TRADE & DEVELOPMENT BANK OF MONGOLIA

2007

ANNUAL REPORT

The first Mongolian company ever

to issue in the international capital markets

USD 75 million senior unsecured bond

within a USD 150 million EMTN Program

ХУДАЛДАА ХӨГЖЛИЙН БАНК
TRADE & DEVELOPMENT BANK OF MONGOLIA

Vision

TDB will be the leading financial institution in Mongolia, a universal bank with a strong international presence, a dedicated, trusted and responsible financial partner helping all its clients and stakeholders in their pursuit of sustainable financial well-being.

Mission

As the leading universal bank in Mongolia TDB constantly aims to achieve highest customer satisfaction by developing and providing demand driven, valuable banking solutions for corporate, SME and retail customers. Our success will be built upon our commitment to excellent service, staff professionalism and best corporate governance.

Moody's Investors Service

- long- and short-term foreign currency deposit ratings	B2/NP
- long- and short-term local currency deposit ratings	Ba1/NP
- long- and short-term foreign currency issuer ratings	Ba2/NP
- long- and short-term local currency issuer ratings	Ba1/NP
- senior unsecured foreign currency issue	Ba2
- subordinated foreign currency issue	Ba2
- outlook	stable

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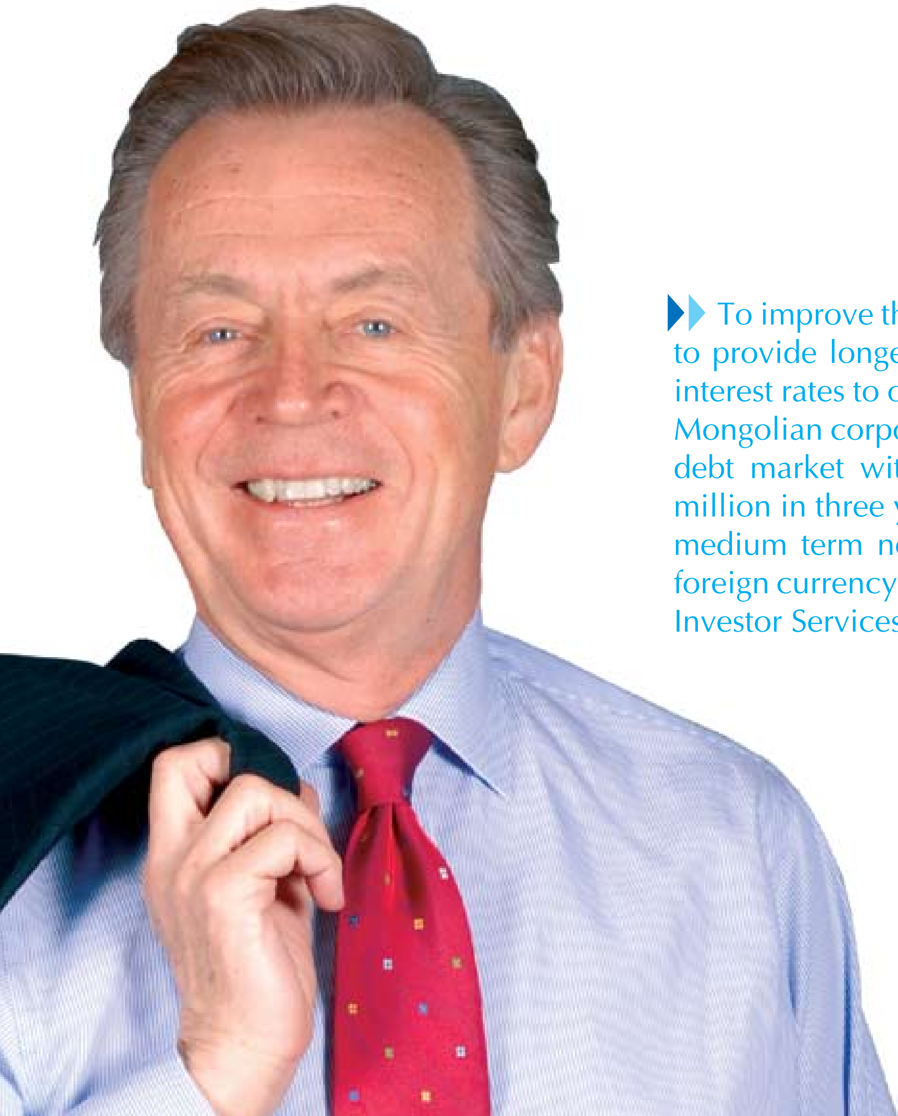


To improve the bank's funding profile to enable us to provide longer term financing at more affordable interest rates to our clients, TDB became the first ever Mongolian corporation to tap the international public debt market with an inaugural issuance of US 75 million in three year bonds under a USD 150 million medium term note program. This senior unsecured foreign currency note issue was rated Ba2 by Moody's Investor Services.

RANDOLPH KOPPA, PRESIDENT

MESSAGE FROM THE PRESIDENT

2007 marked TDB's seventeenth year serving the financial needs of the people of Mongolia, and I am proud to report that Mongolia's first bank continued its leading role in the financial sector, and turned in excellent results. Total assets grew 32.1 percent to MNT 563.2 billion while net profit after tax rose 39.3 percent to MNT 16.4 billion. This represented a 29.8 percent return on average shareholders equity.

TDB supported the strong growth in the Mongolian economy and maintained its leading focus on financing corporations active in all sectors of the economy. The corporate loan portfolio reached MNT 278.8 billion and represented 72 percent of the bank's loans. The bank continued to finance all economic drivers of the country, including mining, petroleum distribution, manufacturing, construction, transportation, and wholesale and retail trade.

Particular emphasis has been placed on working with Mongolia's small and medium sized enterprises and TDB was active in participating in the on lending programs of the World Bank and Japan Bank for International Cooperation aimed at private sector and SME development.

I am also pleased to report a continued improvement in the quality of the bank's loan portfolio, due to applying strong underwriting and loan monitoring standards, and vigorous collection activity on non performing loans. As a result, non performing loans were reduced almost 30 percent, and the year end figure of MNT 7.9 billion, represented a very acceptable NPL ratio of 2.0 percent.

To improve the bank's funding profile to enable us to provide longer term financing at more affordable interest rates to our clients, TDB became the first ever Mongolian corporation to tap the international public debt market with an inaugural issuance of US 75 million in three year bonds under a USD 150 million medium term note program. This senior unsecured foreign currency note issue was rated Ba2 by Moody's Investor Services. The transaction was 9 times oversubscribed, and in total 96 investors from 13 countries purchased the bonds. Looking ahead, the bank intends to continue to access the international capital markets to help manage stable, steady growth and an optimum priced funding structure to achieve our goal of providing the best priced financing to our clients.

The global integration of financial markets is bringing far-reaching effects to Mongolia. The domestic market is witnessing increasing competition among commercial banks, plus a growing presence of foreign institutions and other institutional and private investors, resulting in a growing capital market. In response to such developments and in pursuit of its global activities, TDB is redoubling its efforts to continuously improve its existing international banking practices and to develop new business at home and abroad.

TDB continued its strong and dominant role in the financing of the country's imports and exports. The bank issued a record volume of import letters of credit, and maintained its dominant position in the foreign exchange activity of Mongolia. These activities, plus the issuance of debt on the international market, clearly justify the bank's designation as the international face of Mongolia. To support its international activity, the bank continues to work with major international banks and financial institutions. In addition to direct correspondent relationships with over 80 banks around the world, including accounts with major banks such as HSBC, American Express Bank, ING Bank, Commerzbank, Korean Exchange Bank, Agricultural Bank of China, China Construction Bank, Bank of Tokyo Mitsubishi UFJ, and Mizuho Bank, the bank has developed a good name in the international markets and enjoys access to a broad range of financing. The bank was the first Mongolian Bank to be included in the IFC's Global Trade Finance program, and has expanded its participation in the refinancing programs of the Export- Import Banks of Korea and Taiwan. In addition, the bank has been assigned a USD 27 million line by Sinosure, to assist in financing imports from China. The bank continued to expand its trade finance credit lines from major banks in Asia, Europe and North America. During the year total lines grew by 15% to reach USD 101 million, which has helped us provide our clients with attractive financing packages for imported commodities, consumer durable goods and capital equipment.

As the economy expands new business opportunities are arising, and new financial services are being required. As the leading bank in Mongolia, TDB has moved to the next level of services by establishing an Investment Banking Department, with the goal of helping Mongolian companies raise funds in the international and local capital markets. Leveraging our relationships with clients developed through our strong commercial banking base, we strive to offer our clients advanced solutions and products that contribute to enhancing their corporate values. These include syndicated loans, and commercial real estate financing. Moreover, TDB has a full range of services, including securities and trust services which enable it to offer a seamless package of financial services.

Technology continues to make enormous advances which create challenges and opportunities in the way we process payments, run cash operations, and deliver other services. The Bank introduced into the Mongolian financial market several sophisticated products such as Fly card, SMS banking services with Unitel. 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.

My sincere appreciation goes to our fellow directors for an outstanding job in 2007. We came through a tough year and emerged more unified than ever, with a strong sense of purpose about where we want to take our Bank in the years ahead.

Finally, on behalf of all of us at TDB, I express our sincere gratitude to all our esteemed clients and associates for their steadfast support and cooperation, which we trust will continue for years to come. With your continued support, I am confident that TDB will be able to continue to successfully contribute to Mongolia's development and to the prosperity of all its stakeholders.

The bond issue improved the recognition of TDB in international markets and opened the possibilities for the next Mongolian banks and companies to enter into the international capital markets.

BALBAR MEDREE, CEO

MESSAGE FROM THE CEO

Dear Shareholders, Clients, Partners and Staff,
On behalf of the Executive Board, I am pleased to report the 2007 performance of Trade and Development Bank (TDB).

The reporting year was the year of the Bank ownership transference from international shareholders to national shareholders, and our efforts were intensive during this year of big changes. As a result we added a page of rich history into the Bank's development records.
One of the main factors of TDB achievements in 2007 is the support shown by the Bank customers, partners and clients who have been cooperating with us during those times

and I would like to express my sincere gratitude to them.

Moreover, in 2007 TDB became the first bank in the Mongolian banking sector whose total assets reached half trillion MNT representing 20 percent of the total banking market. Thus, the Bank was able to maintain the highest single borrower lending limit among Mongolian banks, thereby enabling TDB to effectively support the major companies in all the key sectors which drive the Mongolian economy.

As you know, the internationally well known rating agency Moody's Investors Service, did a the rating for TDB. 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 Note (EMTN) Program arranged by ING Bank in January 2007. This debut issuance improved the recognition of TDB in international markets and opened the possibilities for the next Mongolian banks and companies to enter into the international capital markets.

Some important measures were implemented during the reporting period to intensify and elaborate the Bank's activities, including organizational restructuring, cost monitoring and rationalization of the cost planning. As a result of those measures TDB's capabilities and productivity improved significantly.

Today TDB offers 60 types of international standard banking products through its more than 600 highly professional staff utilizing the most modern technology.

One of the factors increasing the competitive advantage of TDB is that we emphasize effectively to implement latest information technology developments into the Bank operations. Within the framework of this activity, in 2007 we renewed the accounting software of the Bank and moved to a new software which supports international accounting standards.

We are looking forward into the future with optimism and are striving to ensure the Bank achievements through strengthening the cooperation with our customers and clients, satisfying their need through launching new products tailored to their demands, expanding syndication, trade finance, project loan and investment banking activities, and increasing the number of branches.

I hope that we will realize all our plans in 2008 with the help of the Bank skilled staff and management team, customers, partners and clients.

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
President
Mr. Balbar MEDREE
CEO
Mr. Onon ORKHON
First Deputy CEO
Ms. Damdin GANTUGS
Deputy CEO
Mr. Dambiijav KHURELBAATAR
Deputy CEO

ACHIEVEMENTS OF 2007

- The Government of Mongolia jointly with Mongolian National Chamber of Commerce (MNCoC) highly valued TDB's contribution to the Mongolian economic and social development and recognized TDB as one of the top 5 banks.

- Mr. Randolph Koppa, President of TDB, was awarded "The highest value contributor to the development of the Mongolian financial market" within "Silk Road award 2007" by MNCoC.

- TDB was awarded "Visa Outstanding Debit Card Issuer 2007" by VISA International for its best performance in issuing new cards, high quality service and number of transactions done in the year.

