loans by type of borrowers, loans to the private sector made up 53.9 percent of total loans and to individuals 41.5 percent.

Weighted average rate of loans in MNT was 24.5 percent, which is lower by 2.7 percentage points from the previous month. Weighted average rate of loans in foreign currency increased by 1.1 percentage points to 15.5 percent. Compared to the same period of last year, weighted average rate on MNT loans decreased by 3.8 percentage points but on forex loans increased by 0.7 percentage points. Compared to the 2000, weighted average rate on togrog loans fell by 10.2 percentage points and on forex loans by 10.3 percentage points, respectively. The Central bank bill rate reached 6.42 percent, which is lower by 0.3 percentage points from the previous month and higher by 1.7 percentage points from the same period of last year.

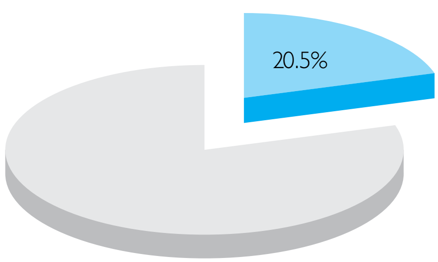
TDB's share in banking sector total asset



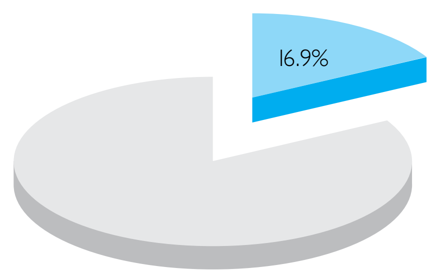
TDB's share in banking sector customer deposits



TDB's share in total loan outstanding of banking sector



TDB's share in total capital of banking sector



The first time credit ratings assignment

Moody's Investors Service

LT/ST Bank Deposits (Foreign Currency)	B2/NP
LT/ST Bank Deposits (Domestic Currency)	Ba2/NP
LT/ST Issuer Rating (Foreign Currency)	Ba2/NP
LT/ST Issuer Rating (Domestic Currency)	Ba2/NP
Senior Unsecured EMTN (Foreign Currency)	Ba2
Subordinate EMTN (Foreign Currency)	Ba3
Other Short Term (Foreign Currency)	NP
Outlook Stable	

The Bank Profile

TDB is the largest of 16 banks in Mongolia with a balance sheet total at December 31, 2006 of MNT 426 292.1 million and capital of MNT 49 700.0 million representing 22.4 percent and 16.9 percent of market shares respectively. TDB is undoubtedly the major player in the financial and banking markets of the country as well as a major contributor to the economy. Mongolian corporations and SMEs are principal clients of the bank and are offered all universal banking services including short and medium term financing, treasury and foreign exchange products. The Bank is maintaining a leading position in the Mongolian financial market, in terms of total asset, loans, capitalization and earnings.

Today the Bank offers over 60 types of international standard banking products, has around 600 highly professional staff, 18 branches throughout the country, and utilizes the same technology as our international partners. The Bank has had a strong earnings track record with MNT 5 375.3 million in 2004, MNT 7 378.7 million in 2005 and MNT 11 773.9 million in 2006. The latter represents a return on average equity of 27 percent and a return on average assets of 3 percent in 2006.

The Bank was founded in 1990 as a wholly–state owned bank. It was partially privatized in 1998 when 24 percent of the total number of shares were distributed to its employees and other private shareholders. The Government sold the remaining 76 percent of the shares to Globull Investment and Development Inc. (controlled by Gerald Metals Inc.) in December 2002. In 2004, the Asian Development Bank (ADB) and IFC contributed USD 11 million to the capital of the Bank in the form of USD 3 million in new shares and USD 8 million in a subordinated five year term loan. This transaction was the first investment of the above institutions made into the Mongolian banking sector.

Since the privatization in 2002 until the end of 2006, the Bank received managerial assistance from ING Bank the well known international bank, based in the Netherlands. During this time, the Bank focused on maintaining its leading position in the local banking sector as well as expanding internationally.

TDB has established correspondent relations with over 80 international financial institutions and has 22 correspondent accounts with the world's major clearing banks such as ING Bank N.V., HSBC Bank N.A., Bank of Tokyo Mitsubishi UFJ Ltd, Dresdner Bank AG, Citibank N.A, American Express Bank Ltd and Commerzbank AG. This enables the Bank to carry out payments in all the major currencies and to receive online information about the funds that are coming to the accounts of our customers.

TDB is one of the key players in international trade finance business in Mongolia, as the Bank serves high profile customers in various industries such as wholesale and retail, food, energy (import of oil), mining, transportation and construction.

Within the Mongolian banking sector, the TDB holds the largest portfolio of foreign assets, making it the lead player in the foreign exchange market handling 50 percent of the foreign exchange transactions.

TDB has been the main player in the domestic gold market since receiving a gold trading license in 2000. Moreover, the Bank was the first to start gold exporting among Mongolian commercial banks, thereby increasing its profits from gold business. A further development was to offer a set of hedge products including options, forwards and structured deals that were necessary to protect customers from downside risks.

The Bank is placing increased emphasis on retail banking, growing commercial lending, improving its distribution channels and developing leading edge technology products. TDB introduced for the first time in Mongolia an internet banking service with a 2–step authentication system that is connected to the SWIFT network, and an SMS banking service that is compatible with both GSM and CDMA providers. The bank is determined to maintain its lead position in card–related products by improving existing features of cards and introducing new products. A Loyalty card program for its rapidly developing cardholder client base has been launched to deliver a value–added financial service. TDB is the only bank that allows its clients to accept transactions from all the cards of the world's leading financial institutions, such as American Express, Visa, Mastercard and JCB. The Bank was the first to introduce automated teller machines (ATM) to the Mongolian market and has the most ATMs in the country. In 2006, there were thirty six ATMs in Ulaanbaatar and four outside the capital.

In 2006 TDB became the first bank in Mongolia rated by Moody's Investors Service. Obtained credit ratings were above the country ceiling, which is an exceptional case.

Recent achievements

2006	"Quality Recognition Award" (Citibank, USA)
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)

Representative Governing Board

Chairman

Mr. Doljin ERDENEBILEG

Members:

Mr. Dumaajav MUNKHBAATAR

Mr. Chuluunbaatar ENKHBOLD

Mr. Tumurtogoo BOLDKHUU

Ms. Tamir TSOLMON

Executive Committee:

Mr. Randolph KOPPA
CEO

Mr. Onon ORKHON
Deputy CEO

Mr. Purevjav MUNKHSAIKHAN
Executive Chief Operating Officer

Board of Directors:

Mr. Daan KOPPEJAN
Executive Chief Risk Officer

Ms. Navaansharav NYAMSUREN
Acting Director, Corporate Banking Department

Ms. Baskhuu ULEMJ
Director, Financial Institutions Department

Mr. Myagmarsuren BAYARMAGNAI
Director, SME Banking Department

Mr. Zorig KHAIDAR
Director, Retail Banking Department

Mr. Ulziibat ODONSUREN
Director, Risk Management Department

Mr. Jalsrai BATAA
Director, Treasury Department

Mr. Erdenechuluun ENKHBOLD
Chief Operating Officer

Ms. Dagmid YANJMAA
Director, Financial Accounting and Control Department

Mr. Ania MUNKHBAYASGALAN
Director, Marketing and Research Department

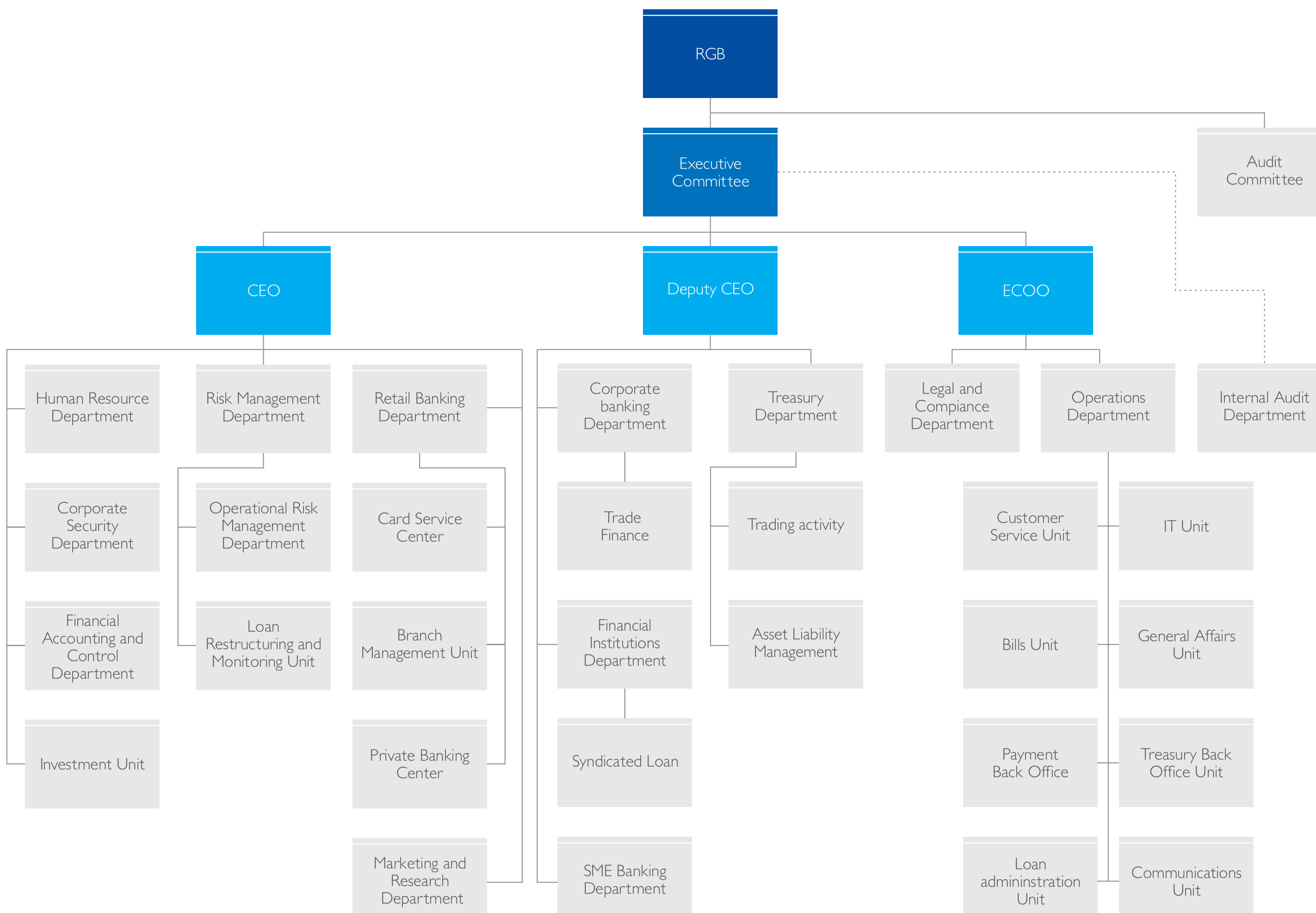
Mr. Sharavsambuu ENKHTUR
Director, Legal and Compliance Department

