

To: THE STOCKHOLDERS OF XacBank Ltd.,

Subject: Auditor's report

We have audited the beginning balance sheet of XacBank Ltd., as of December 31, 2001. Preparation and submission of the beginning balance sheet is the responsibility of the bank management. Our responsibility is to express an opinion on the balance sheet based on our auditing.

Our auditing was conducted according to the International Standards on Auditing in the framework of Auditing and Accounting Laws of Mongolia, rules issued by Mongolbank, and other effective legislation. We performed the auditing procedures to obtain reasonable evidence that the beginning balance sheet is free from material misstatements, we also evaluated the accounting principles used to prepare the balance sheet. In addition we considered management decisions, their implementation and examined significant transactions on a test basis. We hope that our auditing could become a reasonable basis to express an opinion and we are expressing our opinion as follows.

The beginning balance sheet of XacBank Ltd., presents fairly, in all material respects, the financial position of the bank in accordance with the accounting rules followed in Mongolia as December 31, 2001.

NIMM Audit Co., LTD

XacBank Ltd.,
 BEGINNING BALANCE SHEET
 As December 31, 2001
 (In togrogs)

| Assets | <u>Note</u> | |
|-------------------------------------|-------------|---------------------------------------|
| Cash and cash equivalents | 2A | 362,332,885.45 |
| Loans \net\ | 2B | 2,600,364,502.01 |
| Other owned assets \net\ | 2C | 1,010,709.00 |
| Fixed assets \ net\ | 2D | 587,376,070.38 |
| Other assets | 2E | <u>198,471,017.93</u> |
| Total assets | | <u><u>3,749,555,184.77</u></u> |
| Liabilities | | |
| Short term loans from other banks | | 250,000,000.00 |
| Notes payable | | 250,000,000.00 |
| Long term liabilities | 2F | 499,085,967.97 |
| Other liabilities | 2G | <u>37,033,499.76</u> |
| Total liabilities | | <u>1,036,119,467.73</u> |
| Equity | | |
| Share capital | 2H | 2,704,000,000.00 |
| Reserve fund | | 9,435,717.04 |
| Retained earnings | | <u>-</u> |
| Total equity | | <u>2,713,435,717.04</u> |
| Total liabilities and equity | | <u><u>3,749,555,184.77</u></u> |
| | | - |

To: THE STOCKHOLDERS OF X.A.C Co., LTD

Subject: Auditor's report

We have audited the financial statements of X.A.C Co., LTD NBFI for the year ended December 31, 2001. Financial statements preparation and submission is the responsibility of the company management. Our responsibility is to express an opinion on the financial statements based on our auditing.

Our auditing was conducted according to the International Standards on Auditing and pre-planned auditing program in the framework of Auditing and Accounting Law of Mongolia, rules issued by Mongolbank, and other effective legislation. We performed the auditing procedures to obtain reasonable evidence that the financial statements are free from material misstatements, we also evaluated the accounting policies, principles, and internal control systems used to prepare the statements. In addition we considered management decisions, their implementation and examined significant estimates on a test basis. We hope that auditor's findings and checked amounts could become a reasonable basis to express an opinion on the above-mentioned financial statements and we are expressing our opinion as follows.

The financial statements of X.A.C Co., LTD Non-Bank Financial Institution present fairly, in all material respects, the financial position, operating results, changes in financial position, and cash flows of the company for the year ended December 31, 2001 in accordance with the accounting standards followed in Mongolia and rules issued by Mongolbank.

NIMM Audit Co., LTD

X.A.C CO., LTD
NON BANK FINANCIAL INSTITUTION
BALANCE SHEET
As December 31, 2000 and 2001
(In togrogs)

