

GIRAFE

XacBank, Mongolia

April 2006

Rating

A+	
A	Excellent The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	
B	
B-	
C+	
C	
C-	
D	
E	

Trend

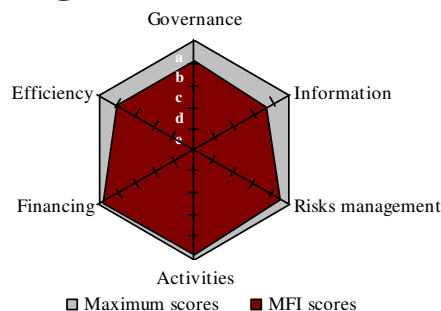
Positive	This trend is underpinned by our assessment that XacBank will continue to grow its franchise although the competition with other banks will increase, that asset quality will remain very good and that shareholder commitment to XacBank will remain strong.
Stable	
Uncertain	
Negative	

Performance indicators

(K USD, unless otherwise noted)

	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006
ACTIVITY				
Total number of staff	420	506	617	669
Assets	15,243	26,136	48,528	51,895
Assets (M MNT)	17,803	31,599	59,252	62,274
Loan portfolio	9,428	16,802	31,186	32,147
Outstanding deposits	7,819	11,854	22,299	23,954
Active borrowers	18,610	31,962	50,101	53,365
APR*	See annexes for details on APR			
PAR 31-365	1.9%	0.4%	0.6%	0.9%
PAR > 365	0.0%	0.0%	0.0%	0.1%
Write-off ratio	0.2%	1.1%	0.0%	0.0%
Risk coverage ratio	83.1%	353.5%	50.0%	49.6%
PERFORMANCE				
ROE	9.1%	19.7%	20.7%	18.0%
Liabilities / Equity	4.7x	5.5x	5.2x	5.3x
ROA	1.9%	3.2%	3.3%	2.9%
OSS	114.0%	123.0%	124.5%	118.9%
FSS	106.7%	117.1%	120.2%	108.9%
Portfolio Yield	44.9%	39.6%	35.3%	32.4%
Op. expense ratio	27.1%	19.3%	15.8%	15.2%
Staff productivity	44	63	81	80
Fund. expense ratio	14.0%	12.7%	14.7%	12.9%
GROWTH				
Portfolio growth	100.4%	84.5%	87.5%	3.1%
Saving port. Growth	220.4%	56.9%	90.0%	5.6%
Asset growth	56.7%	77.5%	87.5%	5.1%
USD/MNT	1,168	1,209	1,221	1,200

*The Annual Percentage Rate for loans varies between 8% for Employee Loans (MNT, 5% in USD) to 45% for Start-up Loans and 48% for stove loans.



Description of the institution

XacBank was registered as a bank in October 2001 after a merger between two NBFIs. Its main shareholder is XAC-GE LLC (99.78%), a local company owned by Mercy Corps (20.06%), ShoreCap International (12.45%), Triodos Doen (12.45%), MicroVest (10.22%), local NGOs (15.89%), local companies (28.39%), and other individuals (0.54%). XacBank offers a wide range of financial services, including 17 credit products, 7 deposit products, money transfers and foreign currency exchange through a network of 59 branches and extension units. As of December 31, 2005, XacBank had an outstanding portfolio of 31.2 M USD for 50,101 borrowers and deposits of 22.3 M USD for 65,056 depositors.

Rating summary

XacBank has been assigned a global rating of A.

This rating reflects XacBank's dynamic and innovative institutional profile, good track record of managing fast growth, conservative risk management practices, good profitability and excellent portfolio quality despite being a small bank in absolute terms. This rating also recognizes the increasing competitive nature of the Mongolian banking industry which puts pressure on XacBank's margins and portfolio yield in addition to constraining its ambition to significantly boost its market share. Areas for improvement include MIS systems, staff turnover and staff productivity.

Support

In the event of financial difficulties, XacBank would turn to its shareholders for support. Its shareholders have both the capacity and propensity to support given XacBank's prominence in the industry and its good risk-return profile.

Rating Trend

This grade has been given with a **Stable** trend. This trend is underpinned by our assessment that XacBank will continue to grow its franchise although the competition with other banks will increase, that asset quality will remain very good and that shareholder commitment to XacBank will remain strong.

