

XacBank LLC

Financial Statements for the year ended
31 December 2005

XacBank LLC
Corporate information

Banking Licence No. 24 dated 27 December 2001, issued by the Bank of Mongolia.

Board of Directors	Chuluun Ganbold Stephen Mitchell Chuluun Ganhuyag Jambaldorj Erdenechimeg Tsend Enhtuya Ganhuyag Munhbat Sodnom Behbat Steve Zimmerman Namsraijav Zorigt Perenlei Erdenejargal Suhbaatar Huhii Anne Arvia Femke Bos Gilbert Crawford James Anderson	Chairman Vice Chairman Director Director Director Director Director Director Director Director Director Director Director Director Director Non-voting Director
Executive Committee	Chuluun Ganbold Chuluun Ganhuyag Steve Zimmerman Perenlei Erdenejargal Tsend Enhtuya James Anderson	Chairman Member Member Member Member Non-voting Member
Audit Committee	Stephen Mitchell James Anderson Namsraijav Zorigt Jambaldorj Erdenechimeg Gilbert Crawford	Chairman Non-voting Vice-chairman Member Member Member
Risk Management Committee	Anne Arvia Chuluun Ganhuyag Suhbaatar Huhii Sodnom Behbat Ganhuyag Munhbat	Chairman Member Member Member Member
Credit Committee	James Anderson Tsend Enhtuya Chuluun Ganhuyag Steve Zimmerman Femke Bos	Non-voting Chairman Member Member Member Member
Executive Officers	Chuluun Ganhuyag Magvan Bold Lhagvasuren Soronzonbold Dugersuren Bat-Ochir	Chief Executive Officer President Executive Vice President for Banking and Director of Banking Division Chief Financial Officer and Director of Finance and Accounting Division

XacBank LLC
Corporate information

Aryasuren Batbold	Chief Operating Officer and Director of Administrative Division
Urtnasan Naranbaatar	Chief Information Officer and Director of Information Technology Division
Bayanjargal Delgerjargal	Chief Credit Officer and Director of Credit Management Division
Dorjgotov Erdenechimeg	Chief Internal Auditor

Registered office

XacBank Building
Prime Minister Amar's Street
Suhbaatar District, Ulaanbaatar
Mongolia

Auditors

KPMG
Kuala Lumpur, Malaysia
Created by nghinguyen

Board of Directors' responsibility statement

The Bank's Board of Directors is responsible for the preparation of the financial statements.

The financial statements of XacBank LLC have been prepared to comply with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2005 and the results and cash flows for the year then ended on that date.

The Board of Directors have responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in note 2(a) thereto.

The Board of Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Board of Directors consider that, in preparing the financial statements on pages 5 to 43, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgement and estimates, and that all applicable accounting standards have been followed.

Signed in accordance with a resolution of the Board of Directors:



Chuluun Ganbold
Chairman of the Board of Directors

Ulaanbaatar, Mongolia

17 March 2006



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

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Report of the auditors to the members of XacBank LLC

We have audited the financial statements of XacBank LLC on pages 5 to 43. The preparation of the financial statements is the responsibility of the Bank's Board of Directors.

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

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


In our opinion, the financial statements on pages 5 to 43 present fairly, in all material aspects, the state of affairs of XacBank LLC as at 31 December 2005 and the results and cash flows for the year then ended on that date in accordance with International Financial Reporting Standards.

KPMG
Ulaanbaatar, Mongolia

17 March 2006

XacBank LLC
Balance sheet at 31 December 2005

	Note	2005 MNT'000	2004 MNT'000
ASSETS			
Cash on hand	3	2,100,229	1,052,516
Balances with other banks	3	6,852,474	4,204,447
Balances with the Bank of Mongolia	3	3,255,842	1,392,439
Investment securities – available for sale	4	1,105,161	965,169
Loans and advances	5	37,950,282	20,044,996
Property, plant and equipment	6	5,919,929	2,437,507
Intangible assets	7	112,756	-
Other assets	8	1,955,626	1,501,697
TOTAL ASSETS		59,252,299	31,598,771
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from customers	9	30,898,159	15,696,429
Deposits from local financial institutions	10	2,800,000	981,350
Loans from local financial institutions	11	1,300,000	2,600,000
Loans from foreign financial institutions	12	10,068,107	5,108,025
Loans from government agencies	13	3,320,135	1,648,899
Taxation		205,646	30,903
Deferred grants	14	126,864	131,910
Other liabilities	15	987,787	541,403
Total liabilities		49,706,698	26,738,919
Shareholders' equity			
Share capital	16	8,034,200	4,205,530
Other reserves		22,415	22,415
Retained earnings		1,488,986	631,907
Total shareholders' equity		9,545,601	4,859,852
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		59,252,299	31,598,771


Chuluun Ganhuuyag
Chief Executive Officer


Dugersuren Bat-Ochir
Chief Financial Officer

The notes set out on pages 10 to 43 form an integral part of these financial statements

XacBank LLC
Statement of income for the year ended 31 December 2005

	Note	2005 MNT'000	2004 MNT'000
Interest income	17	9,834,002	5,936,418
Interest expense	18	(4,234,701)	(1,974,577)
Net interest income		5,599,301	3,961,841
Net fees and commissions income	19	657,551	384,895
Net foreign exchange gains		107,576	15,216
Other operating income	20	80,716	108,658
Net non-interest income		845,843	508,769
Operating income		6,445,144	4,470,610
General and administration expenses	21	(4,437,939)	(2,985,140)
Write back/(Allowance) for impairment losses	22	135,461	(274,891)
Grant income		227,558	132,269
Grant expenses	14	(227,558)	(132,269)
Profit from operations		2,142,666	1,210,579
Corporate income tax	24	(653,738)	(423,085)
Net profit after tax		1,488,928	787,494