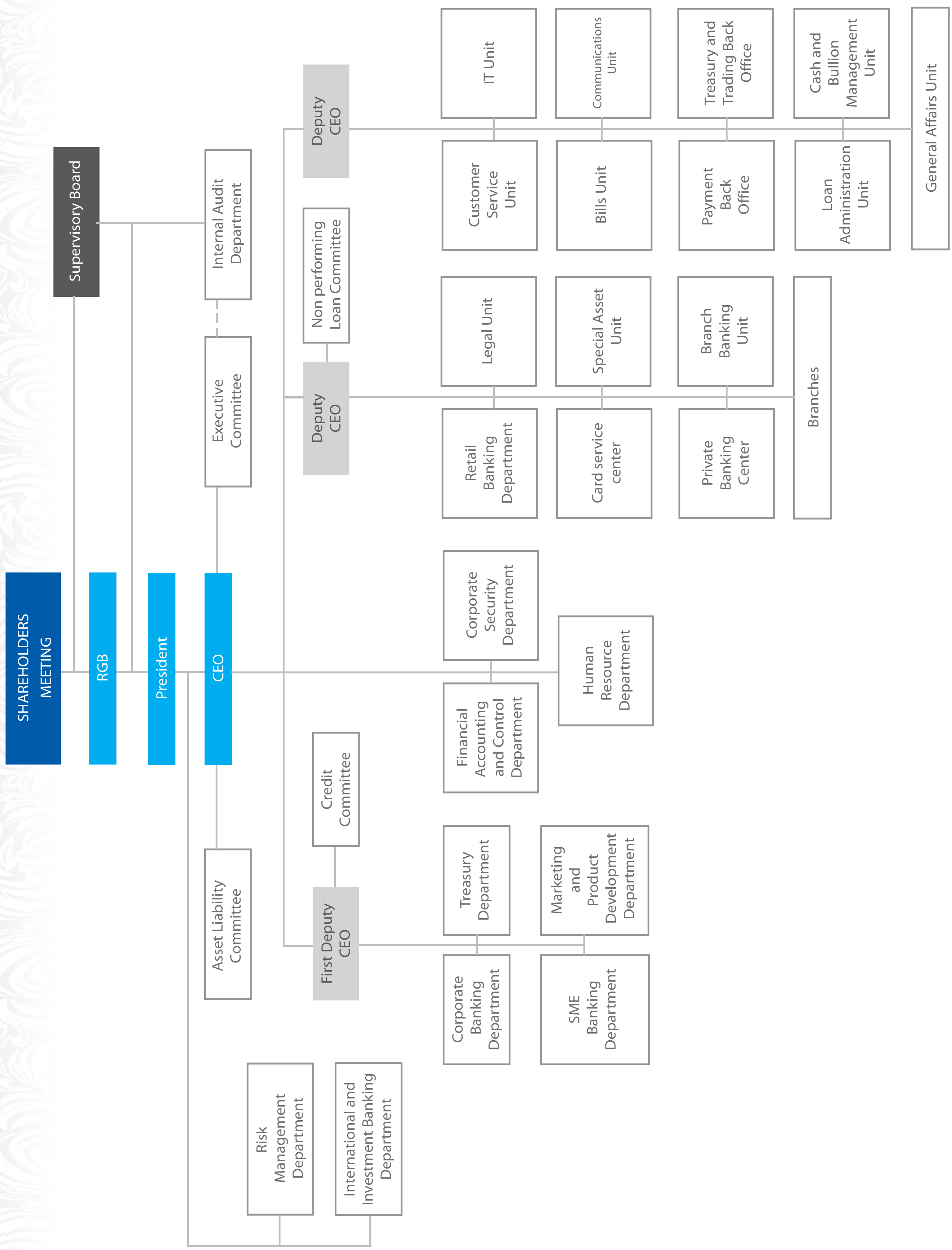
- MasterCard WORLDWIDE valued highly TDB's growth of received payments by MasterCard in Mongolian market and awarded "Best Acquiring Business Growth of the Year (Mongolia)".

- Mr. L.Nyamsuren, Director of HRD was awarded "The Professional of Banking and Financial Sector" and Ms. D.Otgonbileg, Director of Internal Audit Department and Mr. J.Tsogtbayar, Director of Bullion and Cash management Unit were awarded "The Honoured Diploma" by Bank of Mongolia.

- Mongolian Banker's Association awarded Ms. Ya. Chuluuntsetseg, a teller of Erdenet Branch, as "The Best Teller of the Year", Ms. Ch.Buyanjargal, Manager of Bogdkhan Branch, as "The Best Branch Manager of the Year", Mr. P.Baatarchuluun, a loan officer of Darkhan Branch, as "The Best Loan Officer of the Year" Mr. T.Davaajav, a dealer of Treasury Department, as "The Best Dealer".

- The Bank was awarded "The Best Tax Payer of the Year" by National Taxation Authority for its MNT 5 billion tax payment to the state budget.

- The Bank was awarded for the best implementation of social responsibilities by MNCoC.


SHAREHOLDERS MEETING
Supervisory Board
RGB
President
CEO
Internal Audit Department
Executive Committee
Asset Liability Committee
Risk Management Department
International and Investment Banking Department
First Deputy CEO
Credit Committee
Corporate Banking Department
Treasury Department
SME Banking Department
Marketing and Product Development Department
Financial Accounting and Control Department
Corporate Security Department
Human Resource Department
Deputy CEO
Non performing Loan Committee
Retail Banking Department
Legal Unit
Card service center
Special Asset Unit
Private Banking Center
Branch Banking Unit
Branches
Deputy CEO
Customer Service Unit
IT Unit
Bills Unit
Communications Unit
Payment Back Office
Treasury and Trading Back Office
Loan Administration Unit
Cash and Bullion Management Unit
General Affairs Unit

Mr. Dambiijav KHURELBAATAR
Deputy CEO

Mr. Onon ORKHON
First Deputy CEO

Ms. Damdin GANTUGS
Deputy CEO

Mr. Gombosuren USUKHBAYAR
Director, SME Banking Department

Ms. Bayarbaatar BAYARMAA
Director, Retail Banking Department

Mr. Naidansuren ZOLJARGAL
Director, International & Investment Banking Department

Ms. Navaansharav NYAMSUREN
Director, Corporate Banking Department

Mr. Anya MUNKHBAYASGALAN
Director, Marketing, Product Development Department

Ms. Demchigjav OTGONBILEG
Director, Internal Audit Department

Ms. Dagmid YANJMAA
Director, Financial Accounting Control Department

Mr. Luvsan NYAMSUREN
Director, Human Resource Department

Ms. Zagdragchaa ERDENETSATSRAL
Director, Risk Management Department

Mr. Ichinnorov ORKHONKHUU
Director, Information Technology Unit

Ms. Vanchigsuren ENKHTSETSEG
Director, Branch Banking Unit

Mr. Sharavsambuu ENKHTUR
Director, Legal Unit

Mr. Baasandorj BATZAYA
Director. Corporate Security Department

BANKING SECTOR REVIEW 2007

According to the Bank of Mongolia (BoM), by the end of 2007, the money supply (M2) increased by MNT 864.6 billion or 56.3 percent from the previous year, reaching a level of MNT 2 401.1 billion.

Cash in circulation increased by MNT 119 billion or 48.5 percent from the previous year, reaching a level of MNT 364.1billion. Time deposits of individuals and organizations increased by MNT 421.2 billion or 60.8 percent from the previous year, reaching a level of MNT 1 113.7 billion. Foreign currency savings deposit increased by MNT 73.1 billion or 24.1 percent from the previous year, reaching a level of MNT 376 billion.

Asset repayment period was 229 days on average, while liability repayment period was 124 days on average for the total banking sector. By the end of the reporting period the highest liquidity ratio among banks was 163 percent while the lowest was 9.9 percent.

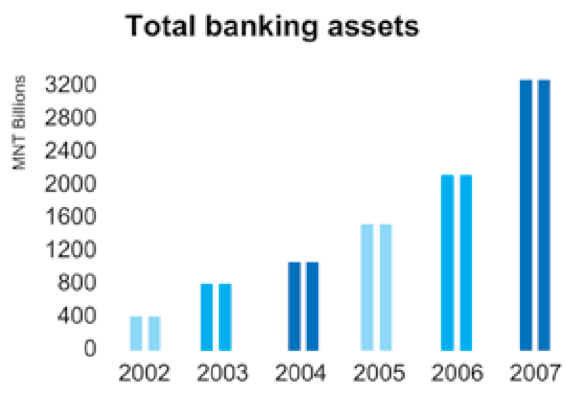
Due to the BoM regulation, commercial banks should hold foreign currency open position within +/-15 percent for a single currency and within +/- 40 percent for total currencies. In 2007 foreign currency open position reduced by 0.6 points on average and became 30.1 percent for the total banking sector, thus was within the required limit.

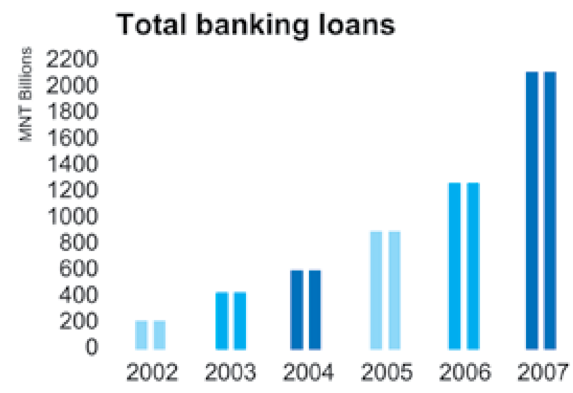
The banking sector is developing continually and activities are expanding. In the reporting period Total asset/GDP ratio was 74.2 percent, Loan/GDP ratio was 45.1 percent, Saving deposit/GDP ratio was 32.1 percent and Demand deposit/GDP ratio was 13.6 percent representing respective growth from 2006. An evidence of increasing range of banking services is mortgage loan growth in the market. Total disbursed amount of this loan increased by MNT 68.4 billion from the previous year reaching MNT 143 billion.

By the end of 2007, the composition of the total banking sector asset was as follows: net domestic loan 60 percent, foreign assets 12.5 percent, due from other banks 7.5 percent, bank reserves 7.4 percent and other assets 12.6 percent.

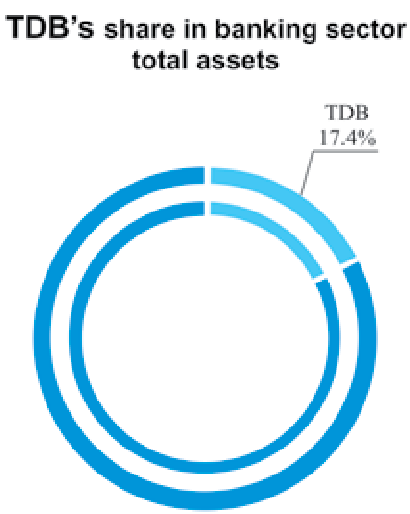
As of the end of the reporting year, loans to business entities and individuals were up by 68.1 percent from the same period of last year reaching MNT 2 056.1 billion. According to classification of loans by type of borrowers, loans to the private sector increased by 83.3 percent, to individuals by 67.8 percent, to other sectors by 32 percent and to financial institutions by 56.6 percent, while loans to government sector decreased by 28.5 percent. However past due loans and non-performing loans increased by 21 percent and 13.4 percent respectively. Non- performing loan accounted for 3.3 percent of total loan portfolio of the banking sector being MNT 68.1 billion.

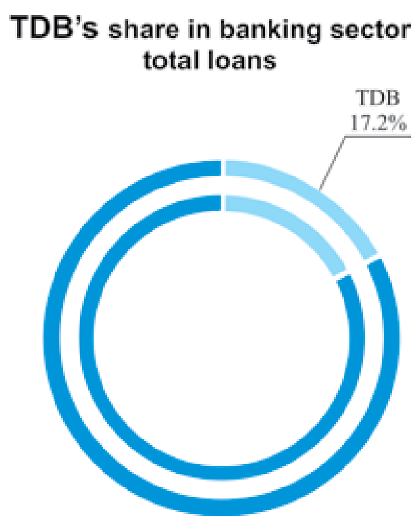
Total loan portfolio share in total banking assets was between 48-54 percent in last 4-5 years, which was the result of the BoM policy not to allow loan portfolio percentage above 50 percent of total assets, and the banks' interests to place their resources in lower risk assets to avoid undue credit risks.





At the end of 2007, 16 commercial banks were operating in Mongolian banking sector. TDB's total assets had grown to MNT 563.5 billion, in increase of MNT 137.2 billion or 32.2 percent over 2006, representing 17.4 per cent of the total banking sector assets. Gross loans were up 147.2 billion or 54.6 percent from the end of 2006 to MNT 387.3 billion, representing 17.2 per cent of the total banking sector loans.





HIGHLIGHTS OF THE YEAR

TDB's total assets reached MNT 500 billion for the first time in the Mongolian banking sector.

• TDB's total assets reached MNT 500 billion for the first time in the Mongolian banking sector.

• In January 2007, the Bank successfully completed 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 Note (EMTN) Program arranged by ING Bank.

• Investment Banking Department was established to assist Mongolian companies and businesses to raise funds in international and domestic financial markets.

• International banking cooperation expanded and Mizuho Corporate Bank, Commerzbank, Bank Austria Creditanstalt and Vneshtorgbank opened new credit lines for TDB.

• The Bank signed a General Cooperation Agreement with Bayern LB in June 2007 and new possibilities opened to finance customer's long term trade finance activities.

• Business cooperation with BhF Bank, Germany expanded and a Framework Agreement between the two banks was signed which will enable the long term financing and insurance of import businesses of TDB customers from EU countries by Export Credit Agencies.

• Long term projects of the Bank's SME clients were financed within the framework of "Private Sector Development Loan 2" of World Bank.

• An agreement was assigned on TDB's participation as a transferring bank in the "Two Step Loan for Development of SME and Environmental Protection Project" financed by Japan Bank for International Cooperation was finalized.

• SMS banking service expanded through a new cooperation with UNITEL company, the third largest mobile operator in the country.

• The new Fly card service was launched in cooperation with Skytel company, which enabled customers to purchase prepaid calling cards only by sending a message and not having to depend on distance and time.

• The Bank's on-line network was renewed and enabled to receive JCB and MasterCard cards for payment.

• TDB was authorized by VISA International to be the first bank in Mongolia to receive VISA EMI card for payment.

• TDB's own named MasterCard was launched to the market.

• The Commercial Mortgage product was launched to the market for the Bank's customers needing to purchase and rent working premises.

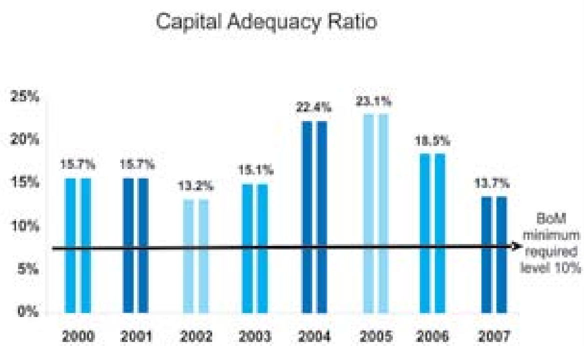
• Overdraft Loan product, launched for the needs of corporate customers became the rational financial solution for their short-term financing needs.