Financing needs

XacBank anticipates funding needs of 62.1 B MNT (51 M USD) over the next 3 years. Given XacBank's forecasted profitability, good borrowing track record and reasonable risk profile, it can expect continued access to both commercial and, on a more limited scale, to concessional funding. Some of its current shareholders are also likely to further contribute capital, if needed, to avoid dilution.

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■ Microfinance sector

Following three banking crisis and subsequent reforms in the late 1990s, Mongolia's banking sector is now on a firmer footing and has been growing very briskly. Banking sector assets have doubled between 1999 and 2002 and have since maintained high growth rates. Banking assets grew by 48% between 2004 and 2005 and loan outstanding similarly grew by 42% during the same period.

On the surface, Mongolia's 2.6 million population is well served by 17 commercial banks, 137 non-bank financial institutions (NBFI) and 570 saving and loan associations (SL) that are registered with Bank of Mongolia (BOM) – the Central Bank. Among the 17 commercial banks, two clearly stand out as premier microfinance banks: Khan Bank and XacBank – together control an estimated 75% of microfinance loans outstanding. Of the 137 NBFIs, about 60 are donor-funded NGOs engaging in microfinance with Credit Mongol being the most prominent. Despite growing outreach to rural areas, more than 80% of microfinance loans outstanding are still concentrated in the capital city and larger towns. Coverage of the rural areas is dominated by Khan Bank with XacBank being a strong contender and with SLs filling the gaps left by these two banks. Mongolia has evolved over the years from NGO-promoted microfinance to a vibrant market-driven microfinance today.

According to the 2004 UNDP's sub-sector review of microfinance in Mongolia, 70% of all households can be qualified as clients of microfinance. The Government of Mongolia considers microfinance as an important tool to fight poverty. According to a survey of public opinion published by the BOM in 2005, 67.3% of the 5,341 surveyed participants have a general idea of microfinance. Of these, 60% stated that they have access to micro-loans. Most of micro-loans are used for trading and service businesses with a significant portion going to agriculture-related businesses including animal herding or husbandry and growing crops or vegetables. The BOM stated that demand for loans remains high and that microfinance is becoming an important source of self-employment that deserves policy and financial support.

■ Political and economical environment

Despite a noticeable slowdown, economic growth has remained dynamic after the exceptional year registered in 2004. The country has benefited from a high degree of specialisation in minerals with copper and gold respectively representing 33% and 28% of total exports. The economy

also benefits from the dynamism of neighboring China (half of exports) currently eager for raw materials. Services, notably tourism, have been posting good performance. The economic situation has nonetheless remained tied to raw material price trends.

Due to the mining sector's equipment needs, the country has been running large current account deficits. The country's external financial position remains shaky. The public sector debt burden (88% of GDP in 2005), although gradually declining, is still too large with Mongolia remaining dependent on international financial aid. Fiscal policy has nonetheless become increasingly strict. With the concessional nature of the debt, its service has been modest. The country's financial outlook has been brighter since conclusion of an agreement with Russia, end 2003, on debt contracted before 1991. Government authorities have moreover undertaken to reform state-owned companies. According to the IMF, however, governance of public institutions needs improvement.

Nambaryn Enkhbayar, the Mongolian Revolutionary Party candidate, won the May 2005 presidential election. The new president would like to increase presidential powers, which could cause internal tensions. In the international arena, thanks to its mineral wealth and strategic position, the country has maintained good relations with its neighbors and its main financial backers, including the United States.

COFACE Country Rating: C - The high risk profile of a country's economic and political environment will further worsen further a generally dismal payment record.

USD millions	2003	2004	2005p	2006p
Economic growth (%)	5.6	10.6	6	6
Inflation (%)	4.7	10.6	10	5.5
Public sector balance (%GDP)	-4.2	-2.2	-1.8	-3
Exports	627	872	914	883
Imports	827	1021	1120	1150
Trade balance	-200	-149	-206	-267
Current account balance (%GDP)	-11.6%	-4.50%	-7.10%	-9.60%
Foreign debt (%GDP)	97.1%	89.7%	82.5%	84.4%
Debt service (%Exports)	34.0%	7.50%	3.70%	3.50%
Foreign exchange reserves (import months)	2.1	2	2.4	2.3

Source: COFACE's Country Risk Ratings Guidebook 2006. 2005 and 2006 data represents projections.

Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Notes: On May 24, 2006, Moody's raised Mongolia's foreign-currency country ceilings from "B1" to "Ba2" reflecting its revised methodology. Mongolia has a "B" long-term foreign currency rating by Standard & Poor's since May 25, 2006.

▪ Institutional presentation

Networks

XacBank is a member of MBA, MFC, the MicroFinance Network, the PlaNet Finance Platform, the WWB's GNBI and the Mongolian Chamber of Commerce and Industry. XacBank is also part of the American NGO Mercy Corps (MC) Network of MFIs.

History

The current XacBank was founded in October 2001 from the merger of two existing NBFIs (Golden Fund for Development and Goviin Ekhel) which were leaders on their respective micro and SME lending markets. Their entire loan portfolios were transferred to the new bank.

Ownership

Details of shareholding structure is found in Annexes.

XAC-GE LLC is the holding company and controlling shareholder of XacBank with 99.78% stake. As of March 31, 2006, one of the founders MC is the largest single shareholder of XAC-GE LLC with 20.06%. Three international investors (MicroVest, Triodos and ShoreCap) hold another 35.12%. MicroVest converted its debt to equity in May 2006 and is now holding a 17% share. The remaining shares are held by local NGOs and investors – some of whom are prominent companies (e.g. NewCom LLC is the owner of MobiCom – Mongolia's largest mobile phone network).

XacBank is governed by a 15-member Board of Directors (BOD) representing various XAC-GE shareholders. One of XacBank's founders MC is represented by 4 BOD members, two of whom are voting members. The current BOD members have a mandate of two years and are led by BOD Chairman Chuluun Ganbold. Between quarterly BOD meetings, an Executive Committee (EC) provides direction and oversight to the executive management. XacBank CEO is a member of the EC. There are 3 other functioning BOD Committees namely Audit Committee (AC), Risk Management Committee (RMC) and Credit Committee (CC) – the latter started in 2006 after a split from the RMC.

Management team

The Senior Management Team consists of the CEO Chuluun Ganhuyag (in an equivalent position since the inception of the Bank and led one of the founding NBFIs before the merger), the newly appointed President (since November 2005), the Executive Vice President for Banking, the CFO and three other senior officers. The CEO and the President are expected to work as a cohesive team with the CEO focusing on strategic initiatives and on shareholder relationship management and the President concentrating on mainly operational matters. The CEO became co-Executive Director (ED) in October 2001, then

ED in September 2002 and finally CEO in 2005. The new President was a former BOM Deputy Governor, a former CEO of Mongolia EXIM Bank and an international consultant. The CFO has been with XacBank since the beginning, but he is scheduled to leave in September 2006 to do his MBA in the US. It is expected that his replacement will come from inside XacBank.

Donations

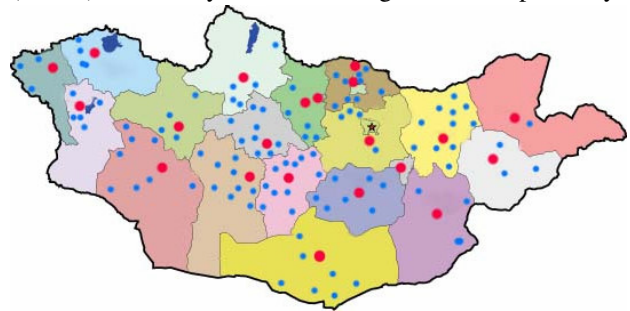
XacBank has received over 4 M USD in grants since its inception (mostly from UNDP, USDA, USAID, but also CGAP and IFC). XacBank has been supported by a Senior Technical Advisor (a MC employee) since 2003.

Legal form, supervision and audit

XacBank received its banking license in December 2001. It operates under the banking law and is supervised by the BOM. Requirements for such a license include monthly reporting of financial statements and prudential ratios, annual supervision missions, and BOM's approval of new shareholders. Financial statements are audited every year (in 2005 by KPMG Malaysia). Auditors have always provided unqualified opinions for XacBank's financials.

Market penetration

XacBank is based in capital city Ulaanbaatar. The service network includes 37 branches, 21 extension units and 1 card processing center. XacBank branches cover all large cities and provincial towns plus 186 villages. It also provides services in rural areas where it does not have a physical presence through its mobile lending units and franchise models through local SLs. On the following map, red dots and blue dots represent rural branches and villages (soums) reached by mobile banking service, respectively.