Chuluun Ganhuuyag
Chief Executive Officer

Dugersuren Bat-Ochir
Chief Financial Officer



The notes set out on pages 10 to 43 form an integral part of these financial statements

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

← *Non-distributable* → *Distributable*

	Note	Share capital MNT'000	Share premium MNT'000	General reserves MNT'000	Retained earnings MNT'000	Total MNT'000
Balance at 1 January 2004		3,004,000	-	9,436	106,413	3,119,849
Issue of share capital	16	940,000	8,551	-	-	948,551
Capitalisation of retained profits	16	261,530	-	-	(261,530)	-
Dividend paid	23		-	-	(470)	(470)
Increase during the year		-	-	4,428	-	4,428
Net profit for the year		-	-	-	787,494	787,494
<hr/>						
Balance at 31 December 2004		4,205,530	8,551	13,864	631,907	4,859,852
Issue of share capital	16	3,324,750	-	-	-	3,324,750
Capitalisation of retained profits	16	503,920	-	-	(503,920)	-
Dividend paid	23	-	-	-	(127,929)	(127,929)
Net profit for the year		-	-	-	1,488,928	1,488,928
<hr/>						
Balance at 31 December 2005		8,034,200	8,551	13,864	1,488,986	9,545,601

Note 16

The notes set out on pages 10 to 43 form an integral part of these financial statements

XacBank LLC**Statement of cash flows for the year ended 31 December 2005**

	Note	2005 MNT'000	2004 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,142,666	1,210,579
<i>Adjustments for</i>			
Depreciation and amortisation		412,368	220,958
Loss/(Gain) on disposal of property, plant and equipment		6,255	(4,364)
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		2,561,289	1,427,173
Increase in loans and advances		(17,905,286)	(9,204,550)
Increase in other assets		(453,929)	(772,999)
Increase in deposits from customers		15,201,730	5,684,257
Increase in deposits from local financial institutions		1,818,650	981,350
Increase/(decrease) in other liabilities		446,384	(262,459)
		<hr/>	<hr/>
		1,668,838	(2,147,228)
Corporate income tax paid		(478,995)	(437,891)
		<hr/>	<hr/>
Net cash flows used in operating activities		1,189,843	(2,585,119)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (acquisition) /disposal of investment securities			
– available for sale		(139,992)	981,623
Purchase of property and equipment		(4,019,047)	(1,311,278)
Purchase of intangible assets		(115,183)	-
Proceeds from disposals of property, plant and equipment		120,429	41,962
		<hr/>	<hr/>
Net cash flows used in investing activities		(4,153,793)	(287,693)
		<hr/>	<hr/>

XacBank LLC**Statement of cash flows for the year ended 31 December 2005 (continued)**

	Note	2005 MNT'000	2004 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		3,324,750	948,551
Increase in general reserves		-	4,428
(Decrease)/Increase in loans from local financial institutions		(1,300,000)	920,000
Increase in loans from foreign financial institutions		4,960,082	3,910,825
Increase in loans from government agencies		1,671,236	792,654
(Decrease)/Increase in deferred grants		(5,046)	43,545
Dividends paid	i)	(127,929)	(470)
		<hr/>	<hr/>
Net cash flows generated from financing activities		8,523,093	6,619,533
		<hr/>	<hr/>
Net increase in cash and cash equivalents		5,559,143	3,746,721
Cash and cash equivalents at the beginning of the year		6,649,402	2,902,681
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	3	12,208,545	6,649,402
		<hr/>	<hr/>

Note:

i) During the year, the bank distributed a final cash dividend of MNT127,929,575 in respect of year ended 31 December 2004.

The notes set out on pages 10 to 43 form an integral part of these financial statements

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005

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

1. Corporate information and principal activities

X.A.C. Co., Ltd. commenced operations in 1999 as a non-bank financial institution. The company first started its operation by rendering five types of loan services. In October 2001, this company entered into a merger agreement with Goviin Ekhlel Co., Ltd., another non-bank financial institution, to form XAC-GE Group, a holding company, which owns a majority stake in XacBank LLC. The shareholders of the holding company are:

- Mercy Corps
- Open Society Forum
- Mongolian Women's Federation
- Liberal Women's Intellectual Pool
- Triodos Doen and Triodos Fair Share Fund
- Rotary Club of Ulaanbaatar
- Local Governance Development Foundation
- Tuushin LLC
- MicroVest 1, LP
- Shorecap International LTD
- CYDAN
- Newcom
- EIT LLC

The principal activities of XacBank LLC ("the Bank"), which is incorporated as a commercial bank under the Mongolian Banking Law, are to provide a wide range of banking products and services, including deposit taking, lending, international and domestic payment services, foreign exchange dealing, securities trading, financial and investment consulting, under Banking Licence No. 24 issued by the Bank of Mongolia on 27 December 2001 (referred to as "the Banking Licence").

The Bank has been and continues to be predominantly involved in providing micro finance to the general public to develop retail and small and medium enterprises.

The financial statements were authorised for issue by the Board of Directors on 17 March 2006.

2. Summary of significant accounting policies

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

(a) Statement of compliance

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

(b) Basis of financial statement preparation

The financial statements are presented in Mongolian Togrog (“MNT”), rounded to the nearest thousand. MNT is the Bank’s measurement currency. The financial statements are prepared on the historical cost basis, except for investments available-for-sale which are stated at fair value.

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

(c) Foreign currency transactions

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

(d) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purposes of short-term trading and liquidity management.

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 banks and customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

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

(ii) Initial recognition

Financial instruments are measured initially at cost, which should equal their fair value, 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.

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Notes to the financial statements for the year ended 31 December 2005 (continued)

(iii) Subsequent measurement

Subsequent to initial recognition, all trading instruments and all available-for-sale assets are measured at fair market value, except that any instrument that does not have a quoted market price in an active market and whose fair market value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

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

(e) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, balances with other banks and balances with the Bank of Mongolia.