Mr. Genden TEGSHBUREN
Director, Human Resource Department

Mr. Dembereldorj DAVAATULGA
Director, Corporate Security Department

Ms. Demchigjav OTGONBILEG
Director, Internal Audit Department

Organizational Structure

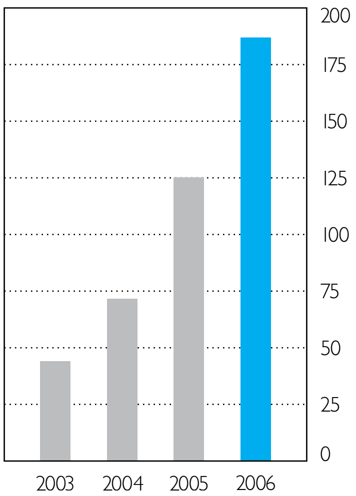


My unlimited
financial backup

Corporate Banking

TDB is the leading corporate bank in Mongolia, which provides top–quality banking services to a majority of businesses operating in key sectors of the economy, including mining, petroleum import, construction, manufacturing, energy, transportation, communications as well as trade and credit institutions. In 2006 the CBD continued its impressive growth by offering a wider range of products and services to existing as well as new customers finding appropriate solutions to the customers specific need, providing reliable and knowledgeable advice, based on our financial expertise and international experience.

Corporate Loan Portfolio Growth (MNT bln)



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

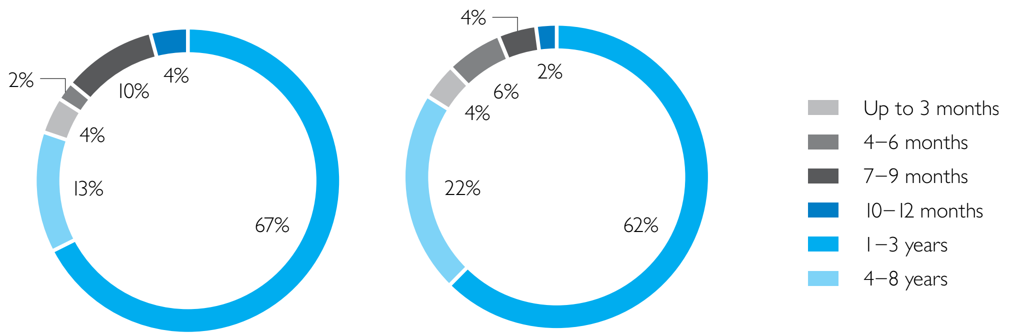
As of the end of 2006 the total corporate loan outstanding was MNT 188 321 million, which represented 76.9 percent of the total loan book of the bank. Compared to the loan outstanding for the previous year, which was MNT 125 276 million, this was an 50.3 percent increase.

The average loan amount was MNT 1 335.9 million in 2006.
The annual current and saving balances of corporate customers was MNT 130 256.8 million.

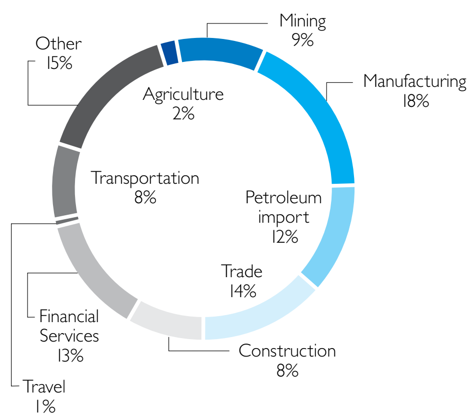
A much stronger loan base had a direct effect on interest revenues of the CBD. In 2005, the total interest income earned by the CBD was MNT 13 275.9 million while the same income reached MNT 19 045.5 million by the end of 2006, i.e. there was a 43.4 percent increase on 2005 results.

An influx of funding 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. With growing investment need in mining, trade, petroleum, manufacturing, trade sector, share of medium and long term financing with 4–8 years in total portfolio increased.

Loan portfolio by term from 2005 to 2006 as follows:



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



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 considerable. In August 2006, TDB has become the first Mongolian bank to be included in the Global Trade Finance Program managed by the IFC. Under this program, the Bank has a limit of USD 5 million for transactions with tenors up to 3 years and would be able to expand its trade finance transactions within the extensive network of countries and banks and to enhance its trade finance coverage.

Trade finance growth (USD mln)

Trade finance	2004	2005	2006
Import letter of credit	17.18	46.32	51.12
Export letter of credit	3.79	7.4	7.65
Letter of guarantee	1.95	3.41	4.25
TOTAL	22.92	57.13	63.02

Overall corporate banking growth of TDB reflects an increased demand for corporate loans fuelled by the growth of our borrower's businesses, 8.4 percent growth of the Mongolian economy in the year and an increased legal lending limit per borrower facilitated by the capital base increase during the year.

Retail Banking

TDB's retail business targets employees of corporate customers' and other individuals with high and upper income.

The Bank is enhancing and expanding retail banking through extensive commercial and consumer lending, improvement and expansion of distribution of all types of channels (physical branches, ATMs and POS terminals, etc) and development of leading edge technology products.

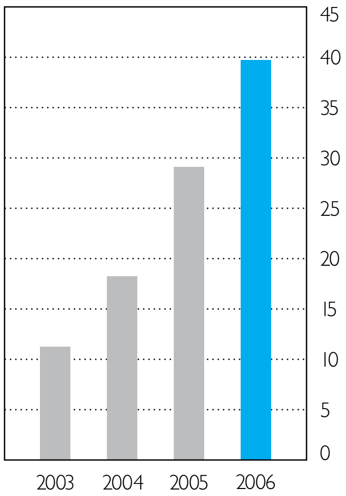
The Bank has been striving to diversify its product line to better suit the dynamic business environment and sophisticated retail client needs.
Presence in Ulaanbaatar city has been consistently expanding by setting up new banking offices and outlets in order to increase its market share in the rapidly growing retail business market.

Business Loans

As of the end of 2006, the total outstanding loan portfolio was MNT 39 831 million, which represented 16.3 percent of the total loan portfolio of the bank. Compared to the outstanding loan portfolio of the previous year which was MNT 26 002.8 million, the growth rate was 37.2 percent.

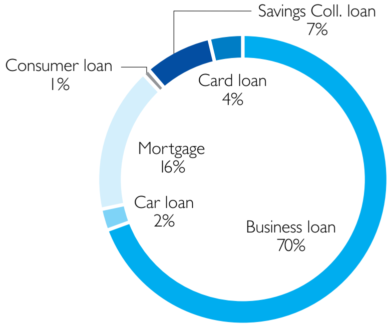
A much larger loan base had a direct effect on interest revenues of Retail Banking Department (RBD). In 2005, the total interest income earned by RBD was MNT 5 429.4 million, while over 2006 the income reached MNT 8 468.4 million, i.e. there was a 55.9 percent growth.

Retail loan portfolio growth (MNT bln)



Favorable terms, particularly attractive low interest rates and maximum loan size were set for on–going lending programs such as business loans, mortgages, thus having strong impact on portfolio growth.

Percentage breakdown of retail loan types



Car loan financing expanded in 2006 by starting co–operation with 3 new leading car dealers in addition to the existing 9 dealers.

The Bank continued diversifying lending services, offering new types of loans, including savings collateralized loan and loans against salary.

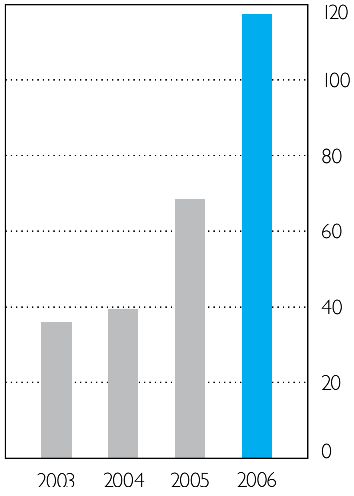
Retail saving deposits

Saving deposits grew up by MNT 52 898.0 million in 2006, amounting to MNT 123 430.4 million as of December 31, 2006. Growth rate equaled to 75 percent compared to 2005.

TDB offers its customers a broad range of term and special deposits with competitive rates. Term deposits include traditional, conditional, advanced interest, and children's savings.

Moreover, the bank piloted successfully two new saving products, which are saving with selective interest and consumer saving.

Individual deposit growth (MNT bln)



Product line expansion

TDB constantly expands and improves its product lines The Bank itself shapes customers' demand in addition to timely response to market trends. Some new products were created based on specific customers' demands, and were later included in product line. New banking products rely on modern technologies ensuring high–speed comprehensive data and transaction processing, regardless of the scale of operations, geography and number of transaction participants.

Indeed, the year of 2006 was full of success and achievements to implement new products and services to expand TDB's product line and product package. The bank introduced in the Mongolian financial market several sophisticated products such as Bank IP POS, IP POS, E–billing, Principal Protected Service, ShortMessage banking, Lady Card, co–branded card with MobiCom, Queue management machine, etc.

IP POS is an internet protocol based point of sale, that speeds up the card payment transactions.
E–billing service was designed for customers to provide them convenience in their bills payments etc.

ShortMessage banking product that is compatible both with GSM and CDMA systems offers a wide range of services such as easy access to account balance checks and online exchange rate information.

Launching Lady card into the market, TDB gives a great opportunity for its female customers to experience various merchant discounts.