• Chingeltei Branch was opened newly to bring the Bank services closer to its customers.

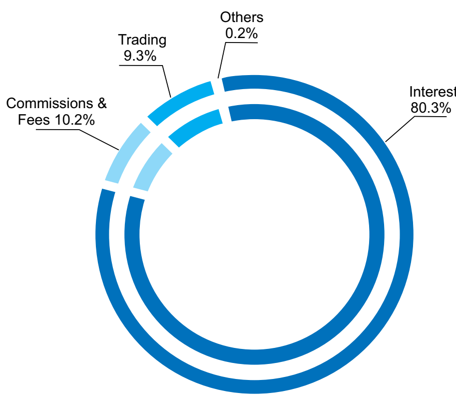
FINANCIAL RESULTS

Total assets grew 32.1 per cent to MNT 563.2 billion while net profit after tax rose 39.3 per cent to MNT 16.4 billion. This represented a 29.8 per cent return on average shareholder equity.

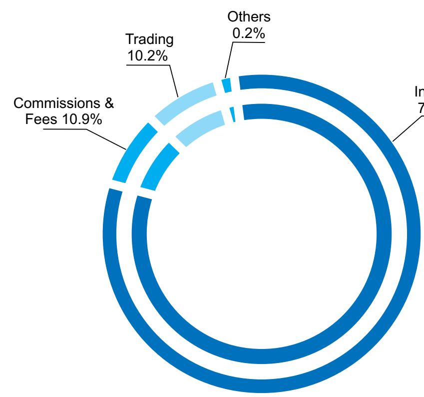
		MNT million
Summary of Consolidated Statement of Income	**2006**	**2007**
Interest income	36,037	47,322
Net interest income	21,448	20,647
Operating income	30,310	31,073
Net profit	11,774	16,396
Profitability ratios		
RoE	23.7%	23.9%
RoA	2.8%	2.9%
Summary of Consolidated Balance Sheets		
Asset		
Cash and placements with banks and FIs	134,943	110,375
Loans, advances and securities	240,106	382,308
Other	51,243	70,819
Total assets	426,292	563,503
Liabilities		
Deposits from customers	324,669	373,018
Due to banks and FIs	36,041	22,649
Other liabilities	6,562	98,205
Subordinated loans	9,320	9,359
Total liabilities	376,592	503,233
Shareholders equity	49,700	60,270
Total liabilities and shareholders equity	426,292	563,503
Prudential ratios		
Capital adequacy ratio (>10%)	18.5%	13.7%
Liquidity ratio (<18%)	27.5%	26.0%
Foreign currency exposure (<10%)	1.5%	0.6%
Single borrower exposure/Capital funds (<20%)	14.8%	18.0%
Related person loans/Capital funds (<5%)	0.1%	0.1%



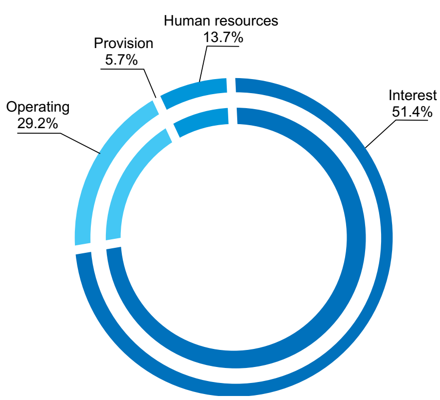
2006 Income



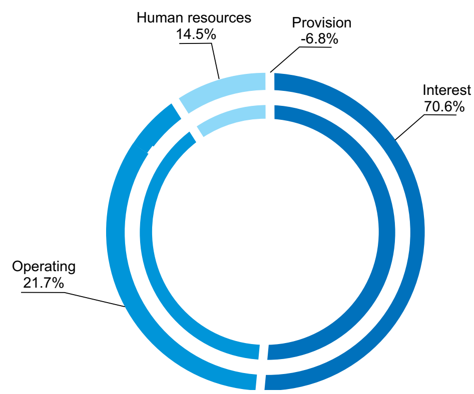
2007 Income

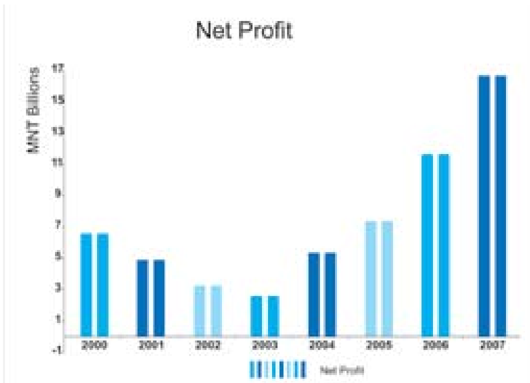


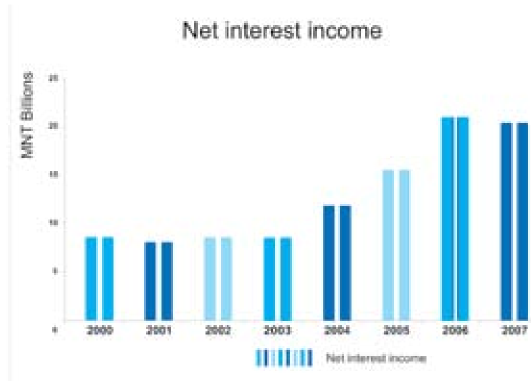
2006 Expenses



2007 Expenses





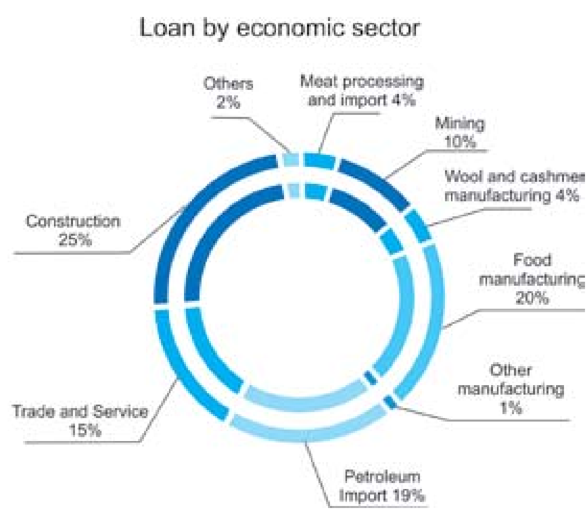


Corporate Banking

TDB targets big businesses operating in key sectors of the economy and provides them continuously top quality banking services.

Products

Business loans
LCs
Guarantees
Commercial mortgage loans

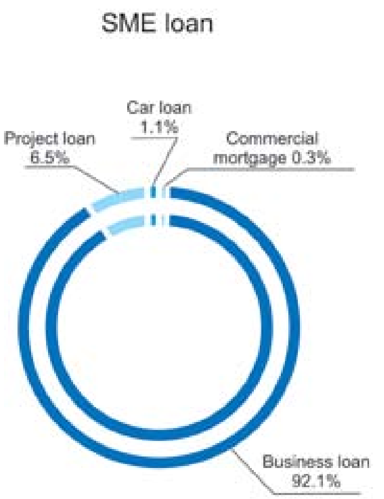


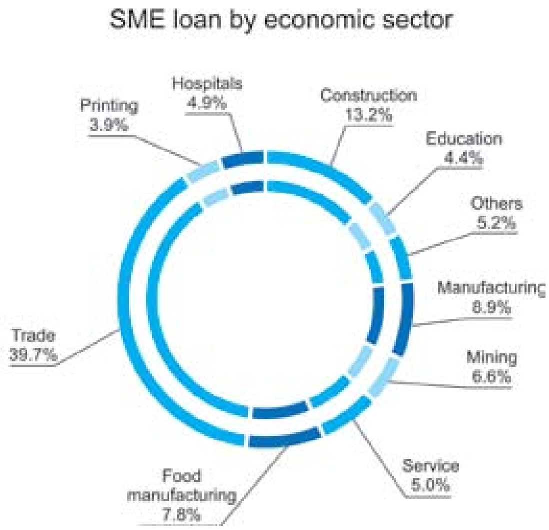
SME Banking

TDB supports SME businesses not only by its own funding, but also by resources attracted from international banking and financial institutions.

Products

Working capital loans
Long term
Commercial mortgage loans
Import loans
Project loans



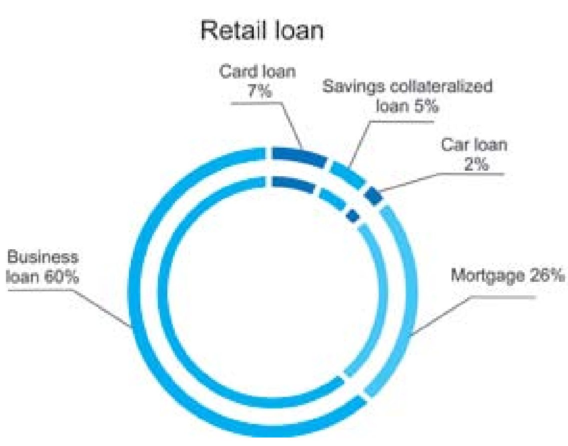


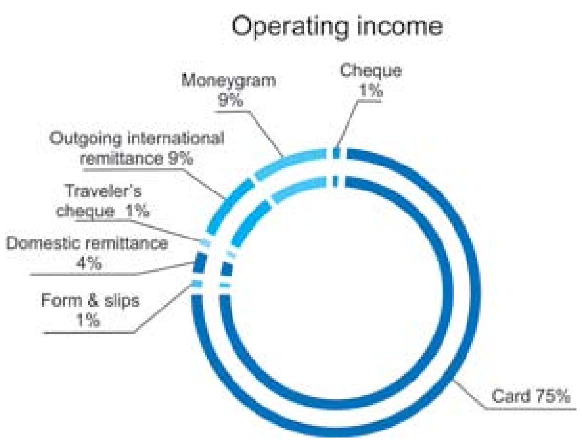
Retail Banking

TDB serves various individual banking needs of customers on time and reliably.

Products

Personal accounts
Savings
Safe deposit box
Cards
Cheques
Loans
Remittances





CORPORATE BANKING

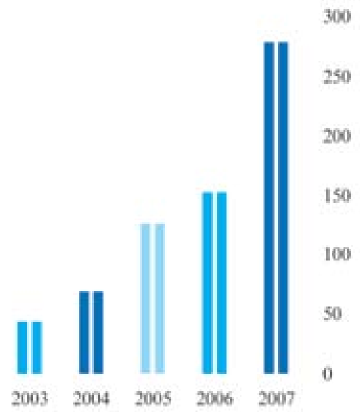
By successfully raising low interest funds from the international financial market, TDB has been able to provide longer term loans to its corporate clients at lower interest rates.

In the reporting year of 2007, the main objectives of Corporate Banking Department (CBD) were the following: to continue to provide its top quality services to the target market consisting of big businesses operating in key sectors of the economy; to increase the income from those services by more than 30 percent; to reduce the percentage of non-permorming loans in the total loan protfolio; and to expand further its cooperation with international financial institutions.

In order to achieve yearly objectives successfully, an internal restructuring of the

department was done in February 2007. CBD was divided into three sections: sales, analysis and monitoring. The new structure supports effectively a more profound recognition of customer needs, enables prompt decision of loan requests, better cross-selling of products to one customer and stronger monitoring of loans.
As a result of rationally planned objectives and restructuring, CBD's productivity increased and the loan portfolio reached MNT 278.8 billion increasing by MNT 124.8 billion from the end of 2006.

Corporate Loan Portfolio Growth
(MNT bln)

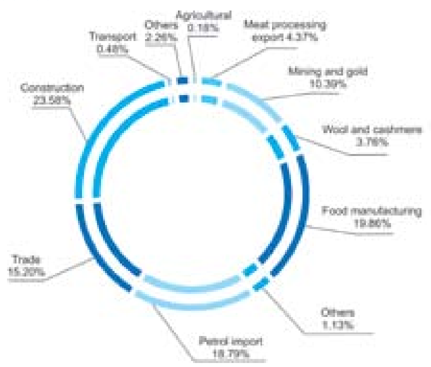


The Bank launched new products such as commercial mortgage and overdraft loan to meet the growing demand of customers in line with the expansion of the Mongolian economy.
Commercial mortgage became the first long term and real estate loan product on the Mongolian financial market.

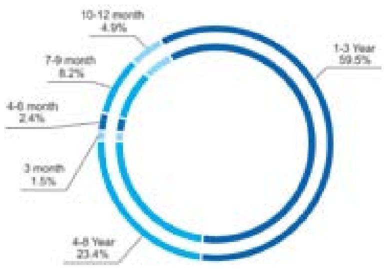
Overdraft loan became a well serving product to facilitate CBD customers' short term financial shortage. By the end of the year overdraft loan facilities granted amounted to MNT 2 billion.

Moreover, CBD has been providing a complex list of products and services to its customers regularly.

The following charts show the Bank's loan portfolio structure and terms by economy sectors.



2007 year



2007 year

In order to improve loan portfolio quality and reduce risk, “Loan guideline for corporate and SME clients” and “Loan policy for gold mining, meat processing and construction sectors” were developed in cooperation with Risk Management, Legal and Compliance departments and Loan Administration Unit. Amendments to the “Terms of fees and commissions of LCs and guarantees” were done on the basis of investigating market competition and customers demand. These activities resulted in shortening of the loan decision making process, protecting both the Bank and customers from business and other risks, providing services according to the customer’s demand and reducing customer financial costs.

While the Bank has managed to finance customer projects which exceeded its legal lending limit through syndication of loans with international financial institutions in previous years, in the 2007 TDB started to cooperate with domestic financial institutions.