(f) Loans and advances

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

(g) Property, plant and equipment

(i) Cost

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

(ii) Depreciation

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

■	buildings	40 years
■	motor vehicles	10 years
■	office equipment	10 years
■	computers	5 years

(h) Construction in progress

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

(i) Intangible Assets

(i) Cost

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

(ii) 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 lives are as follows:-

■	Software and licenses	3-5 years
■	Patents and rights	3-5 years

(j) Impairment

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

(i) *Originated loans and advances*

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

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

(ii) *Assets other than loans and advances*

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

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

(k) *Non-trading financial liabilities*

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

(l) *Grants*

Grants are recognised initially in the balance sheet as deferred grants when there is reasonable assurance that they will be receivable and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognised as revenue in the statement of income on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognised in the statement of income on a systematic basis over the useful life of the asset.

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

(m) 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.

(n) Revenue

(i) Interest income

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

(ii) Fee income and commission

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

(iii) Rental income

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

(o) 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.

(p) Income tax

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

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

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

(q) 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) Equity compensation benefits

The Employee Stock Ownership Plan allows the Bank's staff to hold XAC-GE shares through an employee investment trust company, EIT LLC. The purchase price is at 30% of the par value of XAC-GE shares. No change is made to the Bank's total share capital and no compensation cost is recognised by the Bank.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****3. Cash and cash equivalents**

	2005 MNT'000	2004 MNT'000
Cash on hand	2,100,229	1,052,516
Balances with other banks	6,852,474	4,204,447
Balances with the Bank of Mongolia	3,255,842	1,392,439
	<hr/>	<hr/>
Total cash and cash equivalents	12,208,545	6,649,402
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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.

4. Investment securities – available for sale

	2005 MNT'000	2004 MNT'000
Bank of Mongolia bills	1,104,661	366,714
Other debt securities	500	604,500
	<hr/>	<hr/>
	1,105,161	971,214
Allowance for impairment losses	-	(6,045)
	<hr/>	<hr/>
	1,105,161	965,169
	<hr/> <hr/>	<hr/> <hr/>

5. Loans and advances

	2005 MNT'000	2004 MNT'000
Loans and advances to customers	37,183,513	19,819,550
Loans to staff	768,000	463,307
Loans to executive officers	126,376	30,700
	<hr/>	<hr/>
	38,077,889	20,313,557
Allowance for loan losses	(127,607)	(268,561)
	<hr/>	<hr/>
Net loans and advances	37,950,282	20,044,996
	<hr/> <hr/>	<hr/> <hr/>

Included in the gross balance of loans and advances is an amount of non-performing loans of MNT370 million (2004: MNT210 million).

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****5. Loans and advances (continued)**

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

	Specific allowances MNT'000	General allowances MNT'000	Total MNT'000
Allowance for loan losses			
At 1 January 2004	64,116	107,653	171,769
Charge for the year	172,729	93,385	266,114
Written back	(2,188)	-	(2,188)
Written off	(167,134)	-	(167,134)
At 31 December 2004 / 1 January 2005	67,523	201,038	268,561
Charge for the year	70,569	-	70,569
Written back	-	(201,038)	(201,038)
Written off	(10,485)	-	(10,485)
At 31 December 2005	<u>127,607</u>	<u>-</u>	<u>127,607</u>

The Bank had written back its 1% general provision for all its performing loans during the year to be in compliance with IAS 39 Financial Instruments: Recognition and Measurement.

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

	2005 MNT'000	2004 MNT'000
Textile and production	1,726,861	1,722,440
Trading	15,677,211	9,726,531
Food processing	787,028	531,917
Services	2,911,046	1,554,131
Consumption	7,577,500	5,239,542
Agriculture	2,470,119	509,114
Mortgage	4,664,828	-
Deposit backed	1,251,998	423,410
Other	116,922	112,465
Loans to staff	768,000	463,307
Loans to executive officers	126,376	30,700
	<u>38,077,889</u>	<u>20,313,557</u>

Others include borrowers in construction, mining and education.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****5. Loans and advances (continued)**

(iii) The Bank's provisioning policy is as follows:

<u>Loan Classification</u>	<u>Days in arrears</u>	<u>Provision</u>
Current	Nil	0%
Past due	1-90 days	5%
Substandard/Restructured	91-180 days	40%
Doubtful	181-270 days	75%
Bad	>270 days	100%

The allowance for loan losses as 31 December 2005 is as follows.

Loan Status	Outstanding Loan Portfolio	Share of total	Allowance for loan loss	
			Percentage	MNT '000
Current	37,707,692	99.10%	0%	-
Past Due	191,955	0.50%	5%	9,598
Substandard	75,296	0.20%	40%	30,118
Doubtful	47,248	0.10%	75%	35,436
Bad	50,293	0.10%	100%	50,293
Restructured	5,405	-	40%	2,162
	38,077,889		100%	127,607

(iv) Historical trend shows that the allowance for loan losses are sufficient to cover loans write-offs.

	2002	2003	2004	2005
	MNT'000	MNT'000	MNT'000	MNT'000
A Average reserve	49,759	120,784	220,165	198,084
B Write offs	2,162	13,109	167,134	10,485
C Coverage (A/B)	23.0	9.2	1.3	18.9

Average reserve is determined based on the average of the beginning and ending balance of the allowance for loan losses of each year.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****5. Loans and advances (continued)**

Restructuring or renegotiating is done on case by case basis. A loan can be restructured only if a borrower faces temporary cash flow problem which would have reasonable evidence of future recovery. The proposal to restructure a loan is prepared by a credit officer and the final decision is made at HQ by the Credit Committee. Restructured loans are subsequently reported to the Board.