Moreover TDB launched co–branded loyalty card with cooperation of MobiCom Corporation, Mongolia's biggest mobile service provider. This card creates synergy between TDB and MobiCom, and most importantly the bank customers were enabled to collect bonus points and redeem them by acquiring various types of free of charge products and services.

Queue management system is the bank's effort to create a comfortable serving environment for our customers that perfectly suits with international standards.

Electronic banking (E–BANKING) services

Within the Mongolian banking sector TDB offers the widest range of virtual banking channels, such as SMS banking, 24–hour call center, e–shopping, e–banking, e–billing, and ATMs. This all resulted in more customer satisfaction, low cost, convenience, simplicity and easy access.

TDB was the first bank in Mongolia to introduce an internet banking service with a 2–step authentication system that is connected to the SWIFT network, and a SMS banking service that is compatible both with GSM and CDMA mobile system providers. Almost 20 percent of our retail banking customers has become our SMS banking users and the number of users is increasing gradually and constantly.

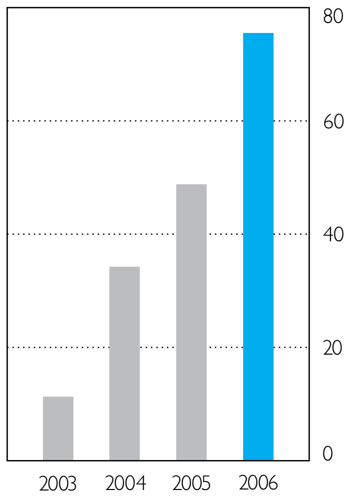
Moreover the Bank was the first financial institution to introduce automated teller machines (ATM)s to Mongolian market and has the biggest network consisting of 40 ATMs in the country. It is our expectation that the trend in information technology development will confirm that ATMs will fully replace 24–hour banking branches in the near future because of its convenience and multi–functionality, low cost and easy access.

Card and payment services

The bank is determined to maintain its leading position in card related products by improving existing features of cards and introducing new products.

TDB is the only bank that offers its merchant partners to accept transactions from all the major card issuers of the world such as American Express, Visa, MasterCard and JCB. 2006 was a record breaking year in terms of card issuing volume with more than 27 000 new bank cards issued and total number reaching 76 000, a 56 percent growth compared to the previous year.

VISA card holders growth
(in numbers)



Besides a successful issuing year TDB has expanded its business range by becoming a principal member of MasterCard and signing Khan bank as an agent bank to add to the network of banks that consists of Mongol Post, Savings, and Ulaanbaatar City Banks.

TDB has always been striving to provide convenient and user friendly services to its customers. In line with this objective our online services have been upgraded to better suit the Mongolian customer needs, easy access viewing for card account statements and overall virtual channel services have been brought to best industrial levels.

In line with increasing consumer market needs TDB has purchased a sophisticated loyalty engine which enabled it to launch co–branded cards with Mongolia's largest mobile provider and plans to launch more co–branded card projects are underway.

To maintain better communication with customers and get market feel for our acquiring business TDB has organized the first ever merchant conference in Mongolia. Aside from payment products offered to service businesses in Mongolia, TDB presented its new products for small and medium businesses and retail customers.

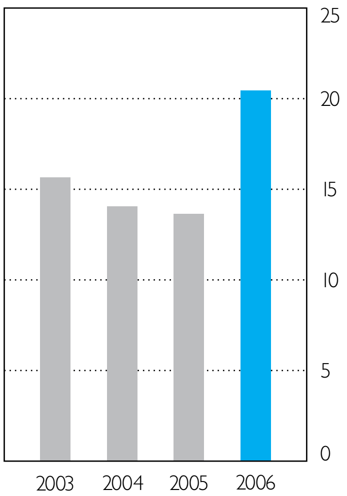
Previous value added products such as internet payment solutions, prepaid card purchase at bank ATMs have been upgraded to a more secure and reliable level. The new mobile service provider in Mongolia–UNITEL company has signed an agreement to distribute its prepaid top–up cards through our ATM network.

Moreover TDB organized successfully summer tourist promotion for VISA card holders jointly with VISA International.

MoneyGram software was replaced by a new updated system named "DeltaWorks" with automatic transmit check with the main frame, look –up and transaction history, increased security and internet connection. The bank implemented the "MoneyGram" International Money Transfer Service together with Mongol Post, Capitron, Anod, Erel, Ulaanbaatar City, Savings and Xac Banks. This implementation includes 149 locations both in Ulaanbaatar city and provinces.

As a result of the collaboration, the average volume of total MoneyGram transaction had increased from USD13.5 million in 2005 to USD 20.4 million in 2006 which was a 51.1 percent increase on the previous year.

MoneyGram transaction Volume (USD mln)



My financial
gateway to Mongolia

International Banking

In 2006, TDB strengthened its position in the international markets, achieving a new and higher level of cooperation with our foreign partners.

In August 2006, TDB has become the first Mongolian bank to be included in the Global Trade Finance Program managed by the IFC. Under this program, the Bank has a limit of USD 5 million for transactions with tenors up to 3 years and would be able to expand its trade finance transactions within the extensive network of countries and banks and to enhance its trade finance coverage. Also China Export & Credit Insurance Corporation ("Sinosure") extended to the Bank a 3 year USD 27 million line to support trade transactions between China and Mongolia. The Bank continues to cooperate under refinancing programs with well known institutions such as the Export – Import Banks of Korea and Taiwan. As of 31 December 2006, the aggregate amount of credit limits established by major international financial institutions for international trade finance operations with TDB increased to USD 86 million compared to USD 25 million the previous year. With the increased direct and uncovered lines, TDB's trade finance potential would be further enlarged geographically and by total size of the lines, which will give a positive effect to the development of trade finance business.

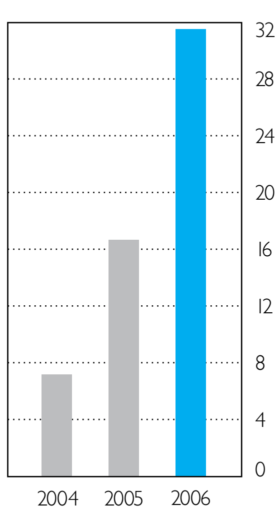
The Bank participates in various on–lending programs to support the private sector and SME development and environmental protection projects funded by the World Bank and JBIC. These programs provide long–term financing up to 10 years, and such lines total USD 35 million.

The first time credit ratings assignment by international rating agency Moody's Investor Services in December 2006 is a significant achievement and qualifies the Bank as a trustworthy and reliable partner to foreign counterparts. The Bank was assigned B2 rating for long and short–term foreign currency deposit, Ba2 rating for long and short–term local currency deposit, Ba2 rating for long and short–term foreign currency issuer, Ba2 rating for long and short–term local currency issuer with stable outlook.

The credit ratings of 2 notches above the sovereign rating of B1 improve recognisability of the Bank in the international markets and reflect the high level of its investment appeal. Encouraged by this, the Bank started preparing its first international bond issue towards the end of the year 2006. In January 2007, the Bank has registered its inaugural USD 150 million EMTN Programme and successfully issued USD 75 million Registered Notes with 8.625 percent coupon rate and due 2010. ING Bank N.V. was a sole Arranger and Dealer of the Programme, and the Sole Bookrunner and Lead Manager of the Notes. The Programme was rated Ba2 for senior unsecured foreign currency issue and Ba3 for subordinated foreign currency issue by Moody's Investor Services.

This debut issuance was a major achievement of the Bank in its international activity and a launch of Mongolia's first ever public placement of debt in the international capital markets. The transaction was several times oversubscribed and in total 96 investors from 13 countries including Singapore (37%), Hong Kong (25%), the United Kingdom (17%), rest of Europe (16%) and offshore US (5%) purchased our bond. The investor profile consists of fund managers (42%), retail and private banking institutions (38%), financial institutions (17%) and pension funds (3%). The transaction achieved all set objectives of the Bank and was universally praised by investors, the competition and the financial media.

Syndicated loan portfolio growth
(USD mln)



In 2006 the bank has arranged several club deals for its major corporate clients with participants being foreign financial institutions and organizations. Moreover the bank continued to take participations in syndicated loans issued by the banks in the CIS region.

Moreover the Bank signed a MOU agreement with KDB in November 2006 covering the development of business cooperation between the two institutions across a broad range of businesses including syndicated loans, project finance, trade finance, natural resource development and other related corporate businesses.


My best supporter,
advisor and partner

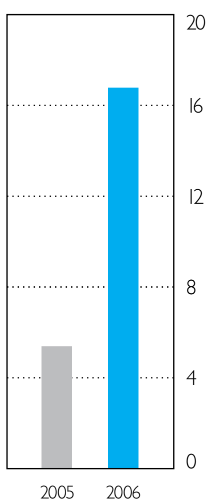
SME Banking

Many of the wprld's scholars, politicians, financiers and bankers agree about the important role played by SMEs in every nation's growth factor.

TDB has been successfully expanding its SME business and in 2006 established seperate SME department from corporate banking.

As a result, during the reporting period total number of SME clients rose by 85 percent reaching over 90, and total SME loan portfolio has grown to MNT 16 864 million.

SME loan portfolio growth (MNT bln)



TDB provided loans to its SME clients not only from its own funds, but also from resources of multilateral financial institutions to facilitate their business with more favorable term products.

The Bank is running on–lending programs from the World bank and JBIC to provide long–term financing to SME and private sector clients, and these lines amount to USD 10 million and USD 25 million, respectively and tenors are up to 10 years.

The Bank continued to be one of a few implementing agents for the private sector support programs arranged with Taiwanese Exim and Korean Exim banks. The program grants the bank SME clients the access to relatively low–cost funds, and to facilitate trade flow from Taiwan and South Korea.

"SME Toolkit"– a special website designed to help small businesses in their relations with banks and approach to their own business endeavor is hosted in cooperation with IFC. The Bank clients who own and run SMEs are getting more support for their business planning, operations, sales and marketing from this website.

We believe that through successful cooperation the Bank will enable its SME clients to grow and join the ranks of corporate clients in the not–so–distant future.

Treasury and Trading

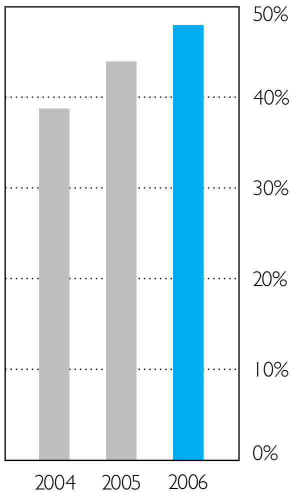
As TDB successfully expanded its own market operations and concentrated its activity in the wholesale market, treasury activity of TDB has been strong and kept a leading position in the domestic corporate market.