| | Note | Dec 31, 2000 | Dec 31, 2001 |
|-------------------------------------|------|-------------------------|-------------------------|
| Assets | | | |
| Cash and cash equivalents | 4 | 339,227,861.80 | 362,332,885.45 |
| Loans \net\ | 5 | 933,160,398.02 | 2,600,364,502.01 |
| Other owned assets \net\ | 6 | 786,619.14 | 1,010,709.00 |
| Fixed assets \ net\ | 7 | 124,414,364.56 | 587,376,070.38 |
| Other assets | 8 | 46,756,783.57 | 198,471,017.93 |
| Total assets | | 1,444,346,027.09 | 3,749,555,184.77 |
| Liabilities | | | |
| Short term loans from other banks | | - | 250,000,000.00 |
| Notes payable | | - | 250,000,000.00 |
| Long term liabilities | 9 | 1,129,219,396.58 | 499,085,967.97 |
| Other liabilities | 10 | 48,224,706.46 | 37,033,499.76 |
| Total liabilities | | 1,177,444,103.04 | 1,036,119,467.73 |
| Equity | | | |
| Share capital | 11 | 180,000,000.00 | 2,704,000,000.00 |
| Reserve fund | | - | 9,435,717.04 |
| Retained earnings | | 86,901,924.05 | - |
| Total equity | | 266,901,924.05 | 2,713,435,717.04 |
| Total liabilities and equity | | 1,444,346,027.09 | 3,749,555,184.77 |

X.A.C CO., LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF PROFIT AND LOSS
For the years ended December 31, 2000 and 2001
(In togrogs)

| | Note | Dec 31, 2000 | Dec 31, 2001 |
|--|------|-----------------------|-----------------------|
| Interest income | | 348,424,152.16 | 896,237,967.75 |
| Interest expense | | (7,298,533.00) | (125,159,007.55) |
| Net interest income | 12 | 341,125,619.16 | 771,078,960.20 |
| Gain \loss\ on foreign currency trading and exchange rate difference | 13 | 2,314,626.38 | 139,014.69 |
| Other operating income | 14 | 13,551,824.72 | 32,083,438.07 |
| Total other income | | 15,866,451.10 | 32,222,452.76 |
| Operating income | | 356,992,070.26 | 803,301,412.96 |
| Operating expense | 15 | (303,038,425.36) | (602,377,162.80) |
| Income before provisions for contingent loss | | 53,953,644.90 | 200,924,250.16 |
| Provisions for contingent loss | | (7,263,088.99) | (21,423,506.28) |
| Income before income tax | | 46,690,555.91 | 179,500,743.88 |
| Income tax expense | 16 | (13,311,800.00) | (62,866,365.79) |
| Net income | | 33,378,755.91 | 116,634,378.09 |

X.A.C CO., LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2001
(In togrogs)

| | Share capital | Secondary payable | Reserve fund | Retained earnings | Total equity |
|--|-------------------------|-------------------|---------------------|----------------------|-------------------------|
| Balances as December 31, 2000 | 180,000,000.00 | - | - | 86,901,338.95 | 266,901,338.95 |
| Issued shares | 1,656,000,000.00 | - | - | - | 1,656,000,000.00 |
| Transferred from the UNDP Funding | 120,000,000.00 | 560,000,000.00 | 100,000,000.00 | | 780,000,000.00 |
| Transferred from the secondary payable | 560,000,000.00 | (560,000,000.00) | | - | - |
| Allocation of previous period retained earnings: | | | | | |
| Stock dividends | 48,000,000.00 | - | | (48,000,000.00) | - |
| Allocated to Reserve fund | - | - | 38,901,338.95 | (38,901,338.95) | - |
| Decrease in reserve fund | | | (106,100,000.00) | | (106,100,000.00) |
| Net income for the current period | | | | 116,634,378.09 | 116,634,378.09 |
| Stock dividends allocated from the net income for the current period | 140,000,000.00 | | | (140,000,000.00) | - |
| Allocation of reserve fund | - | - | (23,365,621.91) | 23,365,621.91 | - |
| Balances as December 31, 2001 | 2,704,000,000.00 | - | 9,435,717.04 | - | 2,713,435,717.04 |