A much stronger loan base, and more LC and guarantee services had a direct effect on interest and fee revenues of CBD. In the reporting period, interest and fees revenues of CBD increased by 32 percent from the previous year and reached MNT 26.3 billion.

The table below shows the income performance of CBD for each service.

	2006	2007	Growth 2006/2007
	Performance	Performance	
Total	**19,915.1**	**26,290.3**	32%
Interest income	19,045.5	23,791.3	24.9%
LC	693.3	1,182.2	70.5%
Guarantee	176.3	307.2	74.3%

RETAIL BANKING

Thanks to the successful issuance of USD 75 million registered notes, TDB lowered its residential mortgage loan rate to 1.3 % per month. As this product offered the most favorable terms in the market, its total amount increased by MNT 8.2 billion over the prior year- end level.

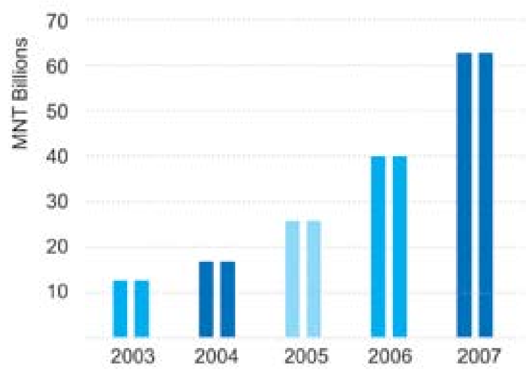
The main objectives of Retail Banking Department (RBD) of TDB were to expand its range of retail products and services, increase small business lending, broaden product distribution channels and intensify the implementation of leading edge technologies in the reporting year.

A successful performance and achievements of the reporting year facilitated the further reduction of fees and interests.

Retail loans

As of the end of 2007, the total outstanding retail loan portfolio was MNT 62.6 billion, which represented 16.1 percent of the total loan portfolio of the Bank. Compared to the outstanding loan portfolio of the previous year the growth rate was 57 percent.

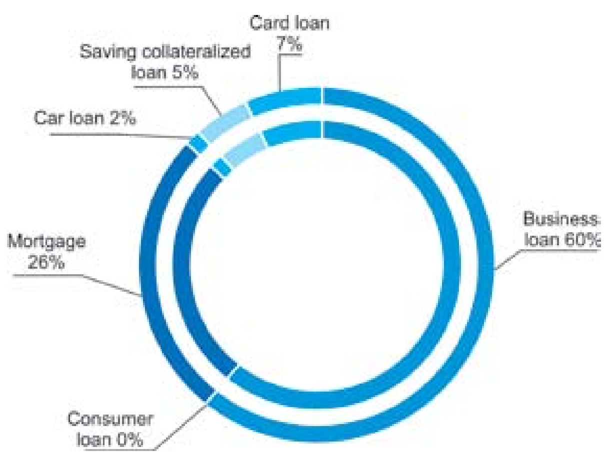
The following chart shows retail loan portfolio growth.



A much larger loan base had a direct effect on interest revenues of RBD. In 2007, the total interest income earned by RBD reached MNT 10 billion, representing 17.9 percent growth from the previous year.

As the Bank's residential mortgage loan was the most favorable term product in the market, its total amount increased by MNT 8.2 billion in the reporting year reaching 26 percent of retail loan portfolio, while it was 16 percent in 2006.

The chart shows the retail loan portfolio structure.

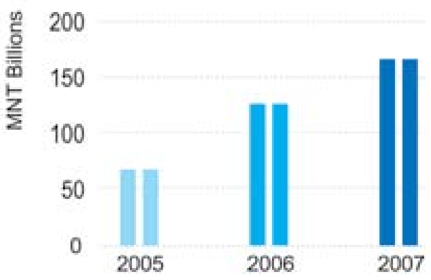


Moreover in the reporting period RBD made its business loan, mortgage and salary loan products' terms more attractive by lowering their interest rates by 0.4-0.8 percentage points per month. And new products such as pension collateralized loan were launched into the market.

Retail saving deposits

In the reporting period individual saving deposits grew up by MNT 32 9 billion, amounting to MNT 156.4 billion as of December 31, 2007. Growth rate equaled to 26.7 percent compared to the end of 2006.

The chart shows the retail saving deposit growth in last years



Saving deposit in CHY was launched into the market in addition to deposits in currencies MNT, USD and EUR. As a result the Bank became the receiver of saving deposits in the biggest number of currencies in Mongolia.

Payment services

The bank offers the "MoneyGram" international money transfer service to its customers in Ulaanbaatar and rural areas in cooperation with agent banks such as Mongol Post, Capitron, Anod, Erel, Ulaanbaatar City through the joint network system.

As a result of various measures to promote the service, the total amount of transactions increased by 35.8 percent reaching USD 27.7 million in the reporting period.

There are only three countries in the world which offer American Express Gift Cheque service within the framework of international banking cheque services and Mongolia is one of them. TDB became the first bank to offer this cheque, saving its customers time spent in buying presents.

Within the Mongolian banking sector TDB offers the widest range of virtual banking channels, such as SMS banking, e-banking, e-billing, payment service through fax

machine, Fly card service and ATMs. These all resulted in more customer satisfaction, low cost, convenience, simplicity and easy access.

In the reporting period, the Bank launched its new Fly card service in cooperation with Skytel which is the one of the biggest mobile service providers in Mongolia. Fly card service enables customers to purchase prepaid calling cards only by sending a message not dependent on distance and time. A customer's card or deposit account in TDB is used for making the payments.

The number of instances our SMS banking service was used increased by 7.5 times, and the number of customers reached 9900, a 3.4 times increase from 2006.

Moreover, TDB was the first bank to introduce automated teller machines (ATMs) to the Mongolian market and has the most ATMs in the country. In the reporting period the number of ATMs increased and 35 ATMs in Ulaanbaatar and 9 ATMs outside the city were in the service. Information technology development trend confirms that ATMs will fully replace 24-hour banking branches in the near future because of convenience and multi-functionality, low cost and easy access.

Private Banking

Private Banking Center of RBD serves foreign and domestic high income customers with various banking products designed for their needs in a highly secure and comfortable environment. This activity of the Bank has been contributing significantly to an increase in customers numbers and deposits.

In the reporting period the number of customers of Private Banking Center increased by 30 percent and their deposits with the Bank rose by MNT 4 billion, or 18 percent.

Private Banking Center provides its customers the VISA Platinium Card, which offers the highest credit limit and flexible financial terms. In 2007 the number of Platinium Card holders increased by 42 percent from the previous year.

Card service

In the reporting period the Bank was maintaining its leading position in card related products by improving existing features of cards and introducing new products.

Moreover, 2007 was a successful year for the further development of TDB's card business. TDB is still the only bank that offers its merchant partners to accept transactions from all major card issuers of the world such as American Express, Visa, MasterCard and JCB. In 2007 the Bank issued 28 000 new cards and the total number of cardholders grew to be more than 100 000. This is a 38 percent growth from the previous year.

Besides a successful issuing year, TDB has expanded its business range by becoming able to receive MasterCard for payments beginning from the middle of 2007. To expand the network of agent banks the Bank has been cooperating with other domestic banks.

TDB has always been striving to provide convenient and user friendly services to its customers. Within the frame of this objective our online services have been upgraded to better suit Mongolian customer needs and overall virtual channel services have been brought to best industry levels. For example, e-billing service was implemented successfully together with MobiCom Corporation, Mongolia's first and biggest mobile service provider, to provide convenience for Mobicom's post paid customers' bill payments. Mobicom's Loyalty card service was enhanced and the cardholders' collateral for Mobicom company service started to be deposited in saving accounts in the name of a cardholder. The initiative was highly appreciated by customers. Moreover, the start of an on-line payment service of the world accepted JBC card supported the Bank's competitive advantage to receive the most number of payment cards for service.

Previously launched products such as e-banking and pre-paid card sales service through ATM's were upgraded to increase the security of their operations. Sales channels of pre-paid cards through the Bank were expanded and the Bank customers became able to buy call units from their accounts using their mobile phones.

For the purpose to realize customers demand and respond to it, TDB offered the most favorable and flexible terms in the market for fees and commissions of its card related products. This policy resulted in 38 percent increase of cardholders' numbers and more than 50 percent increase of income from card service fees and commissions.

To increase the security of card service operations and shorten the service delivery time, the Bank's ATM network was upgraded by the use of high-speed fiber optic cables. Moreover, the continuous and non-stop operation of the card payment system was maintained at a high quality level.

As a tradition TDB organizes the Merchant organizations' conference of its card service in the first quarter of every financial year to maintain better communication and collaboration with merchants, to exchange opinions and to define further policies. 2007's conference became an important event to get a sense of the market for the acquiring business in the environment of a rapidly growing and intensively competitive banking industry.

Branch management

TDB established the Branch Management Unit in July 2007 to intensify its branches' business activities.

Main objectives of the newly established Branch Management Unit were to increase the number of branches up to 22, to increase income to 24 percent or MNT 13.8 billion of the Bank's total income and to intensify new product launching in the reporting period.
Within the framework of those objectives Chingeltei Branch opened newly and the status of Central Branch changed to be fully independent. Moreover Altanbulag and Zamiin-Uud sub-branches closed in line with the branch restructuring activities.

Total outstanding loan portfolio of branches reached MNT 61.4 billion by the end of 2007 representing 15 percent of total loan portfolio of the Bank. It was 29.6 percent increase from the previous year. The total income of branches reached MNT 12.5 billion by the end of 2007 representing 20.2 percent of total income of the Bank. It was a 10.6 percent growth from the previous year.

Interest rate reduction of small business and mortgage loans was one of the main reasons for the loan portfolio increase. Moreover, a new product pension loan increased rural market retail customer satisfaction with the Bank's services.

INTERNATIONAL AND INVESTMENT BANKING

TDB established new deposit and correspondent relations with several large financial institutions including Bayern LB, Wachovia Bank and Mizuho Corporate Bank, bringing to 23 Nostro accounts the number of banks with which TDB maintains accounts and to 80 banks the number with which correspondent relations are maintained.

Foreign Relations

In the reporting year International and Investment Banking Department (IIBD) of the TDB established new deposit and correspondent relations with several large financial institutions including Bayern LB, Wachovia Bank and Mizuho Corporate Bank, bringing to 23 Nostro accounts the number of banks with which TDB maintains accounts and to 80 banks the number with which correspondent relations are maintained.

In June 2007 the Bank signed a General Cooperation Agreement with Bayern LB which covered loan terms between the banks and fees and commissions of European export credit agencies. Business cooperation with BhF Bank was expanded through the signing of a Framework Agreement which enables the long term financing and insurance by export credit agencies for capital goods imported by TDB customers from EU countries.

In connection with the Bank's expanding activities in the international capital markets, a new CFD account was opened with Man Group.

Implementation of project loan lines

IIBD is responsible for relationships with international financial institutions such as World Bank, JBIC and KfW related with on-lending programs to support the private sector and SME development and environmental protection projects.

Within the framework of "Private Sector Development Loan 2" of World Bank, IIBD worked with the business departments and branches of the Bank to successfully obtain approvals for 7 project loan requests, under which USD 640 thousand and MNT 455 million were disbursed to help our clients expand their businesses.

An agreement was signed for TDB participation in "Two Step Loan Project for SME Development and Environmental Protection" project financed by Japan Bank for International Cooperation. So far 4 new loan requests have been approved by a Counterparty Steering Committee within the project implementation scheme.

Trade Finance Lines & Facilities

As the result of negotiation or meeting with large financial institutions such as Mizuho Corporate Bank, Commerzbank, Bank Austria Creditanstalt and Vneshtorgbank they have approved new clean trade finance lines for TDB and as the end of the reporting period total clean trade finance lines have reached USD 101 million, representing a 15 percent increase from the previous year.

As the credit lines from internationally well recognized banks increases, the possibilities for our customers, through TDB, to enhance their trade finance options at better prices and terms also expands.

In 2007, TDB's main focus was on the increase of the constant utilization of trade finance lines whereas 2006's focus had been on attracting new lines. As a result, the Bank customers LC confirmations, particularly by ING Bank increased and business cooperation with other strategically important partners such as RZB, Mizuho Corporate

Banking, American Express Bank and BhF bank expanded.
Moreover the utilization of USD 5 million's line given to TDB within the framework of the Global Trade Finance Program managed by IFC has been increasing and being used effectively to cover customers' trade finance needs with tenors more than 1 year.

TDB is striving further to expand the utilization of credit lines given by its correspondent banks and this activity will create possibilities to have more favorable terms on credit lines and confirmation of customers LCs by international financial institutions.

Participations and Bilateral Transactions

During the reporting period the bank earned MNT 1.85 billion in interest income from the participation of syndicated and bilateral loans arranged by well recognized international financial institutions.

By the end of 2007 the outstanding of syndicated and bilateral loan which were disbursed to other financial institutions reached USD 4 million. The main reason of syndicated and bilateral loans decline from the previous year was that the Bank intended to decrease the amount to be disbursed because of a reduced profit margin and the expanding opportunities for domestic loans.

In 2007 several club-financing deals in the total amount USD 21 million arranged for local corporate customers jointly with other banks.

Investment banking

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. The transactions 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%).

Moreover from the second half of the year we FRIBD has started to participate in derivative trading of internationally liquid securities.

SME BANKING

The Commercial Mortgage product which was designed for SME businesses' need was a completely new product in the Mongolian banking market. Thus, the product is contributing significantly SME business development.

SME Banking Department (SMEBD) of TDB has been striving to deliver timely and high quality banking services to SMEs, to respond rationally to economic changes, to offer new banking products developed on the basis of customers' demands and to give customers effective professional advice.