Before writing off a loan, work out actions are initially taken by the respective branches where the loan was disbursed, followed by the work out unit at the HQ. When all attempts fail, the proposal to write off is then presented to the Risk Managements Committee or the Board of the Bank . For loans with outstanding balance of less than USD4,000, the decision to write off the loans is made by the Risk Management Committee of the Bank. The decision to write off loans above USD4,000 is made by the Board of the Bank.

(v) Related Party Loans

Borrower	Principal balance outstanding	Loan term	Status
Executive Officers	126,376	12-120 months	Performing
Board member	189,779	11-60 months	Performing
Staff loans	768,000	1-120 months	696 Performing 1 Restructured 2 Past Due 1 Bad
	1,084,155		

Loans to staff and executive officers are disbursed within the limit pre-approved by the Board of the Bank. All related party loans are reported to the Bank of Mongolia monthly and to the Board of the Bank quarterly. Loan request, review, disbursement and monitoring procedures similar to those applied to the other borrowers.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****6. Property, plant and equipment**

	Buildings	Motor vehicles	Office equipment	Computers	Construction in progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Cost						
At 1 January 2005	943,607	579,304	385,513	823,617	269,820	3,001,861
Additions	2,573,076	447,665	136,659	594,706	266,941	4,019,047
Disposals	-	(118,003)	(16,052)	(74,842)	-	(208,897)
Write-off	-	-	-	(23,550)	-	(23,550)
Transfer	105,400	-	-	-	(105,400)	-
At 31 December 2005	3,622,083	908,966	506,120	1,319,931	431,361	6,788,461
Accumulated depreciation						
At 1 January 2005	36,789	89,796	75,744	362,025	-	564,354
Charge for the year	81,285	66,003	43,639	219,014	-	409,941
Disposals	-	(42,590)	(2,987)	(36,636)	-	(82,213)
Write-off	-	-	-	(23,550)	-	(23,550)
At 31 December 2005	118,074	113,209	116,396	520,853	-	868,532
Net book value						
At 31 December 2005	3,504,009	795,757	389,724	799,078	431,361	5,919,929
At 31 December 2004	906,818	489,508	309,769	461,592	269,820	2,437,507
Depreciation charge for year ended 31 December 2004	15,695	41,782	3,859	159,622	-	220,958

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****7. Intangible assets**

<i>Cost</i>	Software and Licenses MNT'000	Patents and Rights MNT'000	Total MNT'000
Opening balance	-	-	-
Acquisition during the year	114,133	1,050	115,183
Closing balance	<u>114,133</u>	<u>1,050</u>	<u>115,183</u>
<i>Amortisation</i>			
Opening balance	-	-	-
Amortisation charge for the year	2,427	-	2,427
Closing balance	<u>2,427</u>	<u>-</u>	<u>2,427</u>
<i>Net book value</i>			
At 31 December 2005	<u>111,706</u>	<u>1,050</u>	<u>112,756</u>
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>

8. Other assets

	2005 MNT'000	2004 MNT'000
Prepaid expenses	701,263	637,131
Supplies and low value assets	467,658	253,444
Accrued interest receivable	685,501	391,544
Other receivables	101,204	219,578
Foreclosed properties	-	-
	<u>1,955,626</u>	<u>1,501,697</u>

Foreclosed properties and other receivables are presented net of impairment loss amounting to MNT1,500,000 and MNT5,711,000 respectively (2004: MNT1,500,000 and MNT4,738,000).

During the year, other receivables amounting to MNT 80,000 (2004: MNT141,000) were written off against impairment losses.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****9. Deposits from customers**

	2005	2004
	MNT'000	MNT'000
Current accounts	3,671,545	1,364,484
Demand deposits	6,338,161	3,398,260
Time deposits	20,888,453	10,933,685
	<hr/>	<hr/>
	30,898,159	15,696,429
	<hr/>	<hr/>

Current accounts bear interest at a rate of 2.4% (2004: 3.6%) per annum applicable to individual balances more than MNT5 million. Demand deposits bear interest at a rate of approximately 7.25% (2004: 6%) per annum. Time deposits bear interest at rates ranging from 6% to 16.8% (2004: 4.2% to 18%) per annum.

10. Deposits from local financial institutions

	2005	2004
	MNT'000	MNT'000
Deposit from Mongol Post Bank	800,000	800,000
Deposit from Zoos Bank	2,000,000	-
Deposit from UB City Bank	-	181,350
	<hr/>	<hr/>
	2,800,000	981,350
	<hr/>	<hr/>

11. Loans from local financial institutions

	2005	2004
	MNT'000	MNT'000
Loan from Mongol Post Bank	800,000	800,000
Loan from Chinggis Khaan Bank	500,000	-
Loan from Golomt Bank	-	1,800,000
	<hr/>	<hr/>
	1,300,000	2,600,000
	<hr/>	<hr/>

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****12. Loans from foreign financial institutions**

	2005	2004
	MNT'000	MNT'000
Loan from Deutsche Bank Micro Credit Development Fund ("DBMCDF")	152,625	151,125
Loan from International Finance Corporation ("IFC")	439,560	483,600
Loan from Dexia Micro Credit Fund ("DMCF")	1,831,500	604,500
Loan from Calvert Social Investment Foundation ("CSIF")	610,500	241,800
Loan from Microvest 1, LP	1,831,500	1,813,500
Loan from ASN-Novib Fonds	1,221,000	1,209,000
Loan from Oikocredit	2,200,237	-
Loan from Shorecap International LTD	610,500	-
Loan from Triodos Doen	1,170,685	-
Loan from Credit Suisse Microfinance Fund ("CSMF")	-	604,500
	<hr/>	<hr/>
	10,068,107	5,108,025
	<hr/> <hr/>	<hr/> <hr/>

The loan from the DBMCDF is in the form of subordinated debt issued by the Bank for a principal amount of USD125,000. The loan bears interest at a rate of 2% (2004: 2%) per annum and is repayable in August 2007.