In 2006 the Bank maintained its main priorities as the biggest market player of domestic money, foreign exchange and gold market. The Bank aimed not only to increase its profitability through appropriate financial management but also to assist and create optimum business conditions for the clients by providing well–diversified, sophisticated financial and investment products. Further incentive was given to enhance and improve well–structured products or services by the Treasury and Trading department in the interest of the Bank's clients.

Foreign exchange trading

Within the Mongolian banking sector TDB holds the largest portfolio of foreign assets, making it the lead player in the foreign exchange market handling 50 percent of the foreign exchange transactions. The Bank set exchange rates on 13 main currencies. Additionally the bank established SGD products for the customers in 2006.

TDB's share in foreign exchange market



Although exchange rate fluctuation was high in the international financial market TDB was able to intensify its proprietary trading activity in the international and domestic market through financial derivatives of foreign exchange market such as forward, swap and option. Besides online foreign exchange trading system in whole internal banking system, the Bank provides news and information about the market to the customers. As a result, turnover of currency trading increased and profit from exchange activities reached MNT 2 583.8 million at the end of the year.

To reduce the market risk and increase returns, the Bank always strives to launch new financial products. The effort to develop the multiple–currency trading service was much appreciated by customers. Moreover the Bank launched "managed account service" to help its customers who trade in international financial market to downside risks.

Also margin trading was expanded, which enables customers to pledge their MNT, EUR, USD, JPY and gold accounts for margin purposes.

Gold trading

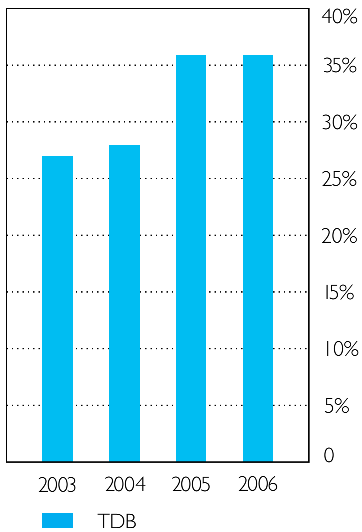
TDB has been the main player in the domestic gold market since receiving a gold trading license in 2000 and its local–gold–market and inter–bank–gold–market activities are expanding year by year. Moreover, the Bank was the first to start gold exporting among Mongolian commercial banks, thereby increasing its profits from the gold business. The number of customers increased from year to year and in 2006 the Bank had more than 70 customers out of around 130 gold producers in the country. A further development was to offer a set of hedge products including options, forwards and structured deals that were necessary to protect customers from downside risks and assist their short term financial engineering.

The launch of the paper gold investment product, which is either backed up by real bullion or unallocated gold, was the first in the country market and the bank benefited considerably from this product. Moreover the Bank is planning to launch paper silver products.

TDB has implemented a mixed product of paper and physical gold, and offered new gold pledged loans to customers along with corporate loans.

As a result of these new initiatives net trading profit from gold business reached MNT 2 277.7 million at the end of year.

TDB's share in domestic tangible gold market



Cash management and money market activity

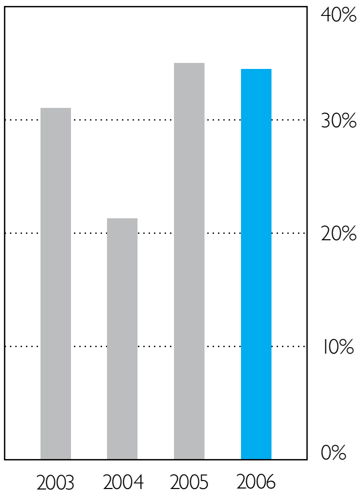
The Bank's cash management activity includes satisfying reserve requirement from the central bank and managing the banks cash flow to meet short term needs and maintain management of the liquid investment portfolio.
The main function of money market activities is participation in inter–bank money market activities, which are BoM bill trading, Treasury bill trading, money market deposit operations; and management of liquid assets.

TDB is the most active player in the market that trades BoM and Treasury bills. Interest income earned on that market increased in 2006 as a result of the improved portfolio structure.

The growth of the loan portfolio has pushed the Bank to change its cash management fundamentally from asset based management to asset and liability combined management, attracting funds from interbank market to meet needs of the short term liquidity.

As a result of effective cash management and money market activities the Bank's income increased by MNT 1 860.4 million in 2006.

TDB's share in money market



Asset and liability management

Main function of asset liability management is to increase net interest income through creating an optimal structure of the balance sheet, to manage interest rate risk and to ensure long term liquidity of the bank. Although the deposit rate has been rising in the domestic market, substantial progress was made as a result of continued effort to focus on effective management of asset and liabilities. Some of these are:

- Sharp growth of capital in 2006 and the steady growth of assets led to lower leverage and lower funding cost in TDB.
- As a result of activities to optimize the balance sheet structure, net interest income increased by 84 percent.
- Improving financial leverage, deposits from customers increased by 17 percent on the previous year.

Risk Management

In 2006, the risk management system continued developing with the aim to maintain the total Bank's risks at the level defined by the tasks of Bank's development.

In realization of the risk management strategy, the management of the Bank paid special attention to the Risk Management Department (RMD), the Credit Risk Committee (CRC) and the Asset and Liabilities Management Committee (ALCO). Risk management methods and risk measuring procedures are approved by the main banking committees.

The Bank established a new unit under the RMD to develop and oversee its operational risk management.

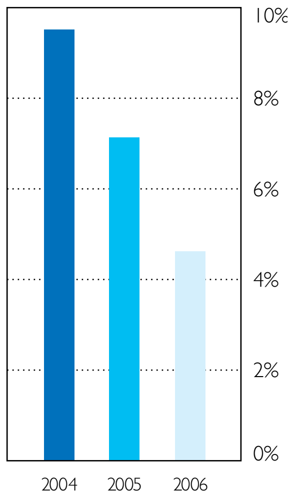
In general, the Bank's risk management system is focused on the following basic risks arising in the course of the Bank's operations which are credit risk, market risk, interest rate risk, liquidity risk and operational risk.
RMD appointed new risk analysts in all branches and made a well–organized structure to assess credit risk in small and medium business and improved loan monitoring as well as managing operational risks in the branches.

Credit risk

Taking into consideration the importance of the risk management with respect to the considerable business growth, the Bank consistently improves its work in this direction as well as the risk–management mechanism itself. Major attention is paid to credit risk management. For its control the Bank worked out the management policy and procedures, including requirements for complying with limits on concentration of the credit portfolio and the risk per one borrower or a group of borrowers. Limitations on the borrowers' credit risks level, including branch and territorial differentiation and credit types are confirmed by the Bank CRC and monitored by the RMD and Loan Monitoring and Restructuring Unit.

Credit risk management is carried out by means of the regular analysis of the borrowers' and potential borrowers' ability to timely pay obligations. Conditions of the credit issuance are adjusted in accordance with the policy of minimizing credit risks.

Non–performing loan ratio



As a result of sequential complex credit risk management actions, there has been tangible improvement in the quality of the loan portfolio. For instance while Non Performing Loans in the total loan book was 7.1 percent as per December 2005, this percentage has decreased to 4.6 percent as per December 2006.

Market risk

The Bank continued to enhance the market risk management system, including the management of risks arising from interest, liquidity and currency fluctuations. The system includes a set of limits placed on different types of operations and in relation to specific instruments and issuers.

The Value–At–Risk (VAR) methodology is used to measure market risks under normal conditions at different tiers of the hierarchy of asset and liability instruments and portfolios. Extreme market fluctuations are assessed on the basis of stress–analysis.

Actual VaR values in the reporting period (MNT mln)

Reporting Period	Maximum VaR value	Minimum VaR value	Average VaR value
2006	489.7	16.1	277.4

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 TDB does back–testing for its VaR method to verify its correctness. The result confirmed that the VaR method used by the Bank is in line with the relevant Basel rule.

Liquidity risk and interest rate risk

The bank focuses its liquidity policy on full and timely honoring of all financial commitments, while striving for the highest return on the Bank's operations.

ALCO decides, among others, upon medium–and long–term liquidity placing limits on amounts, terms and interest rates with respect to operations with assets and liabilities, and financial plans taking into consideration liquidity forecasts. Short–term liquidity is managed in on–line mode.

The Bank analyses prospective liquidity too, evaluating the balance of incoming and outgoing cash flows, and the amount of assets that can be quickly mobilized to fulfill obligations. Scenario analysis is used in performing a gap–analysis.

Interest rate risk is brought on by changing yields on different financial instruments. It can affect both interest income or expense, and market value of assets and liabilities. To mitigate its impact on the Bank's financial results, assets and liabilities yield dynamics is assessed statistically and projected for the period ahead, which secures an optimal choice of assets and liabilities structure to enable the most resilience to losses caused by interest rate risk.
TDB also keeps adjusting interest rates borne by its assets and liabilities to reflect current market conditions.

Operational risk

TDB improves banking technologies, conducts re–engineering of business processes, streamlines procedures aimed at minimizing risks and sharing authority, and takes efforts to avoid operational losses. The Bank began creating a comprehensive operational risk management system.
The main task of operational risk management is supporting and advising the management of the Bank's business units and branches with regards to the formulation, development and implementation of operational risk management policies. The key aspects of this policy focus on the following:

- Identification of risks as yet unidentified and uncontrolled;
- Measurement of the probability and impact of risks;
- Mitigation measures to stay within acceptable risk levels; and
- Monitoring operational risks

The Bank has developed risk and control self assessment procedures on treasury, loan, card transactions, deposits and ATM software areas by identifying risks in these areas, assessing risk impacts and existing controls and defining mitigation options for unacceptable risks.

Human Resources Management

TDB's HR–policy aims at shaping a highly qualified and cohesive team capable of quickly solving all tasks. In order to achieve this goal, the Bank took consistent efforts in 2006 in order to further improve the professional level of its employees, streamline organizational structure, introduced a remuneration and incentives system, work out more efficient HR–policy forms and methods, and preserve and enhance the Bank's corporate culture.