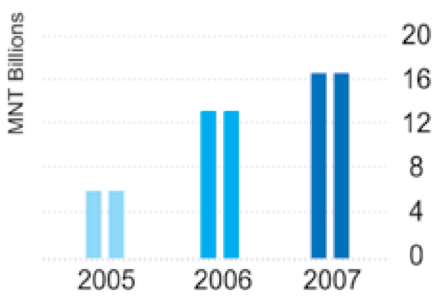
Within the framework of the above objectives "SME Toolkit"- a special website has been hosted in cooperation with IFC. The web site provides possibilities of getting free advice to SME businesses on their immediate issues such as planning and managing of their businesses, calculating cash flows and developing sales and marketing policies, not depending on time and space.

TDB has been always paying attention to offer favourable term products and services to its customers. Within the frame of this effort the Bank has been deepening the cooperation with the World bank and JBIC and the low interest project loans funded by them were being offered in the reporting period. Moreover, low cost loans with the term up to 3 years have been disbursed to support the Bank customers import business from Taiwan and South Korea.

The Commercial Mortgage product which was designed for SME businesses' need was a completely new product in the Mongolian banking market. Thus, the product is contributing significantly to SME business development.

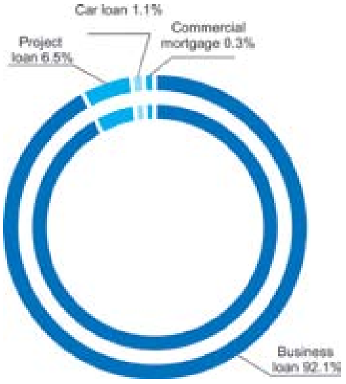
As a result of those activities MNT 11.2 billion in loans were disbursed to SME businesses in 2007 and the outstanding amount by the end of the year reached 16.3 billion representing 21 percent growth from the end of 2006.

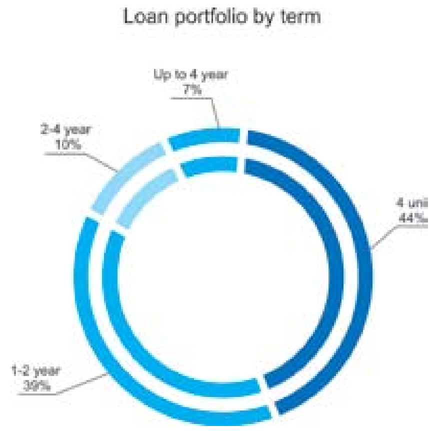
The Chart shows loan portfolio growth of SME Department.



One of the main objectives of SMEBD is to assist client SMEs to progress into corporate businesses' level. To support this purpose we offer more flexible and longer term loans to the customers than other banks.

The Chart shows loan classification and terms by the end of 2007.





TDB supports SME businesses operating in all sectors of economy and is contributing significantly to local economic development.

TREASURY AND TRADING

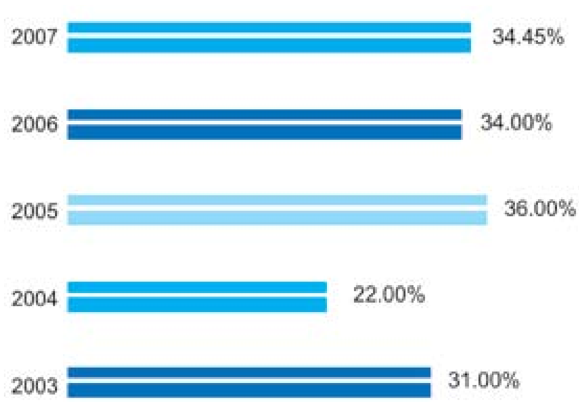
By the end 2007 TDB was the leader in the money market activities holding 34.5 percent of the central bank bills and 38.1 percent of Government bonds in its portfolio.

Money market activity

The Bank's cash management activity aims to increase interest and non-interest income through satisfying liquidity requirements set by the BoM, to manage cash flow and to support continuously the lending and investment activities of the Bank.

TDB's cash management policy was effective in the reporting period and the Bank was an active player in the central bank bills and the government bond market as in previous years.
By the end 2007 TDB was the leader in the money market activities holding 34.5 percent of the central bank bills and 38.1 percent of Government bonds in its portfolio.

The Chart shows TDB's share in Money market.



Moreover the Bank supported actively the "40 000 housing unit" program implemented by the Government of Mongolia to solve housing issues of the population and bought MNT 11.6 billion in bonds issued by the Government to raise funding for the program implementation under Mongolian Parliament Resolution No 26 of 6 February, 2007.

Foreign exchange trading

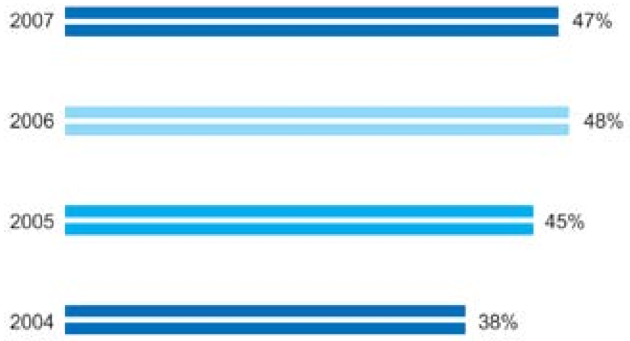
TDB has been holding the largest portfolio of foreign assets within the Mongolian banking sector and is the leading player in domestic foreign exchange trading market.

Although the world financial market was unstable during the reporting period as evidenced by the USA mortgage market crisis, TDB was able to intensify its proprietary trading activity in the international and domestic market using financial derivatives of foreign exchange. And profit from foreign exchange trading activity reached MNT 4.4 billion.

The Bank has been strengthening its position in the market by trading the most currencies in domestic market and leading by turnover of currency trading.

New financial products have been launched continuously to reduce risks related with foreign exchange trading and to increase turnover.

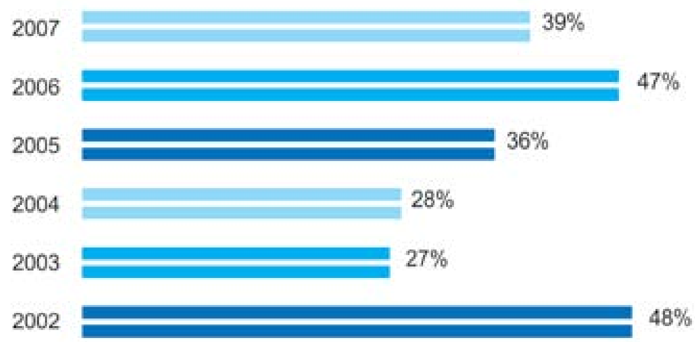
The Chart shows TDB's share in the foreign exchange market.



Gold trading

One of the main reasons for the rapid growth of the Mongolian economy is related to the mining sectors growth. TDB started to purchase tangible gold from businesses in 2000. And today the Bank is cooperating with 80 of the 120 companies which are active gold producers in the country.
The Bank provides weekly information on precious metals price and foreign exchange market to its customers to keep them promptly informed with relevant information. In addition to the paper gold investment product which was previously implemented successfully to meet its customers' need to protect themselves from risks related with economic instability and inflation paper silver products were launched in 2007.
Although the amount of tangible gold sold to banks by the producing companies decreased in 2007 due to the changes in "Mining Law of Mongolia", TDB's purchased gold increased by MNT 42.8 billion from the previous year.

The Chart shows TDB's share in domestic tangible gold market.



Asset Liability Management

TDB's asset liability management objectives in 2007 were to maintain the rationalization of asset management at the level to increase profitability and assure continuous liquidity while minimizing potential risks, to reduce non-performing loans and to raise long-term and low cost funds.

As a result the Bank was able to decrease MNT loan interest rates to the level of USD loan interest for the first time among Mongolian banks. Overall total loans outstanding at the end of 2007 increased by 59 percent from the previous year end.

RISK MANAGEMENT

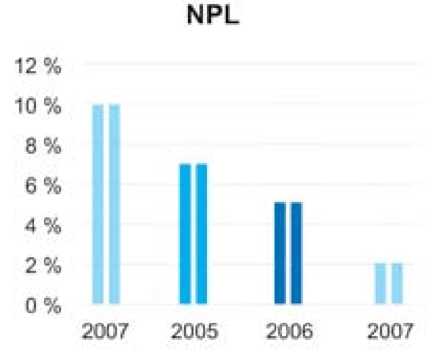
Risk management focuses on the determination of accepted risk levels for banking products and operations, the development of related policies and guidelines, the maintaining of relative independence and international standards in risk management and the development of risk assessment methods.

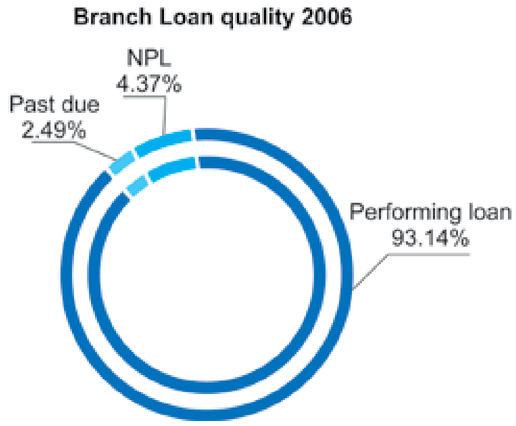
The main objectives of the Risk Management Department (RMD) of the Bank were to elaborate the risk management mechanism, to improve loan monitoring, to reduce the non-performing loans in total loan portfolio to 3 percent or better, and to renew policies on the financing of key economy sectors and loan concentration.

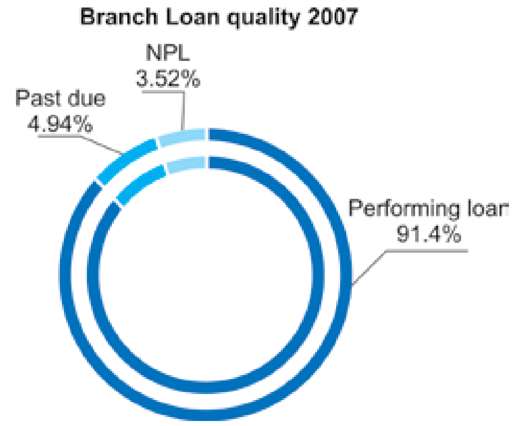
To support the realization of the above objectives RMD conducted dual control in corporate loan processes starting from the application assessment and ending with full repayment. The controlling was in line with the newly restructured organization of the CBD. These actions resulted in the control and reduction of credit risks such that the non-performing loan percentage in the total loan portfolio decreased from 4.4 percent to 2 percent.

The Special Asset Unit was established in July of the reporting period with the purpose to intensify non-performing loans repayment. And a new Non-performing Loan Committee was established to control and assess the performance of this unit. The Unit succeeded in getting non-performing loans amounting to MNT 4.2 billion to be repaid in 2007.

The renewal of key sector loan policies according to the bank's loan policy and the country economic development supported the reduction of credit risks and the enhancement of credit risk management mechanism. Moreover, the Bank focused more on the creation of an independent loan monitoring system in the reporting period. Within the framework of this activity branch risk analysts and all loan disbursement transactions were unified under the management of RMD. Those initiatives helped to improve branch loan portfolio quality and non-performing loans in branch portfolios decreased to 3.6 percent from 4.4 percent at the end of 2006.







Market risk

In the reporting period the Value-at-Risk (VaR) methodology was used to measure market risks and to control the potential loss from the Bank portfolio caused by price fluctuations of main financial instruments. Moreover, their related management information system improved.

TDB uses back-testing to verify the calculated potential loss and controls if the VaR values were within the approved limit (according to BASEL Committee requirements) by the appropriate confidence level. Moreover, EWMA (Exponentially Weighted Moving Average), which is a widely used method in the international financial market to measure conditional fluctuations, started to be used for more precise calculation of a potential loss from the bank's trading portfolio.

Operational risk

The Bank's new organizational structure was approved in 2007 to control and monitor operational risks. Operational framework, structure, organization and main responsibilities of the Internal Audit Department were re-modified and the controlling functions were intensified. The internal auditors started to report to the Representative Governing Board.

Those measures resulted in new possibilities to protect against operational risks, to reduce them and to increase the effectiveness of the control mechanisms. New regulations were developed on blocking deposit accounts and protecting against money laundering and terrorism.

HUMAN RESOURCE MANAGEMENT

Human Resource Department (HRD) of TDB aimed to implement human resource policy of the year in line with organizational changes and strategic objectives in 2007. Moreover, HRD implemented various measures to form a highly qualified and cohesive team capable to accomplish the Bank's mission statements, to further improve the professional level of its employees, to ensure effective working environment for employees and to increase the productivity of staff.

Within the framework of human resource management policy a rational planning system of human resource was created and a recruitment of high level professionals from various resources was ensured. Moreover, TDB was the most attractive employee in the market in terms of its salary, incentive system and organizational culture.

One of the main objectives of TDB's human resource policy is maintenance of the remuneration and incentives system which reflects a realistic estimation of an employee's contribution to the Bank business development and an effective system of performance evaluation. A new regulation on qualitative and quantitative performance measurement was developed to realize this objective on the basis of detailed examination of employees' key performance indicators. The percentage of human resource expenses in the total expenses increased by 40 percent from 2006 in the reporting period.

As a result of above mentioned measures productivity and professionalism of TDB employees rose at all levels, and the core of human resources progressed to consist of high level professionals. Moreover, possibilities for young employees to learn from those professionals and to develop themselves according to the market need expanded.

Activities to elaborate the human resource development plan according to the training need of staff, to conduct target trainings based on organizational culture study, to implement adjustment period plan for new employees, to provide all employees with a training and development plan and to cooperate with professional training institutions and universities were implemented. 542 of TDB staff were involved in professional trainings during the reporting period and approximately 30 percent of trainings were organized with foreign banks and consultancy firms.