The loan from IFC, amounting to USD400,000, bears interest at a rate of LIBOR+3.5% (2004: LIBOR+3.5%). The loan is repayable in twelve semi-annual instalments which commenced on 15 January 2005.

The loan from DMCF comprises the following:

(i) A promissory note issued by the Bank for a principal amount of USD500,000. The note bears interest at a rate of LIBOR+6% (2004: LIBOR+6%) per annum. The loan is repayable in four equal two-monthly instalments of USD125,000 each, commencing in February 2006.

(ii) A promissory note issued by the Bank for a principal amount of USD1,000,000. The note bears interest at a rate of 9.75% per annum. The loan is repayable in two equal semi-annual instalments of USD500,000 each, commencing in December 2006.

The loan from CSIF is in the form of a promissory note issued by the Bank for a principal amount of USD500,000. The note bears interest at a rate of 6% per annum and is repayable in July 2008.

The loan from Microvest 1, LP, amounting to USD1,500,000, bears interest at a rate of LIBOR+5.21%. The loan is repayable in three equal instalments commencing February 2006.

The loan from ASN-Novib Fonds, amounting to USD1,000,000, bears interest at a rate of 9% per annum. The loan is repayable in three instalments commencing in May 2006.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****12. Loans from foreign financial institutions (continued)**

The loan from Oikocredit comprises the following:

(i) MNT444,690,000 which bears interest at a rate of 13% per annum. The loan is repayable in August 2006.

(ii) USD724,920 which bears interest at a rate of LIBOR+5.75% per annum. The loan is repayable in four equal semi-annual instalments commencing April 2007.

(iii) EUR600,000 which bears interest at a rate of EURIBOR+5.75% per annum. The loan is repayable in four equal semi-annual instalments commencing April 2007.

The loan from Shorecap International LTD, amounting to USD 500,000, bears interest at a rate of 9% per annum. The loan is repayable in four equal quarterly instalments commencing December 2007.

The loan from Triodos Doen comprises of the following:

(i) USD 500,000 which bears interest at a rate of 9% per annum. The loan is repayable in October 2008.

(ii) MNT 560,185,000 which bears interest at a rate of 13% per annum. The loan is repayable in October 2008.

The loan from CSMF has been fully repaid during the year.

These loans are to support further expansion of the Bank's micro-finance and small-medium enterprise lending activities and to strengthen the Bank's technical capability.

13. Loans from government agencies

	2005	2004
	MNT'000	MNT'000
Loan from Employment Generation Support Fund	500,000	500,000
Loan from Asian Development Bank (ADB)	497,136	493,169
Loan from Micro Finance Development Fund	918,811	237,711
Loan from International Foundation for Agricultural Development (IFAD)	1,361,988	267,730
Loan from Employment Generation Project	42,200	-
Loan from United Nations Development Funds (UNDP)	-	150,289
	<hr/>	<hr/>
	3,320,135	1,648,899

The objective of the loan from Employment Generation Support Fund is to channel funds to small business entities and individuals. The loan, which is in Mongolian Togrog, bears interest at a rate of 6% (2004: 6%) per annum and is repayable on 10 June 2006.

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

13. Loans from government agencies (continued)

The ADB loan was channelled through the Bank of Mongolia. The objective of the loan is to develop Mongolia's agricultural sector. The loan, which is in Mongolia Togrog, bears interest of 5.5% per annum (2004: 5.5% per annum) and is repayable on 5 September 2006.

The objective of the loan from Micro Finance Development Fund is to support and improve the living standard in the rural areas. The loan, which is in Mongolian Togrog, bear interest at a rate of 5% per annum and is repayable on June 2006.

The objective of the loan from International Foundation for Agricultural Development ("IFAD") is to support and reduce the poverty in the rural areas. The loan, which amounted to USD1,823,380, is to be disbursed from March 2004 to December 2009. It bears interest at a rate of 6% per annum and is repayable in 10 equal semi-annual instalments commencing from June 2013.

The loan from Employment Generation Project was channelled through Bank of Mongolia amounting to MNT 42,200,000 bears interest at a rate of 10% per annum. The loan is repayable on October 2006.

14. Deferred grants

	2005 MNT'000	2004 MNT'000
Grant from Consultative Group to Assist the Poorest ("CGAP")	26,164	30,732
Grant from International Finance Corporation ("IFC")	7,659	7,584
Grant from microenterprise Implementation Grant Program ("IGP")	92,331	91,420
Others	710	2,174
	126,864	131,910

The CGAP grant was approved in 2001 with the objective of assisting the X.A.C Co., Ltd in making a successful transition to a micro-finance bank. The grant allows the Bank to carry out the following activities:

- Develop internal systems that meet the requirements and needs of a micro-finance bank;
- Secure higher standard of external audit services; and
- Strengthen senior management and governance, in particular, financial management and banking skills.

The IFC grant was received during 2002 with the objective of providing funds for technical assistance in the following initiatives: technical advice, training for senior managers with an established micro-finance institution and participation by an international participant in the meetings of the Bank's Board of Directors and training for the Bank's Board members.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****14. Deferred grants (continued)**

The IGP grant was received during 2003 from United States Agency for International Development (USAID) with the objective of assisting the Bank in expanding its branch network, training staff and developing new products and services, as well as internal systems needed to control growth.