The Bank carried out in 2006 a set of measures to change its organizational and personnel structure in line with its development strategy and priorities, and taking into account the need to diversify customer base and streamline business processes, avoiding duplication in functional responsibilities, and improving corporate governance quality. TDB's efforts to develop and diversify its business, and expand the network of branches and supplementary offices were accompanied by planned increases in the number of staff, which by the end of the year surpassed 613.

The Bank introduced a new system of remuneration and incentives as a basis of its motivational policy. This mechanism is based on clear classification and subordination of positions, and a direct dependence of salaries on such factors as performance, the scope of responsibility and market value.

The Bank placed special emphasis on employees' training and development, realising that continuous training has nowadays become an integral component of organisational excellence. The Bank conducted 150 training and educational events last year, which were attended by over 570 managers and specialists. More than 70 employees received various professional certificates. TDB continued co–operation with major training and educational centers, consulting and training companies in Mongolia and abroad.

The Bank takes care of its staff providing them financial support and non–returnable aid. In 2006, TDB spent MNT 24.3 million for this purpose to 45 staff. In order to maintain and increase employees' social guarantees, the Bank developed employee mortgage loan program and in 2006 MNT 1 360.9 million's loan was disbursed to 72 staff.

Ten of TDB staff were awarded Mongolian Government medals and titles.

The Bank developed a "Code of Conduct of Employees of TDB" to be followed by all members of the Bank's team. Team–building events including sporting competitions, contests, and parties are regularly hosted by the Bank.

Charity and Sponsorship Activity

Being the largest Mongolian bank, TDB is willing to assist in resolution of the country's social and economic problems not only by pursuing its commercial activity, but also by executing large sponsorship and charity programs. The Bank's healthy financial position contributed to noticeable expansion of the number of charity and sponsorship initiatives undertaken by TDB.

Financial support of culture, education, health care, sport and public organizations is traditionally among main socially significant projects conducted by TDB. In 2006, the Bank provided charitable aid to 11 social institutions and organizations and implemented over 21 sponsorship projects. Total amount of charity and sponsorship activity equals to MNT 62 million. An important event in the Bank's sponsoring activities was a being a major sponsor of the 800th Anniversary of the Establishment of the Great Mongolian Statehood.

In its charitable activities TDB has always been guided by the principle that support for the arts is a way to support further development of the Mongolian and world culture. TDB sponsored several art events such as broadcasting TV series of Mongolian Art Council, new promising bands' videos, famous singers' CDs and writers' books.

TDB plans its charitable programs so as to provide direct aid to the most needy, focusing primarily on child care and medical institutions, rehabilitation centres, and social security organizations. On child care front, over a number of years TDB has been providing charitable aid and gifts distribution for children of the Ulaanbaatar Psycho neurological Children's School No 29.

Recognizing the importance of implementing efficiently the government policy in sports and physical culture, TDB attaches high priority to the national sports development and support of national sport teams as part of its corporate patronage activities. The Bank believes that such financial support programs are targeted at nation–wide promotion of a healthy lifestyle. TDB sponsored the youth basketball and roller skate team, table tennis players, archers and wresters' training for international and national championships in 2006, and for the XXV Asian Olympics in Doha (Qatar). The Bank also makes financial contributions to sports organizations and finances various sporting events. The Bank cooperates with the Roller Skating Federation, Wrestlers Federation, Mongolian Football Association and Students Sport Union.

Being a major Mongolian financial institution, TDB sees its charitable activity as a social duty that alongside its commercial activities helps it address Mongolia's most acute social and economic problems. TDB contributed MNT 16.8 million to Mongolian National Television's technical renovation.

Owing to sustained financial performance, the Bank is able to constantly broaden and diversify its sponsorship and charity programs, with a permanent focus being placed on culture, education, sports, health care and targeted social aid. Sponsorship and charity activities are conducted by all the branches of TDB which assist in implementation of regional and municipal social programs.

Trade and Development Bank of Mongolia LLC
Financial Statements for the year ended

31 December 2006

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	D. Erdenebileg (appointed on 28 December 2006) D. Munkhbaatar (appointed on 28 December 2006) Ch. Enkhbold (appointed on 28 December 2006) T. Tsolmon (appointed on 28 December 2006) T. Boldkhuu (appointed on 28 December 2006) Fabio Calia (resigned on 28 December 2006) Jean Baudois (resigned on 28 December 2006) Roberto Bonzi (resigned on 28 December 2006) Rick Smith (resigned on 28 December 2006) Dashzeveg Zorigt (resigned on 28 December 2006)
Bank's secretary	D. Davaajav
Auditors	KPMG Kuala Lumpur, Malaysia Tentsver Orgil Audit LLC Ulaanbaatar, Mongolia

Statement by Directors and Executive

We, D. Erdenebileg and D. Munkhbaatar, being two of the directors of Trade and Development Bank of Mongolia LLC ("the Bank"), and Yanjmaa D., being the officer primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 5 to 43 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 2006 and of the results of its operations and its cash flows for the year then ended.

D. Erdenebileg
Director

D.Munkhbaatar
Director

Randoph Koppa
Chief Executive Officer

D. Yanjmaa
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 9 March 2007

KPMG (Firm No.AF 0758)
Chartered Accountants
Wisma KPMG
Jalan Dungun, Damansara Heights
50490 Kuala Limpur, Malaysia

Tentsver Orgil Audit LLC
Suite 402, 4th floor, Khatan Suikh Building
Zaluuchuudiin Urgun Chuluu
Sukhbaatar District 8th subdistrict
Ulaanbaatar city, Mongolia
Phone/Fax: 976-11-324496

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 42. 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 approved International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 4 to 42 present fairly, in all material aspects, the state of affairs of Trade and Development Bank of Mongolia LLC as at 31 December 2006 and the results and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

KPMG
Chartered Accountants
Firm Number: AF 0758
Ulaanbaatar, Mongolia

Tentsver Orgil Audit LLC
Certified Public Accountants
License Number: 056/2006
Date: 9 March 2007

Trade and Development Bank of Mongolia LLC
Balance sheet at 31 December 2006

ASSETS	Note	2006 MNT'000	2005 MNT'000
Cash on hand	3	25,371,639	11,771,646
Deposits and placements with banks and other financial institutions	3	83,842,987	62,183,406
Balances with Bank of Mongolia	3	25,728,407	8,826,580
Investment securities	4	27,584,472	46,598,605
Loans and advances	6	240,106,085	156,727,476
Property, plant and equipment	7	12,225,512	9,735,893
Intangible assets	8	829,942	384,406
Other assets	9	10,603,078	6,550,261
TOTAL ASSETS		426,292,122	302,778,273

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities			
Deposits from customers	10	324,669,447	226,233,195
Deposits and placements of banks and other financial institutions	11	9,583,124	10,769,825
Loans from foreign financial institutions	12	26,458,098	12,443,261
Taxation		1,230,053	851,258
Other liabilities	14	5,331,398	4,871,696
Total deposits, loans, taxation and other liabilities		367,272,120	255,169,235
Subordinated loans	13	9,320,000	9,768,000
Total liabilities		376,592,120	264,937,235
Shareholders' equity			
Share capital	15	6,610,113	6,607,477
Other reserves		12,171,762	12,155,904
Retained earnings		30,918,127	19,077,657
Total shareholders' equity		49,700,002	37,841,038
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		426,292,122	302,778,273

The notes set out on pages 45 to 78 form an integral part of these financial statements

Trade and Development Bank of Mongolia LLC
Statement of income for the year ended 31 December 2006

	Note	2006 MNT'000	2005 MNT'000
Interest income	17	36,037,323	21,892,444
Interest expense	18	(14,588,934)	(6,291,421)
Net interest income		21,448,389	15,601,023
Net fees and commissions income	19	4,576,908	3,583,693
Other operating income	20	4,285,087	3,485,364
Net non–interest income		8,861,995	7,069,057
Operating income		30,310,384	22,670,080
Operating expenses	21	(12,190,069)	(10,255,523)
Allowance for impairment losses	22	(1,630,679)	(2,092,626)
Profit from operations		16,489,636	10,321,931
Corporate income tax	23	(4,715,698)	(2,943,258)
Net profit after tax		11,773,938	7,378,673

Trade and Development Bank of Mongolia LLC
Statement of changes in equity for the year ended 31 December 2006

		← Non–distributable →			Distributable	
	Note	Share capital MNT'000	Share premium MNT'000	Revaluation reserve MNT'000	Retained earnings MNT'000	Total MNT'000
Balance at 1 January 2005		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		1,456,786	4,625,601	–	–	6,082,387
Revaluation on property, plant and equipment	7	–	–	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
Net profit for the year		–	–	–	11,773,938	11,773,938
Issue of share capital		2,636	16,870	–	–	19,506
Share–based payments	16	–	–	–	65,520	65,520
Transfer of reserve		–	–	(1,012)	1,012	–
Balance at 31 December 2006		6,610,113	7,392,192	4,779,570	30,918,127	49,700,002

Trade and Development Bank of Mongolia LLC
Statement of cash flows for the year ended 31 December 2006

	2006 MNT'000	2005 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	16,489,636	10,321,931
Adjustments for		
Depreciation and amortisation	1,048,332	861,808
Revaluation deficit of property, plant and equipment	–	11,576
Property, plant and equipment written off	45,226	–
(Gain) / Loss on disposal of property, plant and equipment	(1,350)	76,709
Allowance for impairment losses	1,630,679	2,092,626
Equity–settled share–based payment transactions	65,520	–
Operating profit before changes in operating assets and liabilities	19,278,043	13,364,650
Increase in loans and advances	(83,302,894)	(72,845,378)
Increase in other assets	(5,699,989)	(1,110,685)
Increase in deposits from customers	98,436,252	90,859,474
(Decrease) / Increase in deposits and placements of banks and other financial institutions	(1,186,701)	7,450,411
(Decrease) / Increase in other liabilities	(73,592)	2,987,798
	27,451,119	40,706,270
Corporate income tax paid	(4,336,903)	(2,274,040)
Net cash flows generated from operating activities	23,114,216	38,432,230

CASH FLOWS FROM INVESTING ACTIVITIES		
Net (acquisition) /disposal of investment securities	19,101,555	(22,639,681)
Purchase of property, plant and equipment	(3,486,866)	(1,355,982)
Purchase of intangible assets	(566,114)	(107,796)
Proceeds from disposals of property, plant and equipment	25,617	2,967
Purchase of unquoted shares	(61,350)	–
Net cash flows generated from/(used in) investing activities	15,012,842	(24,100,492)

Trade and Development Bank of Mongolia LLC
Statement of cash flows for the year ended 31 December 2006 (continued)

		2006 MNT'000	2005 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		19,506	6,082,387
Proceeds from loans from foreign financial institutions		14,014,837	1,390,712
Net cash flows generated from financing activities		14,034,343	7,473,099
Net increase in cash and cash equivalents		52,161,401	21,804,837
Cash and cash equivalents at the beginning of the year		82,781,632	60,976,795
Cash and cash equivalents at the end of the year	4	134,943,033	82,781,632

Trade and Development Bank of Mongolia LLC
Notes to the financial statements for the year ended 31 December 2006

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

1. Corporate information and principal activities

The holding company of the Bank was Globull Investment and Development (SCA), incorporated in Luxembourg, a joint venture company between Banca Commercial Lugano of Switzerland and Gerald Metals, Inc. of Stamford, of United States of America. During the year, Gerald Metals, Inc. acquired Banca Commercial Lugano's entire interest in Globull Investment and Development.