The Bank takes care of its staff providing them financial support and non-returnable aid. In 2007, TDB spent MNT 300.8 million for this purpose, an amount by 5 times larger than 2006. MNT 2.5 billion in preferred rate term mortgage loans have been disbursed in order to solve employees' social issues. In addition, 364 people received special term loans.

Forty six of TDB staff were awarded with Mongolian Government and BoM medals and titles.

The bank activities to pursue social responsibilities

TDB has been pursuing effectively its social responsibilities from the day of its establishment by supporting health, education, culture and sport activities. During the reporting period we implemented the following measures for this purpose.

- Assited kindergartens to plant trees, which are located in high polluted areas of Ulaanbaatar city.
- Provided financial assistance to restore Darkhan town Cultural and Recrational Park.
- Provided financial contribution to Lotus Children's Care Center.
- Provided assistance in equiping a conference hall of Finance and Economic University's new building.
- Distributed gifts for 29th Special School children during their New Year party.
- Co-sponsored Pentatonic Festival, the biggest cultural ceremony of Mongolia.
- Gathered donations through the Bank account and provided financial assistance to the victims of a fire which occured in Khan-uul District.
- Provided financial assistance to Ms. Tungalag, a sick single mother to contribute to her treatment cost.
- Sponsored Mr. Batbayar, developer of Mongol calligraphy, to organize his exibition in USA.
- Was the general sponsor of Evrica 2007 scientific students' competition.
- Sponsored "Chingis Khaan from 800 years ago" Festival.
- Provided financial assistance to restore Danzanravjaa's Museum in Dorno-gobi aimag.
- Was the general sponsor of the National Chess Competition.
- The Bank staff participated in cleaning Khan Kentii National Protected Area and the bank of the Tuul River.

Trade and Development Bank of Mongolia LLC

Financial Statements for the year ended
31 December 2007

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 (Chairman) D. Munkhbaatar Ch. Enkhbold T. Tsolmon T. Boldkhuu
Bank's secretary	D. Davaajav
Joint Auditors	KPMG Kuala Lumpur, Malaysia Tentsver Orgil Audit LLC Ulaanbaatar, Mongolia

Statement by Directors and Executives

I, D. Erdenebileg, being director of Trade and Development Bank of Mongolia LLC ("the Bank"), Randolph Koppa, B. Medree and D. Yanjmaa, being the officers primarily responsible for the financial management of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 4 to 48 are drawn up in accordance with applicable International Financial Reporting Standards as modified by Bank of Mongolia guidelines so as to give a true and fair view of the financial position of the Bank as at 31 December 2007 and of the results of its operations and cash flows for the year then ended.

D. Erdenebileg
Chairman

Randolph Koppa
President

B. Medree
Chief Executive Officer

D. Yanjmaa
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 14 March 2008

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

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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 48. 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 present fairly, in all material respects, the state of affairs of Trade and Development Bank of Mongolia LLC as at 31 December 2007 and the results and cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

УЛААНБААТАР
ТЭНЦВЭР ОРГИЛ АУДИТ ХХК

KPMG
Chartered Accountants
Firm Number: AF 0758

Date: 14 March 2008

Tentsver Orgil Audit LLC
Certified Public Accountants
License Number: 056/2006

Ulaanbaatar, Mongolia
Date: 14 March 2008

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 48. 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 present fairly, in all material respects, the state of affairs of Trade and Development Bank of Mongolia LLC as at 31 December 2007 and the results and cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

KPMG
Chartered Accountants
Firm Number: AF 0758

Date: 14 March 2008

Tentsver Orgil Audit LLC
Certified Public Accountants
License Number: 056/2006

Ulaanbaatar, Mongolia
Date: 14 March 2008

Trade and Development Bank of Mongolia LLC
Balance sheet at 31 December 2007

	Note	2007 MNT'000	2006 MNT'000
ASSETS			
Cash and cash equivalents	4	110,375,937	134,943,033
Investment securities	5	46,424,127	27,584,472
Loans and advances	6	382,308,143	240,106,085
Subordinated loan	7	4,000,000	-
Property, plant and equipment	8	11,683,487	12,225,512
Intangible assets	9	1,004,359	829,942
Other assets	10	7,707,071	10,603,078
TOTAL ASSETS		**563,503,124**	**426,292,122**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from customers	11	373,018,621	324,669,447
Deposits and placements of banks and other financial institutions	12	15,261,624	9,583,124
Loans from financial institutions	13	7,387,649	26,458,098
Taxation		1,455,320	1,230,053
Debt securities issued	14	86,661,743	-
Other liabilities	15	10,088,345	5,331,398
Total deposits, loans, taxation and other liabilities		493,873,302	367,272,120
Subordinated loans	16	9,359,760	9,320,000
Total liabilities		503,233,062	376,592,120
Shareholders' equity			
Share capital	17	6,610,113	6,610,113
Other reserves		6,338,749	12,171,762
Retained earnings		47,321,200	30,918,127
Total shareholders' equity		60,270,062	49,700,002
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**563,503,124**	**426,292,122**

The notes set out on pages 53 to 90 form an integral part of these financial statements

	Note	2007 MNT'000	2006 MNT'000
Interest income	**19**	47,322,951	36,037,323
Interest expense	**20**	(26,675,606)	(14,588,934)
Net interest income		20,647,345	21,448,389
Net fee and commission income	**21**	6,287,916	4,576,908
Other operating income	**22**	4,138,548	4,285,087
Net non-interest income		10,426,464	8,861,995
Operating income		31,073,809	30,310,384
Operating expenses	**23**	(13,696,975)	(12,190,069)
Writeback/(allowance) for impairment losses	**24**	2,571,664	(1,630,679)
Profit before tax		**19,948,498**	**16,489,636**
Corporate income tax	**25**	(3,552,346)	(4,715,698)
Net profit for the year		**16,396,152**	**11,773,938**

The notes set out on pages 53 to 90 form an integral part of these financial statements

		← *Non-distributable*			→ *Distributable*	
	Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	**Revaluation reserve MNT'000**	**Retained earnings MNT'000**	**Total MNT'000**

	Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	Revaluation reserve MNT'000	Retained earnings MNT'000	Total MNT'000
Balance at 1 January 2006		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
Equity settled share-based payments		-	-	-	-	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
Net profit for the year		-	-	-	-	16,396,152	16,396,152
Transfer of reserve		-	-	-	(6,921)	6,921	-
Purchase of treasury shares	18	-	-	(5,826,092)	-	-	(5,826,092)
Balance at 31 December 2007		6,610,113	7,392,192	(5,826,092)	4,772,649	47,321,200	60,270,062

The notes set out on pages 53 to 90 form an integral part of these financial statements

	Note	2007 MNT'000	2006 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**19,948,498**	**16,489,636**
Adjustments for			
Depreciation and amortisation		1,443,208	1,048,332
Property, plant and equipment written off		284,242	45,226
Intangibles written off		11,583	-
Loss/(gain) on disposal of property, plant and equipment		1,761	(1,350)
(Writeback)/allowance for impairment losses		(2,571,664)	1,630,679
Equity settled share-based payment transactions		-	65,520
Operating profit before changes in operating assets and liabilities		**19,117,628**	**19,278,043**
Increase in loans and advances		(138,575,907)	(83,302,894)
Subordinated loan disbursed		(4,000,000)	-
Decrease/(increase) in other assets		1,870,571	(5,699,989)
Increase in deposits from customers		48,349,174	98,436,252
Increase/(decrease) in deposits and placements of banks and other financial institutions		5,678,500	(1,186,701)
Increase/(decrease) in other liabilities		4,767,656	(73,592)
Cash flows (used in)/generated from operations		**(62,792,378)**	**27,451,119**
Corporate income tax paid		(3,327,079)	(4,336,903)
Net cash flows (used in)/generated from operating activities		**(66,119,457)**	**23,114,216**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (acquisition)/proceeds from disposal of investment securities		(18,640,655)	19,101,555
Purchase of property, plant and equipment		(1,448,273)	(3,486,866)
Purchase of intangible assets		(400,235)	(566,114)

The notes set out on pages 53 to 90 form an integral part of these financial statements

	Note	2007 MNT'000	2006 MNT'000
Proceeds from disposals of property, plant and equipment		475,322	25,617
Purchase of unquoted equity securities		(199,000)	(61,350)
Net cash flows (used in)/generated from investing activities		**(20,212,841)**	**15,012,842**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	19,506
(Repayment of)/ proceeds from loans from financial institutions		(19,070,449)	14,014,837
Proceeds from debt securities issued		86,661,743	-
Purchase of treasury shares		(5,826,092)	
Net cash flows generated from financing activities		**61,765,202**	**14,034,343**
Net (decrease)/increase in cash and cash equivalents		**(24,567,096)**	**52,161,401**
Cash and cash equivalents at the beginning of the year		**134,943,033**	**82,781,632**
Cash and cash equivalents at the end of the year	**4**	**110,375,937**	**134,943,033**

The notes set out on pages 53 to 90 form an integral part of these financial statements

1. Corporate information and principal activities

In January 2007, Gerald Metals, Inc. disposed its entire interest in Globull Investment and Development (SCA) to US Global Investment LLC, resulting in US Global Investment LLC becoming 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).

Trade and Development Bank of Mongolia LLC (the "Bank") is a company domiciled in Mongolia. 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 14 March 2008.

2. Basis of preparation

(a) Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the Standing Interpretations Committee of IASB as modified by Bank of Mongolia guidelines.

In preparing these financial statements, the Bank has adopted IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements – Capital Disclosures which are effective for financial periods beginning on 1 January 2007. The adoption of IFRS 7 and amendment to IAS 1 impacted the type and extent of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

(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.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)
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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 27 and 28.

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 short-term trading. Originated loans and receivables comprise loans and advances to customers.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)
(i) Classification (continued)
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-to-maturity assets are measured at amortised cost less impairment losses where applicable. 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.

3. Significant accounting policies (continued)

(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 Note 3 (h)).

(e) Property, plant and equipment

(i) *Cost*

Property, plant and equipment are measured at cost/valuation less accumulated depreciation (refer below) and any impairment losses (refer to Note 3 (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 income statement 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 equipment and motor vehicles 10 years
- Computers 3 - 5 years

3. Significant accounting policies (continued)

(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 to Note 3 (h)).

(ii) *Acquired intangible assets*

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation (refer below) and any impairment losses (refer to Note 3 (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 3 - 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 in accordance to Bank of Mongolia's guidelines. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

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

3. Significant accounting policies (continued)

(h) Impairment (continued)

(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, debt bonds issued, 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 income statement over the period of the instrument on an effective interest basis.

3. Significant accounting policies (continued)

(k) Share capital

(i) ***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) ***Treasury shares***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(l) 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.

(m) 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 and commission income***

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.

3. Significant accounting policies (continued)

(n) 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.

(o) Income tax

Income tax on the profit or loss for the year comprises current tax. Income tax is recognised in the income statement 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 will be provided using balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes, if any.

(p) 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 at grant date 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.

3. Significant accounting policies (continued)

(q) New standards and interpretations not yet adopted

A number of new IFRSs, amendments to IFRSs and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

• IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to access each segments performance and to allocate resources to them. As the Bank currently operates a single business unit, this IFRS will have no effect on reporting requirements.

• IFRIC 11 IFRS 2 - Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the Bank's financial statements.

• IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on the Bank's financial statements.

• IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the Bank's financial statements.

• IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements ("MFR") on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Bank's 2008 financial statements, with retrospective application if required. IFRIC 14 IAS 19 is not expected to have any impact on the Bank's financial statements.

3. Significant accounting policies (continued)

(q) New standards and interpretations not yet adopted (continued)

• Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 which will become mandatory for the Bank's 2009 financial statements is consistent with the current policy and as such will require no policy adjustment.

4. Cash and cash equivalents

	2007 MNT'000	2006 MNT'000
Cash on hand	27,117,737	25,371,639
Deposits and placements with banks and other financial institutions	73,713,110	83,842,987
Balances with Bank of Mongolia	9,545,090	25,728,407
	110,375,937	134,943,033

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

	2007 MNT'000	2006 MNT'000
Held-to-maturity investment securities		
Bank of Mongolia Treasury bills	35,540,155	22,428,915
Government securities	4,724,555	802,981
Promissory notes	5,899,067	4,291,226
	46,163,777	27,523,122
Available-for-sale investment securities		
Unquoted equity securities, at cost	260,350	61,350
	46,424,127	27,584,472

6. Loans and advances

	2007 MNT'000	2006 MNT'000
Loans and advances to customers	386,478,190	248,427,120
Loans to staff	2,979,822	3,423,345
	389,458,012	251,850,465
Allowance for loan losses	(7,149,869)	(11,744,380)
Net loans and advances	382,308,143	240,106,085

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

	2007 MNT'000	2006 MNT'000
Allowance for loan losses		
At 1 January	11,744,380	12,183,074
Charge for the year	942,360	1,446,565
Written back/recoveries	(4,568,511)	(1,522,280)
Written off	(814,817)	(43,659)
Others	(183,195)	-
Exchange difference	29,652	(319,320)
At 31 December	7,149,869	11,744,380

7. Subordinated loan

	2007 MNT'000	2006 MNT'000
Subordinated loan to Ulaanbaatar City Bank	4,000,000	-

The loan bears interest at a fixed rate of 8% per annum. The loan is to be repaid in full on 25 September 2012.