Expenditure financed by grants:

Donor and Purpose	2005 MNT'000	2004 MNT'000
Expenditure financed by grants from International Finance Corporation ("IFC") covering internal audit consultancy, training and exposure trip	-	31,702
Expenditure financed by grants from Consultative Group to Assist the Poorest ("CGAP") covering consulting fee	4,767	17,200
Expenditure financed by grants from United Nations Development Program ("UNDP") covering scholarships to students	1,461	766
Expenditure financed by grants from USAID's Income Generation Project covering facility improvements	187,814	82,601
Expenditure financed by grants from USAID's Income Generation Project covering Internal systems development & IT audit consultancy, training and exposure trip	33,516	-
	<hr/> 227,558	<hr/> 132,269
	<hr/> <hr/>	<hr/> <hr/>

15. Other liabilities

	2005 MNT'000	2004 MNT'000
Interest payable	675,321	353,232
Remittances payable	150,550	16,006
Other payables	161,916	172,165
	<hr/> 987,787	<hr/> 541,403
	<hr/> <hr/>	<hr/> <hr/>

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****16. Share capital**

<i>In number of shares</i>	2005	2004
In issue at 1 January	4,205,530	3,004,000
Issued for cash	3,324,750	940,000
Capitalisation of retained profits	503,920	261,530
	<hr/>	
In issue at 31 December – fully paid	8,034,200	4,205,530
	<hr/> <hr/>	

During the year, the authorised share capital of the Bank had increased from MNT6,000 million to MNT8,200 million, which consists of 8,200,000 common shares of MNT1,000 per share.

The Bank increased its share capital during the year as follows:

- (a) The issue of 3,324,750 common shares of MNT1,000 each for a total consideration of MNT3,324,750,000.
- (b) The issue of 503,920 common shares of MNT 1,000 each by the capitalisation of retained profits of MNT503,920,000.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

As at 31 December 2005, 99.78% (2004: 94%) of the issued shares are owned by XAC-GE LLC, a holding company, and 0.22% (2004: 6%) are owned by other shareholders.

17. Interest income

	2005	2004
	MNT'000	MNT'000
Loans and advances	9,413,196	5,746,713
Balances with other banks	308,813	93,212
Investment securities	111,993	96,493
	<hr/>	
	9,834,002	5,936,418
	<hr/> <hr/>	

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****18. Interest expense**

	2005 MNT'000	2004 MNT'000
Deposits from customers	2,798,740	1,456,743
Deposits and loans from financial institutions and government agencies	1,435,961	517,834
	<hr/> 4,234,701	<hr/> 1,974,577
	<hr/> <hr/>	<hr/> <hr/>

19. Net fees and commissions income

	2005 MNT'000	2004 MNT'000
Fees and commissions income	730,632	400,065
Fees and commissions expense	(73,081)	(15,170)
	<hr/> 657,551	<hr/> 384,895
	<hr/> <hr/>	<hr/> <hr/>

Net fees and commissions income includes loan application fees, payment service fees, loan commissions and money transfer service fees.

20. Other operating income

	2005 MNT'000	2004 MNT'000
Rental income	64,493	74,527
Other income	16,223	34,131
	<hr/> 80,716	<hr/> 108,658
	<hr/> <hr/>	<hr/> <hr/>

Included in other income are gains from disposal of property and equipment and penalty income.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****21. General and administrative expenses**

Included in general and administrative expenses are:

	2005	2004
	MNT'000	MNT'000
Staff costs	1,981,607	1,441,758
Depreciation on property, plant and equipment	409,941	220,958
Amortisation of intangible assets	2,427	-
Maintenance of property, plant and equipment	26,852	11,748
Rental expense	211,728	350,040

22. (Write back)/Allowance for impairment losses

	2005	2004
	MNT'000	MNT'000
(Write back)/Allowance for loan losses, net	(130,469)	263,926
Other assets	1,053	4,920
Investment securities	(6,045)	6,045
	(135,461)	274,891

23. Dividend

	2005	2004
	MNT'000	MNT'000
Ordinary: Dividend paid	631,849	262,000

During the year, the Bank distributed a final cash dividend of MNT127,929,575 in respect of year ended 31 December 2004.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****24. Corporate income tax****Recognised in the income statement:**

	2005	2004
	MNT'000	MNT'000
Current tax expense	653,738	423,085

Reconciliation of effective tax rate

	2005	2004
	MNT'000	MNT'000
Profit before tax	2,142,666	1,210,579
Tax at income tax rate of 30%	642,800	363,174
Tax effect of non-deductible expenses	78,370	53,267
Tax effect of tax exempt income	(46,321)	(13,982)
Tax effect of progressive tax rate of 15% (2004: 15%) on the portion of taxable income up to MNT100 million	(15,000)	(15,000)
Other items	(6,111)	35,626
Income tax expense	653,738	423,085

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

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

25. Employee benefits

Equity compensation benefits

Under the Bank's Employee Stock Ownership Plan, shares are allocated to employees on the following conditions:

- Employment duration with the Bank and its predecessor companies must be at least one year;
- Performance rating in the most recent evaluation period; and
- No disciplinary action is pending or due.

The number of shares offered for sale and its price will be determined at the discretion of the Bank's Board. The shares were offered at a price of 30% of the par value of XAC-GE shares. Prior to 2005, the Plan enables employees to purchase shares in XacBank LLC already held by XAC-GE Group. From 2005 onwards, the Employee Stock Ownership Plan allows the Bank's staff to hold the Bank's holding company's shares, XAC-GE shares, instead through an employee investment trust company, EIT LLC. In return, all XacBank's shares previously held by the employees are transferred to EIT LLC. The share capital of XacBank LLC is not affected by these transactions.

The Bank does not bear or incur any cost in connection with these transactions.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****26. Significant transactions with related parties**

The Bank has a controlling related party relationship with XAC-GE LLC, the holding company.

The Bank also has a related party relationship with the shareholders of XAC-GE LLC (see note 1), and with its directors and executive officers.

As at 31 December 2005, executive officers of the Bank held nil (2004: 10,298) voting shares of the Bank.