Subsequent to the year end, Gerald Metals, Inc. disposed its entire interest in Globull Investment and Development (SCA) to US Global Investment LLC, resulting in US Global Investment LLC being the ultimate holding company of the Bank. US Global Investment LLC is a consortium owned by Ulaanbaatar City Bank, Capitron Bank, Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Bank and Ulaanbaatar City Bank).

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 8 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 9 March 2007.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except for derivative financial instruments and available–for–sale financial assets which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Mongolian Tugrug ("MNT"), rounded to the nearest thousand. MNT is the Bank's functional currency.

(d) Use of estimates and judgements

The presentation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to MNT 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 retranslated to MNT 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.

(b) Financial instruments

(i) 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 shortterm 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 includes 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.

(ii) 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.

(iii) Subsequent measurement

Subsequent to initial recognition, all trading instruments and all available–for–sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair 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–tomaturity 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.

(c) 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.

(d) 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 (h)).

(e) Property, plant and equipment

(i) Cost

Property, plant and equipment are measured at cost/valuation less accumulated depreciation (refer below) and impairment losses (refer to accounting policy (h)).

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

(f) 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.

(g) 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(h)).

(g) Intangible Assets (continued)

(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 (h)).

(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 life is as follows:– Software and licenses 5 years

(h) 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 writedown 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.

(i) 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.

(j) 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.

(k) 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.

(l) Revenue

(i) 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.

(ii) 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.

(iii) 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.

(m) 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, over the term of the lease.

(n) 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 enacted or substantially enacted at the 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 recognised for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax asset is 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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Employee benefits

(i) 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.

(ii) Share–based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using the Black–Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour). Service and non–market performance conditions attached to the transactions are not taken into account in determining fair value.

(p) New standards and interpretations not yet adopted

A number of new IFRSs, amendments to IFRSs and interpretations (International Financial Reporting Interpretations Committee (IFRIC)) are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1 which become mandatory for the Bank's 2007 financial statements, will require extensive additional disclosures with respect to Bank's financial instruments and share capital.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 Scope of IFRS 2 Share–based Payment addresses the accounting for sharebased payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). IFRIC 10 is not expected to have any impact on the financial statements.

4. Cash and cash equivalents

	2006 MNT'000	2005 MNT'000
Cash on hand	25,371,639	11,771,646
Deposits and placements with banks and other financial institutions	83,842,987	62,183,406
Balances with Bank of Mongolia	25,728,407	8,826,580
	134,943,033	82,781,632

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.

5. Investment securities

	2006 MNT'000	2005 MNT'000
Held–to–maturity investment securities		
Bank of Mongolia Treasury bills	22,128,374	43,937,244
Government securities	802,981	–
Promissory notes	4,291,226	2,607,173
	27,222,581	46,544,417
Accretion of discounts	300,541	80,260
Allowance for impairment loss	–	(26,072)
	27,523,122	46,598,605
Available for sale investment securities		
Unquoted equity securities, at cost	61,350	–
	27,584,472	46,598,605

6. Loans and advances

	2006 MNT'000	2005 MNT'000
Loans and advances to customers	248,427,120	168,493,508
Loans to staff	3,423,345	417,042
	251,850,465	168,910,550
Allowances for loan losses	(11,744,380)	(12,183,074)
Net loans and advances	240,106,085	156,727,476

Included in the gross balance of loans and advances is an amount of non–performing loans of MNT11,132,195,000 (2005: MNT12,239,185,000).

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

	Total MNT'000
Allowance for loan losses	
At 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 / 1 January 2006	12,183,074
Charge for the year	1,446,565
Written back	(1,522,280)
Written off	(43,659)
Exchange difference	(319,320)
At 31 December 2006	11,744,380

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

	2006 MNT'000	2005 MNT'000
Agriculture	4,517,754	6,812,569
Mining and quarrying	22,964,848	18,778,249
Manufacturing	43,970,488	20,649,339
Petrol import and trade	31,838,839	18,540,848
Trading	35,817,929	18,683,173
Construction	19,634,095	15,521,553
Electricity and thermal energy	1,875,463	1,521,645
Hotel and tour	1,646,317	1,497,552
Financial services	33,087,957	20,995,950
Transportation	19,605,948	19,619,960
Individuals	31,312,352	20,262,303
Others	5,578,475	6,027,409
	251,850,465	168,910,550

Others include borrowers in insurance, education and etc.

7. 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	–	–	–	198,502	198,502
At valuation	7,243,911	1,354,637	938,843	–	9,537,391
At 1 January 2006	7,243,911	1,354,637	938,843	198,502	9,735,893
Additions	14,061	1,309,142	1,257,936	905,727	3,486,866
Disposals	–	(124,490)	(369)	–	(124,859)
Write offs	(49,017)	(35,433)	(19,667)	–	(104,117)
Transfers	1,104,229	–	–	(1,104,229)	–
At 31 December 2006	8,313,184	2,503,856	2,176,743	–	12,993,783
Representing items at:					
Cost	1,118,290	1,309,142	1,257,936	–	3,685,368
Directors' valuation	7,194,894	1,194,714	918,807	–	9,308,415
	8,313,184	2,503,856	2,176,743	–	12,993,783
Accumulated depreciation					
At 1 January 2006	–	–	–	–	–
Charge for the year	212,198	296,881	418,675	–	927,754
Disposals	–	(100,588)	(4)	–	(100,592)
Write offs	(4,270)	(34,954)	(19,667)	–	(58,891)
Elimination against cost					
At 31 December 2006	207,928	161,339	399,004	–	768,271
Net book value					
At 31 December 2006	8,105,256	2,342,517	1,777,739	–	12,225,512
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

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:

	2006 MNT'000	2005 MNT'000
Buildings	2,993,224	3,119,776
Office equipments and motor vehicles	1,040,189	1,287,074
Computers	677,402	950,417

8. Intangible assets

Cost	Software and licenses MNT'000	Goodwill MNT'000	Total MNT'000
At 1 January 2006	651,677	228,683	880,360
Addition during the year	566,114	–	566,114
	––––	––––	––––
At 31 December 2006	1,217,791	228,683	1,446,474
	====	====	====
Amortisation/Impairment losses			
At 1 January 2006	267,271	228,683	495,954
Amortisation charge for the year	120,578	–	120,578
Impairment losses	–	–	–
	––––	––––	––––
At 31 December 2006	387,849	228,683	616,532
	====	====	====
Net book value			
At 31 December 2006	829,942	–	829,942
	====	====	====
At 1 January 2005	543,881	228,683	772,564
Addition during the year	107,796	–	107,796
	––––	––––	––––
At 31 December 2005	651,677	228,683	880,360
	====	====	====
Amortisation/Impairment losses			
At 1 January 2005	169,013	–	169,013
Amortisation charge for the year	98,258	–	98,258
Impairment losses	–	228,683	228,683
	––––	––––	––––
At 31 December 2005	267,271	228,683	495,954
	====	====	====
Net book value			
At 31 December 2005	384,406	–	384,406
	====	====	====

9. Other assets

	2006 MNT'000	2005 MNT'000
Precious metals	4,144,231	3,035,714
Accrued interest receivables	2,912,945	2,113,318
Prepaid expenses	349,784	271,745
Inventory supplies	275,840	199,438
Foreclosed properties	1,339,841	38,091
Other receivables	1,580,437	891,955
	10,603,078	6,550,261

Foreclosed properties and other receivables are presented net of impairment losses amounting to MNT1,747,265,000 (2005: MNT360,027,000). During the year, foreclosed properties amounting to MNT Nil (2005: MNT710,639,000) was written off against impairment losses.

10. Deposits from customers

	2006 MNT'000	2005 MNT'000
Current accounts	196,364,206	153,568,960
Savings deposits	34,692,752	26,490,633
Time deposits	88,737,599	44,041,822
Other deposits	4,874,890	2,131,780
	324,669,447	226,233,195

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 1.3% and 2.8% (2005: 1% and 3%) per annum for foreign and local currencies accounts, respectively.

Foreign and local savings deposits bear interest at a rate of approximately 1.6% and 4.7% (2005: 1.8% and 6.2%), respectively.

Foreign currency and local currency time deposits bear interest at a rate of approximately 6.9% and 16.1% (2005: 5.4% and 15.7%), respectively.

11. Deposits and placements of banks and other financial institutions

	2006 MNT'000	2005 MNT'000
Current account deposits:		
Foreign currency deposits	9,479,294	10,698,224
Local currency deposits	23,460	20,234
Foreign currency cheques for selling	80,370	51,367
	9,583,124	10,769,825

12. Loans from foreign financial institutions

	2006 MNT'000	2005 MNT'000
Kreditanstalt fuer Wiederaufbau ("KfW")	1,708,861	3,741,036
World Bank	2,228,354	2,069,790
Asian Development Bank ("ADB")	141,900	166,392
International Development Association ("IDA")	715,099	742,280
Export–Import Bank of the Republic of China	–	51,590
Donau Bank	13,231,563	4,888,884
Canadian Imperial Bank of Commerce	380,181	–
Export–Import Bank of Korea	618,924	–
Atlantic Forfaiting Co. Ltd.	1,596,310	–
ING Bank	5,836,906	–
	26,458,098	12,443,261

Kreditanstalt fuer Wiederaufbau ("KfW")

The KfW loan amounting to EUR1.1 million (2005: EUR2.6 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

	2006 MNT'000	2005 MNT'000
Loan I	1,773,854	2,853,790
Loan II	454,500	–
	2,228,354	2,853,079

Loan I

(a) The World Bank USD loan amounting to USD1.0 million (2005: USD1.7 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 (2005: LIBOR 6 months USD rate + 3% per annum).