X.A.C CO., LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2001
(In togrogs)

| | Subtotal | Total |
|---|-----------------|------------------------|
| Income before income tax | | 179,500,744 |
| Adjustment: | | |
| Fixed asset depreciation | 56,016,592 | |
| Provisions for contingent loss | 18,625,041 | |
| Interest income | (896,237,968) | |
| Interest expenses | 125,159,008 | (696,437,327) |
| | | |
| Operating income before working capital changes | | (516,936,584) |
| Increase \decrease\ in operating assets | | |
| Loans | (1,685,767,484) | |
| Other owned assets | (449,449) | |
| Other assets | (152,245,292) | (1,838,462,226) |
| Increase \decrease\ in operating liabilities | | |
| Notes payable | 250,000,000 | |
| Other liabilities | (8,463,770) | 241,536,230 |
| | | |
| Cash flows used in operating activities | | (2,113,862,579) |
| Interest received | 862,817,841 | |
| Interest paid | (118,924,845) | |
| Payment of income tax | (70,416,552) | |
| Loans written down to reserve for contingent loss | | 671,047,078 |
| | | |
| Net cash flows used in operating activities | | (1,442,815,501) |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (514,520,603) | |
| | | |
| Net cash flows used in investing activities | | (514,520,603) |
| Cash flows from financing activities | | |
| Increase in share capital | 2,524,000,000 | |
| Increase in reserve fund /net/ | 9,435,717 | |
| Increase in short term loans from other banks | 250,000,000 | |
| Decrease in long terms liabilities | (661,204,637) | |
| Dividends distributed | (188,000,000) | |
| | | |
| Net cash flows provided by financing activities | | 1,934,231,080 |
| | | |
| Net cash flows | | (23,105,023) |
| | | |
| Cash and cash equivalents, beginning of the year | | 339,227,862 |
| | | |
| Cash and cash equivalents, ending of the year | | 362,332,885 |
| | | |

To: THE STOCKHOLDERS OF GOVIIN EKHLEL Co., LTD

Subject: Auditor's report

We have audited the financial statements of Goviin Ekhlel Co., LTD NBFI for the year ended December 31, 2001. Financial statements preparation and submission is the responsibility of the company management. Our responsibility is to express an opinion on the financial statements based on our auditing.

Our auditing was conducted according to the International Standards on Auditing and pre-planned auditing program in the framework of Auditing and Accounting Laws of Mongolia, rules issued by Mongolbank, and other effective legislation. We performed the auditing procedures to obtain reasonable evidence that the financial statements are free from material misstatements, we also evaluated the accounting policies, principles, and internal control systems used to prepare the statements. In addition to we considered management decisions, their implementation and examined significant estimates on a test basis. We hope that auditors' findings and checked amounts could become a reasonable basis to express an opinion on the above-mentioned financial statements and we are expressing our opinion as follows.

The financial statements of Goviin Ekhlel Co., LTD Non-Bank Financial Institution present fairly, in all material respects, financial position, operating results, changes in financial position, and cash flows of the company for the year ended December 31, 2001 in accordance with the accounting standards followed in Mongolia and rules issued by Mongolbank.

NIMM Audit Co., LTD

GOVIIN EKHLEL Co., LTD
NON-BANK FINANCIAL INSTITUTION
BALANCE SHEET
As December 31, 2000 and 2001
(In togrogs)

| | Note | Dec,31,2000 | Dec,31,2001 |
|-------------------------------------|------|-----------------------|-------------------------|
| Assets | | | |
| Cash and cash equivalents | 4 | 496,346,927.36 | 8,834,367.84 |
| Loans \net\ | 5 | 174,817,249.92 | - |
| Fixed assets \ net\ | 6 | 102,398,766.43 | - |
| Long terms investment | 7 | - | 2,799,568,300.00 |
| Other assets | 8 | 13,593,070.49 | 8,100,631.00 |
| Total assets | | 787,156,014.20 | 2,816,503,298.84 |
| Liabilities | | | |
| Long term liabilities | 9 | - | 376,868,300.00 |
| Other liabilities | 10 | 4,691,916.36 | 16,878,805.00 |
| Total liabilities | | 4,691,916.36 | 393,747,105.00 |
| Equity | | | |
| Share capital | 11 | 882,986,611.51 | 2,279,754,000.00 |
| Reserve fund | | - | 100,000,097.84 |
| Retained earnings | | (100,522,513.67) | 43,002,096.00 |
| Total equity | | 782,464,097.84 | 2,422,756,193.84 |
| Total liabilities and equity | | 787,156,014.20 | 2,816,503,298.84 |