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

	2005 MNT'000	2004 MNT'000
Loans to executive officers	126,376 =====	30,700 =====

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

Total remuneration of directors and executive officers included in general and administrative expenses:

	2005 MNT'000	2004 MNT'000
Directors	52,624	52,832
Executive officers	93,257	76,542
	<hr/> 145,881	<hr/> 129,374

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****27. Capital adequacy**

The Bank of Mongolia requires banks to maintain a minimum capital adequacy ratio of 10%, compiled on the basis of total equity and total assets as adjusted for their risk. As at 31 December 2005, the Bank's core capital ratio and risk weighted capital ratio are 21% (2004: 19%) and 21% (2004: 19%) respectively.

Components of Tier I and Tier II capital:

	2005	2004
	MNT'000	MNT'000
Tier I capital		
Share capital	8,034,200	4,205,530
Share premium	8,551	8,551
General reserve	13,864	13,864
Retained earnings	1,488,986	631,907
	<hr/>	<hr/>
Total capital	9,545,601	4,859,852
Tier II capital	-	-
	<hr/>	<hr/>
Total Tier I and Tier II capital	9,545,601	4,859,852

Breakdown of risk weighted assets as follows:

	2005	2004
	MNT'000	MNT'000
Risk weighted factor (%)		
0	6,450,438	2,813,955
10	-	-
20	6,852,474	4,204,447
50	4,673,022	-
100	41,284,557	25,116,231
	<hr/>	<hr/>
Total	59,260,491	31,604,816

28. Risk management disclosure

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk. Because of the Bank's activities, which are predominantly non-trading, assets structure consists mainly of loans and advances, and their financing, which is mainly from deposits from customers. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk and, to a less extent, foreign currency risk.

Below is a discussion of these risks and the approach taken to manage them:

(i) Credit risk

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit risk exposure in this regard is represented by the carrying amounts of the assets on the balance sheet.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk acceptable to one individual borrower or a group of borrowers and to an industry sector. Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations. Credit limit is changed when needed. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.

The major concentration of credit risk arises by industry sector in relation to the Bank's loans and advances to customers. See note 5 for analysis of total loans and advances to customers by industry sector. The Bank has no significant exposure to any individual borrower.

(ii) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its positions. It includes both risk of being unable to fund assets at appropriate maturities and rates and risk of being unable to liquidate an asset at a reasonable price in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings from local and overseas financial institutions and share capital. This enhances funding flexibility and limits dependence on any source of funds or any fund provider. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management policy.

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005(continued)****28. Risk management disclosure (continued)**

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

As at 31 December 2005

	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000	Total MNT'000
Financial assets						
Cash on hand	2,100,229	-	-	-	-	2,100,229
Balances with other banks	5,143,074	1,098,900	610,500	-	-	6,852,474
Balances with the Bank of Mongolia	3,255,842	-	-	-	-	3,255,842
Investment securities	1,105,161	-	-	-	-	1,105,161
Loans and advances	11,726,488	10,057,407	9,459,612	3,389,090	3,317,685	37,950,282
Other assets	1,300,782	166,902	721	19,563	-	1,487,968
	24,631,576	11,323,209	10,070,833	3,408,653	3,317,685	52,751,956
Financial liabilities						
Deposits from customers	15,627,969	5,118,127	3,897,221	2,594,946	3,659,896	30,898,159
Deposits from local financial institutions	2,800,000	-	-	-	-	2,800,000
Loans from local financial institutions	-	500,000	800,000	-	-	1,300,000
Loans from foreign financial institutions	799,755	1,221,000	2,770,695	5,276,657	-	10,068,107
Loans from government agencies	176,968	751,046	230,178	799,955	1,361,988	3,320,135
Other liabilities	740,718	244,169	2,900	-	-	987,787
	20,145,410	7,834,342	7,700,994	8,671,558	5,021,884	49,374,188
Net financial assets/(liabilities)	4,486,166	3,488,867	2,369,839	(5,262,905)	(1,704,199)	3,377,768
Cumulative total	4,486,166	7,975,033	10,344,872	5,081,967	3,377,768	

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****28. Risk management disclosure (continued)***As at 31 December 2004*

	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000	Total MNT'000
Financial assets						
Cash on hand	1,052,516	-	-	-	-	1,052,516
Balances with other banks	2,995,447	-	1,209,000	-	-	4,204,447
Balances with the Bank of Mongolia	1,392,439	-	-	-	-	1,392,439
Investment securities	366,714	-	598,455	-	-	965,169
Loans and advances	8,423,303	6,284,705	4,332,179	1,004,809	-	20,044,996
Other assets	796,665	432,979	16,628	1,981	-	1,248,253
	15,027,084	6,717,684	6,156,262	1,006,790	-	28,907,820
Financial liabilities						
Deposits from customers	7,993,024	1,613,958	2,851,687	1,051,469	2,186,291	15,696,429
Deposits from local financial institutions	981,350	-	-	-	-	981,350
Loans from local financial institutions	-	800,000	1,800,000	-	-	2,600,000
Loans from foreign financial institutions	779,805	1,233,180	1,662,375	1,432,665	-	5,108,025
Loan from government agencies	153,825	627,493	406,170	193,681	267,730	1,648,899
Other liabilities	332,301	66,303	142,799	-	-	541,403
	10,240,305	4,340,934	6,863,031	2,677,815	2,454,021	26,576,106
Net financial assets/(liabilities)	4,786,779	2,376,750	(706,769)	(1,671,025)	(2,454,021)	2,331,714
Cumulative total	4,786,779	7,163,529	6,456,760	4,785,735	2,331,714	

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

28. Risk management disclosure (continued)

(iii) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as six months LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Assets-liabilities risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. Interest rate risk is managed by increasing or decreasing positions within limits set by the Bank's management. These limits restrict the potential effect of movement in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