Products and services

Please see Annexes for more details

XacBank offers one of Mongolia's broadest ranges of financial services:

- Loans (micro-business, SME, rural, consumption loan products, saving-backed, employees, housing / mortgage)
- Saving products
- Finance leasing
- Money transfer (international and domestic)
- Credit and debit cards
- Online banking
- Trade finance

■ Governance

Governance and Decision Making is rated « a »

71.1%-owned by foreign investors and 28.9% by prominent local firms, XacBank benefits from very supportive and involved shareholders. These well-connected shareholders together with management have built a solid bank with many positive characteristics including a strong governance framework, a diversified funding base and an access to valuable technical assistance and technology transfer.

Decision-making

XacBank benefits from having a strong and representative BOD made up of many members with relevant microfinance, business and banking experience. The BOD composition is mixed between NGO/non-profit and private sector representatives both reflecting its NGO/non-profit roots and its recent inclusion of profit-oriented investors. It is expected that NGO-type shareholders' influence will gradually diminish as some of them will exit or be diluted as XacBank's capital needs grow beyond their capacity to provide. Some tensions can be expected with the founder NGO MC with regard to its desire to keep an effective control (through number of BOD members and possibly preemptive role in selection of the BOD Chairperson) within the context of future dilution of its shareholding.

The 15-member BOD is quite large for a small bank, but its effectiveness in terms of making the appropriate and balanced decisions is not affected in a major way. BOD members are involved, knowledgeable and committed. The decision-making process is consensus-based which often resulted in lengthy discussions and certain decisions are deferred for lack of consensus among the eclectic group of shareholders. Its decision-making could be more efficient and cohesive through better allocation of powers and responsibilities between BOD and management and potentially more delegation of powers to various BOD Committees which could meet more regularly than the quarterly BOD.

BOD Committees are active and provide a good oversight of the institution. The EC, meeting monthly, is the most active and provides effective leadership to XacBank in-between BOD meetings. Other BOD Committees meet less regularly. Subjects of discussion sometimes overlap between Committees (e.g. RMC & CC) which could be handled by either one. One could reasonably ask whether CC and RMC should be split like it has been done since their concerns are intimately linked. In general, relevant subjects are discussed in BOD Committees, decision-making quality is generally high and well-documented minutes are kept.

The relationship between BOD and management is sound and harmonious. XacBank management is the key driver of corporate initiatives with BOD's validation. XacBank CEO is expected to soon assume additional responsibilities as XAC-GE LLC CEO (a position traditionally held by a MC advisor). The fact that the CEO will be performing both management and shareholder functions is not expected to materially impact his contribution and commitment to XacBank since the holding company had virtually no other activities. The BOD, having confirmed the appointment of the new President, recognized that the key-person risk issue (which was identified as a major weakness in the last rating report) needs to be addressed. It is understood that XacBank CEO will focus more on strategic matters and investor/creditor and government relationships and the President be responsible for day-to-day operations.

Planning

Planning is an area of XacBank's strength. Its formalized planning process produced a market-relevant and ambitious 2005-2007 Business Plan and comprehensive annual 2006 Action Plan. Both plans confirm the Bank's market positioning as a microfinance bank and address critical issues to its development and are financially oriented. Similar to past plans, these new plans outline ambitious targets including achieving a market share of 8% for 2006 from 3.7% in 2005. While the absolute number targets are potentially within reach, it will be a challenge to achieve 8% market share in 2006 given local competitive market. Similarly, its 2006 goal of at least 20% ROE will be difficult to achieve given the larger equity base and the fact that loan loss provisioning will have to be done anew after spending none in 2005 because of, among other factors, its compliance to IAS 32 and 39.

2006 shapes up to be a crucial year with key changes in management (i.e. the new President and the replacement for the CFO). The succession thinking is right, but the risks lie in execution. Despite an enviable track record, XacBank's execution capacity will be tested as it is undertaking many major operational initiatives at once (e.g. new MIS, new products/services) while, at the same time, trying to build a cohesive management team in light of the many new faces in middle managerial positions (most are however not new to the Bank) despite their obvious skills and dynamism.