GOVIIN EKHLEL Co., LTD
NON-BANK FINANCIAL INSTITUTION
STATEMENTS OF PROFIT AND LOSS
For the years ended December 31, 2000 and 2001
(In togrogs)

| | Note | Dec 31, 2000 | Dec 31, 2001 |
|--|------|-------------------------|-----------------------|
| Interest income | | 60,458,613.43 | 235,324,419.02 |
| Interest expenses | | - | - |
| Net interest income | 12 | 60,458,613.43 | 235,324,419.02 |
| Gain \loss\ on foreign currency trading and exchange rate difference | 13 | 123,867.15 | (984,569.94) |
| Other operating income | | 612,402.23 | 3,919,650.25 |
| Total other income | | 736,269.38 | 2,935,080.31 |
| Operating income | | 61,194,882.81 | 238,259,499.33 |
| Operating expenses | 14 | (159,951,566.40) | (178,814,903.33) |
| Income before provisions for contingent loss | | (98,756,683.59) | 59,444,596.00 |
| Provision for loan loss | | (1,765,830.08) | (4,058,300.00) |
| Income before income tax | | (100,522,513.67) | 55,386,296.00 |
| Income tax expense | 15 | - | (12,384,200.00) |
| Net income | | (100,522,513.67) | 43,002,096.00 |

GOVIN EKHLEL Co.,LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2000 and 2001
(In togrogs)

| | Share capital | Reserve fund | Retained earnings | Total equity |
|--------------------------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| As beginning balance sheet | 700,000,000.00 | - | - | 700,000,000.00 |
| Increase in share capital | 182,986,611.51 | | | 182,986,611.51 |
| Decrease in share capital | | | - | - |
| Net income (or loss) for the period | - | | (100,522,513.67) | (100,522,513.67) |
| Balances as December 31, 2000 | 882,986,611.51 | | (100,522,513.67) | 782,464,097.84 |
| Increase in share capital | 1,497,289,902.16 | | | 1,497,289,902.16 |
| Increase in reserve fund | | 100,000,097.84 | - | 100,000,097.84 |
| Allocation of retained loss | (100,522,513.67) | | 100,522,513.67 | - |
| Net income for the current period | - | | 43,002,096.00 | 43,002,096.00 |
| Balances as December 31, 2001 | 2,279,754,000.00 | 100,000,097.84 | 43,002,096.00 | 2,422,756,193.84 |

GOVIN EKHLEL Co.,LTD
NON BANK FINANCIAL INSTITUTION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2001
(In togrogs)

| | Subtotal | Total |
|---|-----------------|------------------------|
| Income before income tax | | 55,386,296 |
| Adjustment: | | |
| Fixed asset depreciation | 12,700,016 | |
| Provision for loan loss | 4,058,300 | |
| Interest income | (235,324,419) | |
| Interest expense | - | (218,566,103) |
| | | |
| Operating profit before working capital changes | | (163,179,807) |
| Increase \decrease\ in operating assets | | |
| Loans | 176,583,080 | |
| Other assets | 3,334,356 | 179,917,436 |
| | | |
| Increase \decrease\ in operating liabilities | | |
| Other liabilities | 4,485,589 | 4,485,589 |
| | | |
| Cash flows from operating activities | | 21,223,218 |
| Interest received | 241,205,986 | |
| Payment of income tax | (4,682,900) | 236,523,086 |
| | | |
| Net cash flows provided by operating activities | | 257,746,305 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (108,416,410) | |
| Price of disposed fixed assets | 289,090,060 | |
| Purchase of long term investment | (2,799,568,300) | |
| | | |
| Net cash flows used in investing activities | | (2,618,894,650) |
| Cash flows from financing activities | | |
| Increase in share capital | 1,396,767,388 | |
| Increase in reserve fund | 100,000,098 | |
| Increase in long terms liabilities | 376,868,300 | |
| | | |
| Net cash flows provided by financing activities | | 1,873,635,786 |
| Net cash flows | | (487,512,559) |
| | | |
| Cash and cash equivalents, beginning of the year | | 496,346,927 |
| | | |
| Cash and cash equivalents, ending of the year | | 8,834,368 |
| | | |