

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	Note	
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	198,471,017.93
Total assets		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	2F	499,085,967.97
Other liabilities	2G	37,033,499.76
Total liabilities		1,036,119,467.73
 Equity		
Share capital	2H	2,704,000,000.00
Reserve fund		9,435,717.04
Retained earnings		-
Total equity		2,713,435,717.04
Total liabilities and equity		3,749,555,184.77
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XacBank Ltd.,
DISCLOSURE TO THE BEGINNING BALANCE SHEET
As December 31, 2001
(in thousand togrogs)

1. ORGANIZATION AND OPERATION

Mongolian largest non-bank financial institutions X.A.C Co., LTD and Goviin Ekhlel Co., LTD merged together, and established a holding company named XAC GE Group Ltd.. Further they decided to establish XacBank with 100 percent investment of XAC-GE Group and signed a Letter of Intent on the 20th of August 2001 and a Merger Agreement on the 1st of October 2001.

According to the contract, X.A.C Co., LTD became an operating subsidiary company and organized as a commercial bank named XacBank Ltd., as soon as receiving permission to establish a bank while Goviin Ekhlel Co., LTD is organized as a holding company named XAC-GE Group Ltd., .

XAC-GE Group Ltd., was given permission to establish a bank, and its subsidiary XacBank Ltd., was given permission to conduct a banking operation and a Banking certificate (number 24) by the Decree No. 610 of the President of Mongolbank dated December 27, 2001. As a result, it was newly registered at the State Registration and the beginning balance sheet of XacBank Ltd., was prepared as of December 31, 2001.

XacBank Ltd., is conducting operations such as cash saving, loan, account transactions, and other according to the Banking Law and other legislation of Mongolia. XacBank Ltd., is a profit-oriented bank and has total 21 branches and account centers, 6 in Ulaanbaatar, and 15 in aimags.

2. DISCLOSURE TO ACCOUNTS

A. CASH

Categories of cash	Dec 31, 2001
A. Cash on hand in domestic currency	51,213.8
in foreign currency	724.4
	<hr/> 51,938.2
B. Current accounts at other commercial banks	
in domestic currency	168,156.9
in foreign currency	62,008.5
	<hr/> 230,165.4
C. Cash deposits at other commercial banks	
in domestic currency	80,206.9
in foreign currency	22.4
	<hr/> 80,229.3
Total cash	<hr/> 362,332.9 <hr/>

Disclosure to the beginning balance sheet-Continued
(in thousand togrogs)

B. LOANS

Loans classification	Dec 31, 2001	
	Loan	Reserve
Standard loan	2,622,465.6	(26,224.6)
Re-scheduled loan	1,542.6	(385.6)
Non-qualitative loan		
Over due loan	900.1	(9.0)
Abnormal loan	121.0	(30.3)
Doubtful loan	3,969.6	(1,984.8)
Bad loan	1,085.0	(1,085.0)
Total	2,630,083.9	(29,719.3)

C. OTHER OWNED ASSETS

	Dec 31, 2001	
	O.O.Assets	Reserve
Normal	643.5	(6.4)
Abnormal	239.0	(59.7)
Doubtful	388.7	(194.4)
Bad	144.9	(144.9)
Total	1,416.1	(405.4)

D. FIXED ASSETS

Fixed asset classification	Dec 31, 2001	
	His. Cost	Accum. Dep
Building	266,760.0	(2,729.7)
Vehicles	106,303.1	(20,435.2)
Furniture & fixture	78,524.8	(17,651.3)
Computer	246,815.2	(70,210.8)
Total	698,403.1	(111,027.0)

E. OTHER ASSETS

	Dec 31, 2001
Receivables	87,114.6
Prepaid accounts	7,236.9
Advances to employees	371.9
Materials	13,895.6
Supplies	10,213.9
Prepaid income taxes	5,191.3
Deferred income tax assets	12,827.2
Accrued interest receivables	61,619.6

Total	198,471.0
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**Disclosure to the beginning balance sheet-Continued
(in thousand togrogs)**

F. LONG TERM LIABILITIES

	Dec 31, 2001
A. Long term loan from the foreign bank	438,800.0
B. Funding from UNDP	3,716.3
C. CGAP payable	55,083.5
D. MSM project	1,486.2
Total	499,086.0

G. OTHER LIABILITIES

	Dec 31, 2001
Payables	20,487.6
Social insurance payable	4,283.5
Withholding tax payable	2,306.6
Deferred income tax payable	3,114.1
Accrued interest payable	6,841.7
Total	37,033.5

H. SHARE CAPITAL

XAC-GE Group owns 100 percent of these 270400 shares (par value of 10,000 togrogs or total 2,704.0 million togrog) as December 31, 2001.