8. Property, plant and equipment

	Buildings	Office equipment and motor vehicles	Computers	Construction in-progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At cost/valuation					
At cost	1,118,290	1,309,142	1,257,936	-	3,685,368
At valuation	7,194,894	1,194,714	918,807	-	9,308,415
At 1 January 2007	8,313,184	2,503,856	2,176,743	-	12,993,783
Additions	133,750	475,637	713,169	125,717	1,448,273
Disposals	(436,451)	(196,515)	(36,209)	-	(669,175)
Write offs	(258,910)	(142,430)	(460,487)	-	(861,827)
Transfers	950	4,767	-	(5,717)	-
At 31 December 2007	7,752,523	2,645,315	2,393,216	120,000	12,911,054
Representing items at:					
Cost	1,252,040	1,756,736	1,967,046	120,000	5,095,822
Directors' valuation	6,500,483	888,579	426,170	-	7,815,232
	7,752,523	2,645,315	2,393,216	120,000	12,911,054
Accumulated depreciation					
At 1 January 2007	207,928	161,339	399,004	-	768,271
Charge for the year	244,770	414,982	569,221	-	1,228,973
Disposals	(66,124)	(111,406)	(14,562)	-	(192,092)
Write offs	(21,500)	(97,346)	(458,739)	-	(577,585)
At 31 December 2007	365,074	367,569	494,924	-	1,227,567
Carrying amounts					
At 31 December 2007	7,387,449	2,277,746	1,898,292	120,000	11,683,487

8. Property, plant and equipment (continued)

	Buildings	Office equipment and motor vehicles	Computers	Construction-in-progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	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)
At 31 December 2006	207,928	161,339	399,004	-	768,271
Carrying amounts					
At 31 December 2006	8,105,256	2,342,517	1,777,739	-	12,225,512

8. Property, plant and equipment (continued)

Details of the latest independent professional valuations of property, plant and equipment 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 carrying amounts of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	2007 MNT'000	2006 MNT'000
Buildings	2,351,564	2,993,224
Office equipments and motor vehicles	665,505	1,040,189
Computers	288,441	677,402

9. Intangible assets

Cost	Software and licenses MNT'000	Goodwill MNT'000	Total MNT'000
At 1 January 2007	1,217,791	228,683	1,446,474
Additions	400,235	-	400,235
Write offs	(18,989)	-	(18,989)
At 31 December 2007	1,599,037	228,683	1,827,720
Amortisation			
At 1 January 2007	387,849	228,683	616,532
Amortisation charge for the year	214,235	-	214,235
Write offs	(7,406)	-	(7,406)
At 31 December 2007	594,678	228,683	823,361
Carrying amounts			
At 31 December 2007	1,004,359	-	1,004,359

9. Intangible assets (continued)

Cost	Software and licenses MNT'000	Goodwill MNT'000	Total MNT'000
At 1 January 2006	651,677	228,683	880,360
Additions	566,114	-	566,114
At 31 December 2006	1,217,791	228,683	1,446,474
Amortisation			
At 1 January 2006	267,271	228,683	495,954
Amortisation charge for the year	120,578	-	120,578
At 31 December 2006	387,849	228,683	616,532
Carrying amounts			
At 31 December 2006	829,942	-	829,942

10. Other assets

	2007 MNT'000	2006 MNT'000
Precious metals	1,127,405	4,144,231
Accrued interest receivables	3,379,436	2,912,945
Prepaid expenses	115,114	349,784
Inventory supplies	308,392	275,840
Foreclosed properties	632,064	1,339,841
Other receivables	2,144,660	1,580,437
	7,707,071	10,603,078

Foreclosed properties and other receivables are presented net of impairment losses amounting to MNT1,085,454,000 (2006: MNT836,114,000) and MNT892,663,000 (2006: MNT911,151,000) respectively. During the year, foreclosed properties amounting to MNT763,564,000 (2006: Nil) was written off against impairment losses.

Included in other receivables is an amount of MNT5,361,000 (2006: Nil) due to a counterparty in relation to a matured spot contract.

11. Deposits from customers

	2007 MNT'000	2006 MNT'000
Current accounts	197,184,763	196,364,206
Savings deposits	51,898,454	34,692,752
Time deposits	116,029,279	88,737,599
Other deposits	7,906,125	4,874,890
	373,018,621	324,669,447

Current accounts 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 1.0% and 3.0% (2006: 1.3% and 2.8%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.8% and 6.0% (2006: 1.6% and 4.7%), respectively.

Foreign currency and local currency time deposits bear interest at a rate of approximately 5.5% and 15.9% (2006: 6.9% and 16.1%), respectively.

12. Deposits and placements of banks and other financial institutions

	2007 MNT'000	2006 MNT'000
Current account deposits:		
Foreign currency deposits	11,552,985	9,479,294
Local currency deposits	499,631	23,460
Foreign currency cheques for selling	99,740	80,370
Deposits from foreign banks	3,109,268	-
	15,261,624	9,583,124

13. Loans from financial institutions

	2007 MNT'000	2006 MNT'000
Kreditanstalt fuer Wiederaufbau ("KfW")	503,290	1,708,861
World Bank	2,051,330	2,228,354
Asian Development Bank ("ADB")	125,697	141,900
International Development Association ("IDA")	718,007	715,099
Export-Import Bank of Korea ("KEXIM")	839,092	618,924
Sumitomo Mitsui Banking Corporation ("SMBC")	716,780	-
Mongol Post Bank	2,433,453	-
VTB Bank Austria	-	13,231,563
Canadian Imperial Bank of Commerce ("CIBC")	-	380,181
Atlantic Forfaiting Co. Ltd.	-	1,596,310
ING Bank	-	5,836,906
	7,387,649	26,458,098

Kreditanstalt fuer Wiederaufbau ("KfW")

The KfW loan amounting to EUR293,000 (2006: EUR1.1 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

	2007 MNT'000	2006 MNT'000
Loan I	901,945	1,773,854
Loan II	1,149,385	454,500
	2,051,330	2,228,354

Loan I

Loan I comprises the following loans:-

(a) The World Bank USD loan amounting to USD532,000 (2006: USD1.0 million) is obtained via the Ministry of Finance and Economy. The loan is channelled 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 (2006: LIBOR 6 months USD rate + 3% per annum). The repayment dates for this loan varies in accordance to the tenor of loans granted to the various borrowers.

13. Loans from financial institutions (continued)

World Bank (continued)

(b) The World Bank Training Program loan amounting to USD218,000 (2006: USD258,000) 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 (2006: 2% per annum). The loan is repayable semi-annually or quarterly until final repayment due in December 2024.

Loan II

Loan II comprises the following loans:-

(a) The World Bank USD loan amounting to USD610,000 (2006: USD300,000) 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. (2006: LIBOR 6 months USD rate + 1% per annum). The repayment dates for this loan varies in accordance to the tenor of loans granted to the various borrowers.

(b) The World Bank MNT loan amounting to MNT430 million (2006: MNT105 million) 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 USD107,000 (2006: USD122,000) is obtained via Bank of Mongolia for accounting information system upgrading purpose. The loan bears interest at rate of 1% per annum and is repayable in 30 annual instalments which commenced from year 2002.

International Development Association ("IDA")

The IDA loan amounting to USD575,000 (2006: 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 commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

The KEXIM loan amounting to USD702,000 (2006: USD520,000) was entered into for relending purposes to finance customers who purchase goods from Korean Exporters. The line of credit was increased to a maximum amount of USD5 million from an aggregate amount of USD2 million and this particular loan bears interest at a rate of LIBOR 6 months + 1.44% per annum. TDB shall repay KEXIM the principal amount of each disbursement on the last day of each financing period. This line of credit is available until May 2008 but may be subject to further extension.

13. Loans from financial institutions (continued)

Sumitomo Mitsui Banking Corporation ("SMBC")

The loan from SMBC amounting to USD599,000 (2006: USD Nil) is to on-lend to a borrower for the purpose of financing the purchase of machineries. This loan is backed by a guarantee from International Finance Corporation ("IFC") under its Global Trade and Finance Program which is a program initiated to assist banks such as TDB in emerging markets by issuing guarantees on the loans entered into by TDB. The guarantee facility from IFC is up to USD5 million. The loan bears interest rate of LIBOR 6 months + spread of 3.5% over 6 quarterly instalments and the final instalment is due in April 2009.

Mongol Post Bank

The inter-bank loan amounting to USD2 million (2006: USD Nil) is to finance the Bank's working capital requirements. The loan bears interest at the rate of 5.12% per annum and final repayment is due in March 2008 in one lump sum.

14. Debt securities issued

	2007 MNT'000	2006 MNT'000
Debt securities issued, at amortised cost	86,661,743	-

On 5 January 2007, the Bank launched a USD150,000,000 Euro Medium Term Note ("EMTN") Programme of which USD75,000,000 was issued on 22 January 2007 at a price of 98.176%. These bonds bear interest at 8.625% per annum. The principal payment is due on 22 January 2010 whilst the interest is payable semi-annually.

15. Other liabilities

	2007 MNT'000	2006 MNT'000
Foreign remittance under request	177,153	65,631
Delay on clearing settlement	3,957,991	3,556,340
Other payables	5,953,201	1,709,427
	10,088,345	5,331,398

Included in other payables is an amount of Nil (2006: MNT24,177,000) due to a counterparty in relation to a matured spot contract.

16. Subordinated loans

	2007 MNT'000	2006 MNT'000
Loan from Asian Development Bank ("ADB")	5,264,865	5,242,500
Loan from International Finance Corporation ("IFC")	4,094,895	4,077,500
	9,359,760	9,320,000

The objective of the loans from ADB and IFC amounting to USD4,500,000 and USD3,500,000 (2006: 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 international best practices. The loans are utilised for new product development and new lending initiatives. The loans bear interest at rate of LIBOR + 7% per annum (2006: LIBOR + 7% per annum). The loans are to be repaid in full on 15 December 2009.

17. Share capital

	Number of ordinary shares of MNT2,000 each		Amount	
	2007	2006	2007 MNT'000	2006 MNT'000
At 1 January	3,305,057	3,303,739	6,610,113	6,607,477
Issued during the year	-	1,318	-	2,636
At 31 December	3,305,057	3,305,057	6,610,113	6,610,113

18. Treasury shares

	2007 MNT'000	2006 MNT'000
At 1 January	-	-
Purchase of treasury shares	5,826,092	-
At 31 December	5,826,092	-

On 16 January 2007, the Bank purchased 272,000 units or 8.23% of its own shares from US Global Investment LLC (the Bank's ultimate holding company) for MNT5,826,092,000 (USD5,000,938). Pursuant to an agreement dated 18 January 2007 and a supplementary agreement dated 30 November 2007 between the Bank and its ultimate holding company, US Global has the option to repurchase these shares at a future date at a price to be agreed upon taking into account the net worth of the bank then.

19. Interest income

	2007 MNT'000	2006 MNT'000
Loans and advances	41,186,348	30,175,702
Investment securities	2,744,765	1,628,894
Deposits and placements with banks and		
other financial institutions	3,084,647	4,047,859
Sale and repurchase agreements	220,080	184,868
Subordinated loan	87,111	-
	47,322,951	36,037,323

20. Interest expense

	2007 MNT'000	2006 MNT'000
Deposits from customers	16,346,297	12,683,292
Loans from financial institutions	1,725,729	718,439
Subordinated loans	1,170,568	1,155,164
Sale and repurchase agreements	120,640	32,039
Debt securities issued	7,312,372	-
	26,675,606	14,588,934

21. Net fee and commission income

	2007 MNT'000	2006 MNT'000
Fee and commission income	6,346,305	4,854,373
Fee and commission expenses	(58,389)	(277,465)
	6,287,916	4,576,908

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

22. Other operating income

	2007 MNT'000	2006 MNT'000
Foreign exchange, trading and translation gains, net	4,012,624	4,190,022
Rental income	2,699	-
Other operating income	123,225	95,065
	4,138,548	4,285,087

23. Operating expenses

Included in operating expenses are:

	Note	2007 MNT'000	2006 MNT'000
Staff costs		5,486,875	3,900,081
Technical assistance fees		1,052,019	1,660,110
Depreciation on property, plant and equipment	**8**	1,228,973	927,754
Amortisation on intangible assets	**9**	214,235	120,578
Write off for property, plant and equipment		284,242	45,226
Write off for intangible assets		11,583	-
Loss/(gain) on disposal of property, plant and equipment		1,761	(1,350)
Maintenance of property, plant and equipment		110,349	174,508
Equity settled shared-based payment		-	65,520
Rental expense		566,659	436,088

24. Writeback/(allowance) for impairment losses

	2007 MNT'000	2006 MNT'000
Write back for investment securities	-	26,072
Write back for loan losses, net	3,626,151	75,715
Allowance for other assets, net	(1,025,435)	(1,647,172)
Letters of credit and guarantee	(29,052)	(85,294)
	2,571,664	(1,630,679)

25. Corporate income tax

Recognised in the income statement:

	2007 MNT'000	2006 MNT'000
Income tax expense- current year	3,552,346	4,855,344
- prior years	-	(139,646)
	3,552,346	4,715,698

Reconciliation of effective tax expense

	2007 MNT'000	2006 MNT'000
Profit before tax	19,948,498	16,489,636
Tax at income tax rate of 25% (2006: 30%)	4,987,125	4,946,891
Tax effect of non-deductible expenses	119,193	403,375
Tax effect of non-taxable income	(1,103,972)	(479,922)
Tax effect of progressive tax rate of 10% (2006: 15%) on the portion of taxable profits up to MNT3 billion (2006: MNT100 million)	(450,000)	(15,000)
Over provision in prior years	-	(139,646)
Income tax expense	3,552,346	4,715,698

According to Mongolian Tax Laws, the Bank has an obligation to pay the Government Income Tax at the rate of 10% (2006: 15%) of the portion of taxable profits up to MNT3 billion (2006: MNT100 million and 25% (2006: 30%) of the portion of taxable profits above MNT3 billion (2006: MNT100 million).

26. Significant transactions with related parties

In January 2007, Gerald Metals, Inc. disposed its entire interest in Globull Investment and Development (SCA) to US Global Investment LLC, resulting in US Global Investment LLC becoming 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).