(b) The World Bank MNT loan amounting to MNT256,000 (2005: MNT384,000) 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 (2005: 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).

(c) The World Bank Training Program loan amounting to USD258,000 (2005: USD298,000) 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 (2005: 2% per annum). The loan is repayable semi–annually or quarterly until final repayment due in December 2024.

Loan II

(a) The World Bank USD loan amounting to USD300,000 (2005: USD Nil) is obtained via the Ministry of Finance and Economy. This is to finance specific investment projects through the provision of sub–loans. The loan bears interest at rate of LIBOR 6 months USD rate + 1% per annum.

(b) The World Bank MNT loan amounting to MNT105 million (2005: MNT Nil) is obtained via the Ministry of Finance and Economy. This is to finance specific investment projects through the provision of sub–loans. The loan bears interest at rate equal to the average rate for MNT demand deposits published by Bank of Mongolia for the preceding twelve months.

Asian Development Bank ("ADB")

The ADB loan amounting to USD122,000 (2005: USD136,000) 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 (2005: 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.

VTB Bank Austria (formerly known as Donau–Bank AG)

	2006 MNT'000	2005 MNT'000
Risk Participation I	2,214,267	4,888,884
Risk Participation II	4,663,864	–
Risk Participation III	6,353,432	–
	13,231,563	4,888,884

The Bank and VTB Bank Austria had entered into three participation agreements in which the VTB Bank Austria loans are to be on–lent to borrowers. Under these participation agreements, VTB Bank Austria 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. The loans bear interest rates ranging from 9% to 10.5% per annum.

Canadian Imperial Bank of Commerce ("CIBC")

The CIBC loan amounting to USD322,000 (2005: USD Nil) was entered into for the purpose of financing and refinancing Letter of Credit payment by CIBC. The interest rate is variable and calculated on the LIBOR USD rate + 0.75% per annum. Principal repayments are made semi annually and final payment is due in August 2007.

Export–Import Bank of Korea ("KEXIM")

The KEXIM loan amounting to USD520,000 (2005: USD Nil) was entered into for relending purposes to finance customers who purchase goods from Korean Exporters. The line of credit is limited to an aggregate amount of USD 2 million and this particular loan bears interest at a rate of LIBOR 6 months + 1.44% per annum. Final repayment of the loan is due in October 2007.

Atlantic Forfaiting Co. Ltd.

The Atlantic Forfaiting loan amounting to USD1.4 million (2005: USD Nil) is to on–lend to a specific borrower for the purpose of financing the import of equipments from China. The loan bears interest at a rate of LIBOR 3 months USD rate + 2.50% per annum. Principal repayments are to be made quarterly, with the final payment in November 2007.

ING Bank

The ING Bank short term loan amounting to USD5 million (2005: USD Nil) is to finance the Bank's working capital requirements. The loan bears interest at a rate of SIBOR USD rate + 2.50% per annum. Final repayment is due in March 2007.

13. Other liabilities

	2006 MNT'000	2005 MNT'000
Foreign remittance under request	65,631	594,084
Delay on clearing settlement	3,556,340	1,332,615
Other payables	1,695,271	2,944,997
	5,331,398	4,871,696

Included in other payables is an amount of MNT24,177,000 (2005: MNT1,282,050) due to a counterparty in relation to a matured spot contract.

14. Subordinated loan

	2006 MNT'000	2005 MNT'000
Loan from Asian Development Bank ("ADB")	5,242,500	5,494,500
Loan from International Finance Corporation ("IFC")	4,077,500	4,273,500
	9,320,000	9,768,000

The objective of the loan from ADB and IFC amounting to USD4,500,000 and USD3,500,000 (2005: USD4,500,000 and USD3,500,000) respectively 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 (2005: LIBOR +7% per annum). The loan is to be repaid in full on 15 December 2009.

15. Share capital

	Number of ordinary shares of MNT2,000 each		Amount	
	2006	2005	2006 MNT'000	2005 MNT'000
At 1 January	3,303,739	2,575,346	6,607,477	5,150,691
Issued during the year	1,318	728,393	2,636	1,456,786
Capitalisation of retained earnings	–	–	–	–
At 31 December	3,305,057	3,303,739	6,610,113	6,607,477

During the year, the Bank issued 1,318 (2005: 728,393) new ordinary shares of MNT2,000 (2005: MNT2,000) each through private placements for a total consideration of MNT19,506,000 (2005: MNT6,082,387,000). The share premium arising from the private placements are credited to the share premium account.

16. Share–based payments

Equity compensation benefits

On April 30 2006, the Bank established a share option programme (Employee Stock Ownership Plan) that entitles employees to purchase shares in the Bank.

All options are to be settled by physical delivery of shares. The terms and conditions of the grant are as follows:–

Grant Date	Number of shares	Vesting Conditions	Contractual life of options
Option grant to employee on 30 April 2006	20,000	3 years' service	5 years

Employee expenses

	Note	2006 MNT'000
Share options granted in 2006	21	65,520

The fair value of services received in return for share options granted is based on the fair value of the share options granted, measured using a Black–Scholes formula, with the following inputs:

Fair value of share options and assumptions	2006 MNT'000
Fair value at grant date	9,828
Share price	14,800
Exercise price	8,548
Expected volatility	22.83%
Option life	8 years
Expected dividend	0%
Risk–free interest rate (based on government bonds)	6.50%

The fair value of the liability is remeasured at each reporting date and at settlement date.

17. Interest income

	2006 MNT'000	2005 MNT'000
Loans and advances	30,175,702	18,717,654
Investment securities	1,628,894	1,350,013
Deposits and placements with banks and financial other financial institutions	4,047,859	1,806,047
Sale and repurchase agreements	184,868	18,730
	36,037,323	21,892,444

18. Interest expense

	2006 MNT'000	2005 MNT'000
Deposits from customers	12,683,292	4,926,998
Loans from foreign financial institutions	718,439	346,412
Subordinated loans	1,155,164	1,005,384
Sale and repurchase agreements	32,039	12,627
	14,588,934	6,291,421

19. Net fees and commissions income

	2006 MNT'000	2005 MNT'000
Fees and commissions income	4,854,373	3,854,291
Fees and commissions expenses	(277,465)	(270,598)
	4,576,908	3,583,693

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.

20. Other operating income

	2006 MNT'000	2005 MNT'000
Foreign exchange and translation gains, net	4,190,022	3,277,933
Rental income	–	100,527
Other operating income	95,065	106,904
	4,285,087	3,485,364

21. Operating expenses

Included in operating expenses are:

	Note	2006 MNT'000	2005 MNT'000
Staff costs		3,900,081	2,910,571
ING technical assistance fees		1,660,110	1,989,280
Depreciation on property, plant and equipment		927,754	763,550
Amortisation on intangible assets		120,578	98,258
Write off of on property, plant and equipment		45,226	–
(Gain)/loss on disposal		(1,350)	76,709
Maintenance of property, plant and equipment		174,508	96,951
Equity settled shared–based payment	16	65,520	–
Rental expense		436,088	315,286

22. Allowance for impairment losses

	2006 MNT'000	2005 MNT'000
Investment securities	(26,072)	(29,808)
(Write back)/Allowance for loan losses, net	(75,715)	3,149,782
Intangible assets	–	228,683
Allowance/(Write back) for other assets, net	1,647,172	(1,292,949)
Letters of credit and guarantee	85,294	36,918
	1,630,679	2,092,626

23. Corporate income tax

Recognised in the income statement:

Recognised in the income statement:	2006 MNT'000	2005 MNT'000
Income tax expense – current year	4,855,344	2,943,258
– prior years	(139,646)	–
	4,715,698	2,943,258
Reconciliation of effective tax rate		
	2006 MNT'000	2005 MNT'000
Profit before tax	16,544,218	10,321,931
	====	====
Tax at income tax rate of 30%	4,963,265	3,096,579
Tax effect of non–deductible expenses	403,375	121,547
Tax effect of non–taxable income	(496,296)	(259,868)
Tax effect of progressive tax rate of 15% (2005: 15%) on the portion of taxable income up to MNT100 million	(15,000)	(15,000)
Over provision in prior years	(139,646)	–
Income tax expense	4,715,698	2,943,258

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% (2005: 15%) of the portion of taxable profits up to MNT100 million and 30% (2005: 30%) of the portion of taxable profits above MNT100 million.

24. 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 Commercial Lugano of Switzerland and Gerald Metals, Inc. of Stamford incorporated in Luxembourg.

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

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

	2006 MNT'000	2005 MNT'000
i) Interest income from Gerald Metals, Inc.	108,595	157,062
ii) Loans to executive officers	553,956	460,553
Allowance for loan losses	(5,540)	(4,606)
	548,416	455,947

The loans to executive officers are included in loans and advances of the Bank (see note 6). Total remuneration to the executive officers for the year amounted to MNT421,690,460 (2005: MNT212,159,676).

25. 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 2006, the Bank's core capital ratio and risk weighted capital ratio are 14.51% (2005: 16.00%) and 18.06% (2005: 23.05%) respectively.

Components of Tier I and Tier II capital:

	2006 MNT'000	2005 MNT'000
Tier I capital		
Share capital	6,610,113	6,607,477
Share premium	7,392,192	7,375,322
Retained earnings	30,918,127	19,077,657
Total Tier I capital	43,817,659	33,060,456
Tier II capital		
Revaluation surplus	4,779,570	4,780,582
Subordinated loans	9,320,000	9,768,000
Total Tier II capital	14,099,570	14,548,582
Total Tier I and Tier II capital	57,917,229	47,609,038

Breakdown of risk weighted assets as follows:

Risk weighted factor (%)	2006 MNT'000	2005 MNT'000
0	–	–
10	–	–
20	14,048,570	11,626,294
50	24,317,582	8,374,041
100	273,567,244	186,544,298
Total	311,933,396	206,544,633

26. 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.