28. Risk management disclosure (continued)

As at 31 December 2005

	Effective interest rate %	Total MNT'000	Non- interest sensitive MNT'000	Less than three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to five years MNT'000	Over five years MNT'000
Financial assets								
Cash on hand	-	2,100,229	2,100,229	-	-	-	-	-
Balances with other banks	7.19%	6,852,474	-	5,143,074	1,098,900	610,500	-	-
Balances with the Bank of Mongolia	-	3,255,842	3,255,842	-	-	-	-	-
Investment securities	6.79%	1,105,161	-	1,105,161	-	-	-	-
Loans and advances	30.59%	37,950,282	-	11,667,098	10,112,217	16,170,967	-	-
Other assets	-	1,487,968	1,487,968	-	-	-	-	-
		52,751,956	6,844,034	17,915,333	11,211,117	16,781,467	-	-
Financial liabilities								
Deposits from customers	10.48%	30,898,159	-	15,627,969	5,118,127	10,152,063	-	-
Deposits from local financial institutions	9.80%	2,800,000	-	2,800,000	-	-	-	-
Loans from local financial institutions	12.00%	1,300,000	-	-	500,000	800,000	-	-
Loans from foreign financial institutions	9.38%	10,068,107	-	799,755	1,221,000	2,770,695	5,276,657	-
Loans from government agencies	6.42%	3,320,135	-	176,968	751,046	230,178	799,955	1,361,988
Other liabilities	-	987,787	987,787	-	-	-	-	-
		49,374,188	987,787	19,404,692	7,590,173	13,952,936	6,076,612	1,361,988
Net financial assets/(liabilities)		3,377,768	5,856,247	(1,489,359)	3,620,944	2,828,531	(6,076,612)	(1,361,988)

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

28. Risk management disclosure (continued)

As at 31 December 2004

	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	-	1,052,516	1,052,516	-	-	-	-	-
Balances with other banks	6.63%	4,204,447	93,847	2,901,600	-	1,209,000	-	-
Balances with the Bank of Mongolia	-	1,392,439	1,392,439	-	-	-	-	-
Investment securities	12.66%	965,169	-	366,714	-	598,455	-	-
Loans and advances	35.79%	20,044,996	-	8,423,303	6,284,705	4,332,179	1,004,809	-
Other assets	-	1,248,253	1,248,253	-	-	-	-	-
		28,907,820	3,787,055	11,691,617	6,284,705	6,139,634	1,004,809	-
Financial liabilities								
Deposits from customers	12.00%	15,696,429	-	7,993,024	4,851,718	2,851,687	-	-
Deposits from local financial institutions	13.30%	981,350	-	981,350	-	-	-	-
Loans from local financial institutions	15.00%	2,600,000	-	-	800,000	1,800,000	-	-
Loans from foreign financial institutions	8.06%	5,108,025	-	3,506,100	-	-	1,601,925	-
Loans from government agencies	6.30%	1,648,899	-	153,825	627,493	406,170	193,681	267,730
Other liabilities	-	541,403	541,403	-	-	-	-	-
		26,576,106	541,403	12,634,299	6,279,211	5,057,857	1,795,606	(267,730)
Net financial assets/(liabilities)		2,331,714	3,245,652	(942,682)	5,494	1,081,777	(790,797)	(267,730)

XacBank LLC**Notes to the financial statements for the year ended 31 December 2005 (continued)****28. Risk management disclosure (continued)***(iv) Foreign currency risk*

The Bank is exposed to foreign currency risk through transactions in foreign currencies, primarily in USD. The Bank's management sets limits on the level of exposure by currencies. These limits have been set below the minimum requirements of the Bank of Mongolia.

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

	31 December 2005			31 December 2004		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash on hand	1,342,828	757,401	2,100,229	824,686	227,830	1,052,516
Balances with other banks	1,189,910	5,662,564	6,852,474	38,125	4,166,322	4,204,447
Balances with the Bank of Mongolia	3,230,546	25,296	3,255,842	1,250,932	141,507	1,392,439
Investment securities	1,105,161	-	1,105,161	366,714	598,455	965,169
Loans and advances	30,589,509	7,360,773	37,950,282	18,480,739	1,564,257	20,044,996
Other assets	1,035,521	452,447	1,487,968	823,740	424,513	1,248,253
	38,493,475	14,258,481	52,751,956	21,784,936	7,122,884	28,907,820
Financial liabilities						
Deposits from customers	27,464,829	3,433,330	30,898,159	13,515,959	2,180,470	15,696,429
Deposits from local financial institutions	2,800,000	-	2,800,000	981,350	-	981,350
Loans from local financial institutions	1,300,000	-	1,300,000	2,600,000	-	2,600,000
Loans from foreign financial institutions	1,004,875	9,063,232	10,068,107	-	5,108,025	5,108,025
Loans from government agencies	1,958,147	1,361,988	3,320,135	1,381,169	267,730	1,648,899
Other liabilities	746,838	240,949	987,787	399,007	142,396	541,403
	35,274,689	14,099,499	49,374,188	18,877,485	7,698,629	26,576,106
Net financial assets/(liabilities)	3,218,786	158,982	3,377,768	2,907,451	(575,737)	2,331,714

XacBank LLC

Notes to the financial statements for the year ended 31 December 2005 (continued)

29. Fair value information

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 provision 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 provision 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 have original maturity of less than one year and the rates offered by the Bank are similar to the market rate, the carrying amount of deposits is considered to be a reasonable estimate of fair value.

(iii) Other financial assets and financial liabilities

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

30. Commitments

	2005	2004
	MNT'000	MNT'000
Property, plant and equipment		
Contracted but not provided for in the financial statements	-	2,418,000

31. Comparative figures

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

XacBank LLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

32. 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.