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

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

	2007 MNT'000	2006 MNT'000
Ulaanbaatar City Bank		
During the year ended 31 December		
Interest income during the year	1,237,379	-
Interest expense during the year	(9,820)	-
As at 31 December		
Short term loan	7,487,808	-
Subordinated loan	4,000,000	-
	11,487,808	-
Capitron Bank		
During the year ended 31 December		
Interest income during the year	222,795	-
Interest expense during the year	(140)	-
As at 31 December		
Short term loan	5,030,871	-
Executive officers		
During the year ended 31 December		
Interest income during the year	33,635	43,747
As at 31 December		
Loans to executive officers	470,327	553,956
Allowance for loan losses	-	(5,540)
	470,327	548,416

26. Significant transactions with related parties (continued)

The loans to executive officers are included in loans and advances of the Bank (see Note 6).

Total remuneration and employees benefit paid to the executive officers for the year amounted to MNT550,058,543 (2006: MNT480,658,460).

As at 31 December 2007, the Bank's short term inter bank placements made in the form of inter bank loans to Ulaanbaatar City Bank and Capitron Bank were considered by the Bank of Mongolia as exceeding the threshold of 5% for a single related party set by the Banking Law of Mongolia. The Bank of Mongolia had written to the Bank on 14 February 2008 to reduce these inter bank loans to below the 5% threshold. Subsequently, upon the Bank's request, these two counterparties have repaid these loans and at present, there are no such loans to these related parties.

27. Financial Risk Management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Commitee ("ALCO") and Credit Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Representative Governing Board ("RGB") is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The RGB is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RGB.

27. Financial Risk Management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances and investment securities.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. Each branch is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches and credit processes are undertaken by Internal Audit.

Exposure to Credit Risk

		Loans and advances		Investment securities	
	Note	2007	2006	2007	2006
		MNT'000	MNT'000	MNT'000	MNT'000
Carrying amount	5,6	382,308,143	240,106,085	46,424,127	27,584,472
Neither past due					
nor impaired		377,263,897	233,938,725	46,424,127	27,584,472
Individually impaired					
In arrears		4,319,733	6,779,546	-	-
Substandard		2,896,799	2,423,468	-	-
Doubtful		266,599	832,315	-	-
Loss		4,710,984	7,876,411	-	-
Gross amount		12,194,115	17,911,740	-	-
Allowance for loan loss		(7,149,869)	(11,744,380)	-	-
Carrying amount		5,044,246	6,167,360	-	-
Total carrying amount		382,308,143	240,106,085	46,424,127	27,584,472

27. Financial Risk Management (continued)

(b) Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Set out below is an analysis of the gross and net (after allowances for loan loss) amounts of individually impaired assets by classifications.

	2007		2006	
	Gross MNT'000	Net MNT'000	Gross MNT'000	Net MNT'000
Loans and advances at 31 December				
In arrears	4,319,733	3,239,517	6,779,546	4,505,201
Substandard	2,896,799	1,738,079	2,423,468	1,454,081
Doubtful	266,599	66,650	832,315	208,078
Loss	4,710,984	-	7,876,411	-
Total	12,194,115	5,044,246	17,911,740	6,167,360

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks and investment securities. It is impracticable to estimate the fair value of the collateral held by the Bank at 31 December 2007 and 2006.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

27. Financial Risk Management (continued)

(b) Credit risk (continued)

	Loans and advances		Investment securities	
	2007 MNT'000	2006 MNT'000	2007 MNT'00	2006 MNT'000
Concentration by sector				
Agriculture	13,603,302	1,873,866	-	-
Mining and quarrying	28,379,544	22,050,311	-	-
Manufacturing	76,943,680	40,275,784	-	-
Petrol import and trade	51,765,260	31,240,784	-	-
Corporate - trading	56,735,005	34,934,995	6,159,417	4,352,575
Construction	70,213,157	17,697,334	-	-
Electricity and thermal energy	1,500,369	1,875,463	-	-
Hotel and tourism	791,067	1,517,754	-	-
Financial services	37,495,746	33,047,472	40,264,710	23,231,897
Transportation	1,904,264	19,605,948	-	-
Individuals	37,312,372	30,502,776	-	-
Others	5,664,377	5,483,598	-	-
	382,308,143	240,106,085	46,424,127	27,584,472

Others include borrowers in insurance, education etc.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's Assets and Liabilities Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

27. Financial Risk Management (continued)

(c)Liquidity risk (continued)

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers/banks. For this purpose net liquid assets are considered as including cash and cash equivalents, central bank bills, current accounts and deposits placed with Bank of Mongolia and other domestic and foreign banks less clearing delay. A similar calculation is used to measure the Bank's compliance with the minimum 18% liquidity ratio established by Bank of Mongolia. Details of the reported Bank ratio of net liquid assets to deposits from customers/banks at the reporting date were as follows:

	2007	2006
At 31 December	26.0%	27.5%
	=====	=====

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:

27. Financial risk management (continued)

(c)Liquidity risk (continued)

As at 31 December 2007	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	27,117,737	-	-	-	-	27,117,737
Deposits and placements with banks and other financial institutions	73,713,110	-	-	-	-	73,713,110
Balances with the Bank of Mongolia	9,545,090	-	-	-	-	9,545,090
Investment securities	36,811,220	3,453,490	5,899,067	-	260,350	46,424,127
Loans and advances	86,075,164	25,239,131	106,279,131	148,458,092	16,256,625	382,308,143
Subordinated loan	-	-	-	4,000,000	-	4,000,000
Other assets	7,707,071	-	-	-	-	7,707,071
	240,969,392	28,692,621	112,178,198	152,458,092	16,516,975	550,815,278
Financial liabilities						
Deposits from customers	182,409,739	57,600,543	47,734,680	85,273,659	-	373,018,621
Deposits and placements of banks and other financial institutions	9,286,774	5,974,850	-	-	-	15,261,624
Loans from financial institutions	602,485	1,289,504	1,903,988	3,417,994	173,678	7,387,649
Subordinated loans	-	-	-	9,359,760	-	9,359,760
Debt securities issued	-	-	-	86,661,743	-	86,661,743
Other liabilities	10,088,345	-	-	-	-	10,088,345
	202,387,343	64,864,897	49,638,668	184,713,156	173,678	501,777,742
Net financial assets/(liabilities)	38,582,049	(36,172,276)	62,539,530	(32,255,064)	16,343,297	49,037,536
Cumulative total	38,582,049	2,409,773	64,949,303	32,694,239	49,037,536	

27. Financial risk management (continued)

(c) Liquidity risk

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
Balances 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	7,432,373	413,236,668
Financial liabilities						
Deposits from customers	265,101,306	25,418,239	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 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
	286,099,863	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	

27. Financial risk management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

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.

Overall authority for market risk is vested with the ALCO.

Exposure to interest rate risks

The principal risk to which the Bank's financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Bank's interest rate gap position on its financial assets and liabilities are as follows:

27. Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2007	Effective interest rate %	Total MNT'000	Non-interest sensitive MNT'000	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000
Financial assets								
Cash on hand	-	27,117,737	27,117,737	-	-	-	-	-
Deposits and placements with banks and other financial institutions	4.66	73,713,110	-	73,713,110	-	-	-	-
Balances with Bank of Mongolia	-	9,545,090	9,545,090	-	-	-	-	-
Investment securities	4.88	46,424,127	260,350	36,811,220	3,453,490	5,899,067	-	-
Loans and advances	12.12	382,308,143	-	86,075,164	25,239,131	106,279,131	148,458,092	16,256,625
Subordinated loan	8.00	4,000,000	-	-	-	-	4,000,000	-
Other assets	-	7,707,071	7,707,071	-	-	-	-	-
		550,815,278	44,630,248	196,599,494	28,692,621	112,178,198	152,458,092	16,256,625
Financial liabilities								
Deposits from customers	5.41	373,018,621	-	182,409,739	57,600,543	47,734,680	85,273,659	-
Deposits and placements of banks and other financial institutions	-	15,261,624	15,261,624	-	-	-	-	-
Loans from financial institutions	8.00	7,387,649	-	602,485	1,289,504	1,903,988	3,417,994	173,678
Subordinated loans	11.83	9,359,760	-	-	-	-	9,359,760	-
Debt securities issued	8.63	86,661,743	-	-	-	-	86,661,743	-
Other liabilities	-	10,088,345	10,088,345	-	-	-	-	-
		501,777,742	25,349,969	183,012,224	58,890,047	49,638,668	184,713,156	173,678
Net financial assets/ (liabilities)		49,037,536	19,280,279	13,587,270	(30,197,426)	62,539,530	(32,255,064)	16,082,947

27. Financial risk management (continued)

(d) Market risks (continued

As at 31 December 2006	Effective interest rate %	Total MNT'000	Non-interest sensitive MNT'000	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000
Financial assets								
Cash on hand	-	25,371,639	25,371,639	-	-	-	-	-
Deposits and placements 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	27,584,472	61,350	24,017,842	3,505,280	-	-	-
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	-	-	-	-	-
		413,236,668	61,764,474	135,496,781	31,468,126	87,557,416	96,949,871	-
Financial liabilities								
Deposits from customers	4.20	324,669,447	66,865,922	198,235,384	25,418,239	29,729,767	4,420,135	-
Deposits and placements of banks and other financial institutions	-	9,583,124	9,583,124	-	-	-	-	-
Loans from 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)

27. Financial risk management (continued)

(d) Market risks (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank's sensitivity to a 100 basis point (bp) increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
2007		
At 31 December	86,504	(86,504)
2006		
At 31 December	(609,351)	609,351

Exposure to foreign currency risks

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 Bank of Mongolia.

A 10 percent strengthening of the MNT against the USD at 31 December would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	10 percent strengthening
2007	
At 31 December	(539,805)
2006	
At 31 December	(2,395,828)

A 10 percent weakening of the MNT against the USD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant

27. Financial risk management (continued)

(d) Market risks (continued)

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

	2007			2006		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Cash on hand	12,159,118	14,958,619	27,117,737	8,471,292	16,900,347	25,371,639
Deposits and placements with banks and other financial institutions	15,160,865	58,552,245	73,713,110	11,808,811	72,034,176	83,842,987
Balances with Bank of Mongolia	4,547,169	4,997,921	9,545,090	23,834,510	1,893,897	25,728,407
Investment securities	40,525,060	5,899,067	46,424,127	23,293,247	4,291,225	27,584,472
Loans and advances	139,406,658	242,901,485	383,305,143	56,411,075	183,695,010	240,106,085
Subordinated loan	4,000,000	-	4,000,000	-	-	-
Other assets	3,208,644	4,498,427	7,707,071	3,357,574	7,245,504	10,603,078
	219,007,514	331,807,764	550,815,278	127,176,509	286,060,159	413,236,668
Financial liabilities						
Deposits from customers	165,240,090	207,778,531	373,018,621	110,473,491	214,195,956	324,669,447
Deposits and placements of banks and other financial institutions	3,608,898	11,652,726	15,261,624	23,460	9,559,664	9,583,124
Loans from financial institutions	4,422,255	2,965,394	7,387,649	365,211	26,092,887	26,458,098
Subordinated loans	-	9,359,760	9,359,760	-	9,320,000	9,320,000
Debt securities issued	-	86,661,743	86,661,743	-	-	-
Other liabilities	2,096,784	7,991,561	10,088,345	2,398,026	2,933,372	5,331,398
	175,368,027	326,409,715	501,777,742	113,260,188	262,101,879	375,362,067
Net financial assets/ (liabilities)	43,639,487	5,398,049	49,037,536	13,916,321	23,958,280	37,874,601

27. Financial risk management (continued)

(e) Capital management

The Bank's regulator, Bank of Mongolia sets and monitors capital requirements for the Bank as a whole.

The Bank of Mongolia requires the Bank to maintain a minimum capital adequacy ratio of 10%, compiled on the basis of total capital and total assets as adjusted for their risk ("CAR") and a minimum of 5% complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

27. Financial risk management (continued)

(f) Capital management (continued)

The Bank's capital position at 31 December was as follows:

	Note	2007 MNT'000	2006 MNT'000
Tier I capital			
Share capital	**17**	6,610,113	6,610,113
Share premium		7,392,192	7,392,192
Retained earnings		47,321,200	30,918,127
Treasury shares	**18**	(5,826,092)	-
Adjustment		(590,486)	-
Foreign currency exposure	**(a)**	-	(1,102,773)
Total Tier I capital		54,906,927	43,817,659
Tier II capital			
Revaluation reserve		4,772,649	4,779,570
Subordinated loans		9,359,760	9,320,000
Total Tier II capital		14,132,409	14,099,570
Total Tier I and Tier II capital		69,039,336	57,917,229

Breakdown of risk weighted assets as follows:

Risk weighted factor (%)		2007 MNT'000	2006 MNT'000
20		8,452,160	14,048,570
50		26,530,272	24,317,582
100		465,198,085	273,567,244
VaR estimated foreign currency exposure	**(a)**	1,143,040	-
Total		501,323,557	311,933,396
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")		13.77%	18.57%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")		10.95%	14.04%

(a) On 30 October 2007, the Bank's regulator, Bank of Mongolia, revised their capital adequacy prudential ratio calculation by introducing value-at-risk ("VaR") for foreign currency exposure as part of its risk weighted average assets. Hence no adjustment was required on tier 1 capital in 2007 as compared to 2006.

28. 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 fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. As most of the deposits mature or reprice 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.

29. Commitment and contingent liabilities

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of undrawn portions of approved loans, 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.

	2007 MNT'000	2006 MNT'000
Letters of credit and guarantees	42,419,340	21,876,720
Loan and credit card commitments	29,328,835	35,430,316

29. Commitment and contingent liabilities (continued)

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 expired. 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.

30. Mongolian translation

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.

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	71010101182101 1
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
23	MIZUHO CORPORATE BANKING	TOKYO	MHCBJPJT	JPY	5793010

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976-11-331155
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www.ebank.mn
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Fax: (976-11) 320061

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