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 2006

	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	25,371,639	–	–	–	–	25,371,639
Deposits and placements with banks and other financial institutions	83,842,987	–	–	–	–	83,842,987
Balance with the Bank of Mongolia	25,728,407	–	–	–	–	25,728,407
Investment securities	24,017,842	3,505,280	–	–	61,350	27,584,472
Loans and advances	27,635,952	27,962,846	80,186,393	96,949,871	7,371,023	240,106,085
Other assets	10,603,078	–	–	–	–	10,603,078
	197,199,905	31,468,126	80,186,393	96,949,871	7,732,373	413,236,668
Financial liabilities						
Deposits from customers	265,101,306	25,418,329	29,729,767	4,420,135	–	324,669,447
Deposits and placements of banks and other financial institutions	9,583,124	–	–	–	–	9,583,124
Loans from foreign financial institutions	6,084,035	8,826,766	3,296,275	7,132,144	1,118,878	26,458,098
Subordinated loans	–	–	–	9,320,000		9,320,000
Other liabilities	5,331,398	–	–	–	–	5,331,398
	289,099,863	34,245,005	33,026,042	20,872,279	1,118,878	375,362,067
Net financial assets/(liabilities)	(88,899,958)	(2,776,879)	47,160,351	(76,077,592)	6,313,495	37,874,601
Cumulative total	(88,899,958)	(91,676,837)	(44,516,486)	31,561,106	37,874,601	

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	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	

(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.

As at 31 December 2006

	Effective interest rate %	Total MNT'000	Noninterest 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	–	25,371,639	25,371,639	–	–	–	–	–
Deposits and place– ments with banks and other financial institutions	4.48	83,842,987	–	83,842,987	–	–	–	–
Balances with Bank of Mongolia	–	25,728,407	25,728,407	–	–	–	–	–
Investment securities	6.48	27,523,122	–	23,382,514	4,140,608	–	–	–
Loans and advances	14.95	240,106,085	–	27,635,952	27,962,846	87,557,416	96,949,871	–
Other assets	–	10,603,078	10,603,078	–	–	–	–	–
		413,263,668	61,764,474	135,496,781	31,468,126	87,557,416	96,949,871	–
Financial liabilities								
Deposits from cus– tomers	4.20	324,669,447	66,865,922	198,235,384	25,418,239	29,729,767	4,420,135	–
Deposits and place– ments of banks and other financial institu– tions	–	9,583,124	9,583,124	–	–	–	–	–
Loans from foreign financial institutions	5.73	26,458,098	–	6,084,035	15,958,910	3,296,275	–	1,118,878
Subordinated loans	11.95	9,320,000	–	9,320,000	–	–	–	–
Other liabilities	–	5,331,398	5,331,398	–	–	–	–	–
		375,362,067	81,780,444	213,639,419	41,377,149	33,026,042	4,420,135	1,118,878
Net financial assets/ (liabilities)		37,874,601	(20,015,970)	(78,142,638)	(9,909,023)	54,531,374	92,529,736	(1,118,878)

As at 31 December 2005

	Effective interest rate %	Total MNT'000	Noninterest 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
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)

(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 2006			31 December 2005		
	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	8,471,292	16,900,347	25,371,639	5,319,365	6,452,281	11,771,646
Deposits and placements with banks and other financial institutions	11,808,811	72,034,176	83,842,987	2,126,162	60,057,244	62,183,406
Balances with Bank of Mongolia	23,834,510	1,893,897	25,728,407	6,957,719	1,868,861	8,826,580
Investment securities	23,293,247	4,291,225	27,584,472	44,017,504	2,581,101	46,598,605
Loans and advances	56,411,075	183,695,010	240,106,085	38,879,266	117,848,210	156,727,476
Other assets	3,357,574	7,245,504	10,603,078	2,216,292	4,333,969	6,550,261
	127,176,509	286,060,159	413,263,658	99,516,308	193,141,666	292,657,974
Financial liabilities						
Deposits from customers	110,473,491	214,195,956	324,669,447	67,478,176	158,755,019	226,233,195
Deposits and placements of banks and other financial institutions	23,460	9,559,664	9,583,124	20,234	10,749,591	10,769,825
Loans from foreign financial institutions	365,211	26,092,887	26,458,098	384,000	12,059,261	12,443,261
Subordinated loans	–	9,320,000	9,320,000	–	9,768,000	9,768,000
Other liabilities	2,398,026	2,933,372	5,331,398	603,458	4,268,238	4,871,696
	113,260,188	262,101,879	375,362,067	68,485,868	195,600,109	264,085,977
Net financial assets/(liabilities)	13,916,321	23,958,280	37,874,601	31,030,440	(2,458,443)	28,571,997

27. 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:

(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 fixedmaturity 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.

28. 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.

	2006 MNT'000	2005 MNT'000
Letters of credit and guarantees	21,876,720	12,352,800
Loan and credit card commitments	35,430,316	13,669,300

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.

29. 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.

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Fax: (976–01362) 23076

DARKHAN Branch
Darhan Sum, Darhan–Uul aimag
Tel: (976–01372) 33726
Fax: (976–01372) 37761

ENKHTAIWAN Branch
Enkhtaiwan Street 11–A
Sukhbaatar District, Ulaanbaatar
Tel: 976–11–312679
Fax: 976–11–312661

RAILWAY Branch
Railway Street –36
Bayangol district
Ulaanbaatar
Tel: 976–21–244867
Fax: 976–21–244818

BOGDKHAN Branch
Chinggis Avenue –10
Khan–Uul District
Ulaanbaatar
Tel: 976–11–341335
Fax: 976–11–341295

ERDENET Branch
Bayan–Undur sum, Orkhon aimag
Tel: (976–01352) 25135
Fax: (976–01352) 25155

DORNOGOVI Branch
Sainshand sum, Dornogovi aimag
Tel: (976–01522) 22298
Fax: (976–01522) 22293

BUYANT–UKHAA Branch
Chinggis Airport
Khan–Uul District
Ulaanbaatar
Tel: 976–11–379714
Fax: 976–11–379714

ZANABAZAR Branch
Juulchin Street –7
Chingeltei District
Ulaanbaatar
Tel: 976–11–312356
Fax: 976–11–311025

BAGA TOIRUU Branch
University Street 4/3
Sukhbaatar District
Ulaanbaatar
Tel: 976–11–354660
Fax: 976–11–354661

ZAMIIN–UUD Branch
Zamiin–Uud sum, Dornogovi aimag
Tel: (976–015245) 21133
Fax: (976–015245) 21168

ZUUN–KHARAA Branch
Mandal sum, Selenge aimag
Tel: (976–013647) 22623
Fax: (976–023647) 43903

URGUU Branch
Ard–Ayush Avenue
Bayangol District
Ulaanbaatar
Tel: 976–11–361968
Fax: 976–11–361975

SANSAR Branch
SKY Shopping center
Tokyo Street –46
Bayanzurkh District
Ulaanbaatar
Tel: 976–11–324658
Fax: 976–11–320061

GURVALJIN Branch
Sapporo, Unur Building
Songinokhairkhan District
Ulaanbaatar
Tel: 976–11–680241
Fax: 976–11–687547

GURVAN GAL Branch
Chinggis Avenue 8/1
Sukhbaatar District
Ulaanbaatar
Tel: 976–11–310386
Fax: 976–11–318765

SEOUL Branch
Orbit Center Building
Seoul Street
Sukhbaatar District
Ulaanbaatar
Tel: 976–11–331319
Fax: 976–11– 331318

Card Service Center
City Plaza
Seoul Street 6A
Sukhbaatar District
Ulaanbaatar
Tel: 976–11–311112
Fax: 976–11– 331882

List of Principal Foreign Correspondents

No.	Bank Name	Location	Swift	Currency	Account No.
1	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	USD	05710114011581022
2	AMERICAN EXPRESS BANK LTD.	NEW YORK, USA	AEIBUS33		00716332
3	CITIBANK N.A.,	NEW YORK, USA	CITIUS33		36202093
4	HSBC BANK USA N.A	NEW YORK, USA	MRMDUS33		000304298
5	INTERNATIONAL MOSCOW BANK	MOSCOW, RUSSIA	IMBKRUMM		001201442 USD 400302
6	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE		963–THR–287–01–1
7	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	ERLIANHAOTE, CHINA	PCBCCNBJNME		15014150509220100065
8	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	EUR	400878500801 EUR
9	DRESDNER BANK AG	FRANKFURT AM MAIN, GERMANY	DRESDEFF		499/08104402/11/888
10	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010		301–0104154–57–EUR
11	CREDIT SUISSE	ZURICH, SWITZERLAND	CRESCHZZ80A	CHF	0835–0993850–73–000
12	BANK OF TOKYO–MITSUBISHI UFJ LTD	TOKYO, JAPAN	BOTKJPJT	JPY	653–0439924
13	HSBC BANK PLC	LONDON, UNITED KINGDOM	MIDLGB22	GBP	00334567
14	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	KRW	0963 FRW 001000043
15	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	CNY	710101011821011
16	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	ERLIANHAOTE, CHINA	PCBCCNBJNME		15001658408052501192
17	HSBC BANK AUSTRALIA LTD	SYDNEY, AUSTRALIA	HKBAAU2S	AUD	011–795630–041
18	HSBC BANK CANADA	TORONTO, CANADA	HKBCCATT	CAD	930135598060
19	INTERNATIONAL MOSCOW BANK	MOSCOW, RUSSIA	IMBKRUMM	RUB	001201442 RUR 420202
20	HONGKONG AND SHANGHAI BANKING CORPORATION LTD	AUCKLAND, NEW ZEALAND	HSBCNZ2A	NZD	040–013294–261
21	HANG SENG BANK LTD	HONG KONG	HASEHKHH	HKD	250–012796–001
22	OCBC BANK	SINGAPORE	OCBCSGSG	SGD	517–123360–001

List of abbreviations

ADB – Asian Development Bank

ALCO – Asset and Liabilities Management Committee

BoM – Bank of Mongolia

CBD – Corporate Banking Department

CRC – Credit Risk Committee

EMTN – Euro Medium Term Notes

JBIC – Japan Bank for International Cooperation

IFC – International Finance Corporation

KDB – Korea Development Bank

MOU – Memorandum of Understanding

SME – Small Medium Enterprises

SGD – Singapore Dollar

TDB – Trade and Development Bank

RMD – Risk Management Department

VAR – Value at Risk