XacBank's financial planning is excellent as evidenced by detailed projections, comprehensive budgeting process and competent personnel in its Planning and Budgeting Department. It often achieved or surpassed its portfolio and deposit mobilization targets in the past. XacBank's 2006 budget reflects its aggressive business goals and assumptions. Crucial investment priorities in IT and infrastructure are appropriately identified. Following best banking practices, there are regular tracking and updating

of budgets and spendings by branch, office and departments.

Management team

XacBank's management can generally be characterized as young, well-educated, dynamic, motivated and willing to learn. Despite many new faces in the middle management rank, senior management (e.g. CEO, CFO) have been with the bank for a number of years. The appointment of a new President (since November 2005) with the more traditional banker profile should provide a steady hand going forward. Having held senior positions at large institutions, the new President brought to the position broad base experience, useful connections and market credibility. The challenge for him is to rapidly assume operational control, stamp his own authority and work harmoniously with the CEO on strategic and investors' relationship issues. The new President seems to enjoy staff's goodwill and is likely to succeed given his prior management experience. XacBank is poised to have a very strong management team in the future as the President and the new middle managers grow in their jobs.

XacBank is committed to ensuring smooth integration of the President into senior management. The fact that the CEO stays very much involved is a plus to provide overall continuity. Key management strengths are in product development, financial management and portfolio management. Key improvement areas are IT, risk management and human resource management. As XacBank grows, its organizational structure also gets "heavier" with many initiatives resulting in many "ad hoc" new "boxes" that have been added to the organizational chart. It is noted however that there is adequate coordination between various departments and divisions to ensure the good functioning of the institution. It would be useful to "imagine" the optimal future organizational chart and plan accordingly how to get there. The current organizational chart and the underlying structure could become unwieldy if more "boxes" are created. To avoid the risk of creating silos, cross-communication between different teams working on the same subjects but from different angles could be enhanced to ensure policy consistency and management efficiency.

While the management team has broadened and deepened, many managers are newly appointed and are therefore still learning about their jobs. It will be a challenge for the President to manage a relatively large middle management team in addition to ensuring orderly transition in the Finance and Accounting Division when the current CFO leaves for his MBA in September. As mentioned above, it would not be a surprise if some rationalization of the reporting structures will be done once the President has the chance to settle in. Finally as XacBank is known as a

transformation success story, its senior management is in demand for various external consultancies. It would be prudent to not drain/distract too much XacBank management resources toward new XAC-GE LLC ventures and overseas consultancies which are non-core despite obvious financial and reputational benefits.

Human resource management

The quality of XacBank human resources is high. Overall it is a great learning organization having displayed excellent capacity to absorb technical knowledge. Every year, it succeeds in obtaining a lot of external technical assistance on various subjects (e.g. credit scoring, housing finance, internal audit...etc.) and it continues to seek further expertise in areas of product development and risk management. Pairing with technical assistance, XacBank often hires best possible candidates especially for senior and middle management positions who have the capacity to learn and translate such learning into profitable ventures.

XacBank has the right mindset with regard to HR issues. Appropriate HR policies and procedures are in place, but fast growth has put stress on HR functions. Current HR staffing resources might not be sufficient given XacBank's size, forecasted growth and increasing complexity. Recruitment, selection, training and testing processes of new personnel follow best international HR practices. An area for improvement is its relatively high turnover from the last few years, especially among non-managerial staff. Another area for concern has to do with the rapid rotation of LOs in branches resulting in few truly experienced LOs staying in one branch for a long time. This is caused mostly by rapid growth in branches/extension units (relatively new LOs being promoted quite fast) and partially by the high turnover. The new HR Manager has studied high turnover root causes and has proposed some changes. XacBank is implementing a human resource technical assistance project with ShoreCap Exchange in addition to working on various initiatives to strengthen the middle management team and leadership skills of its senior management.

The current ratio of LOs to total staff of 29% is low by international standards. HQ and support staff continues to grow rapidly (+40% and +29%, respectively). While this low ratio can partially be explained by numerous initiatives being undertaken at the HQ and by MIS weaknesses requiring a large team, it is an area that warrants more attention from management. Current LO performance evaluation based more or less strictly on financial and operational numbers. Such evaluation could be enlarged to include non-financial measures, especially for management staff (e.g. staff retention, skill development). It is understood that branch managers will soon have specific turnover reduction targets as part of their evaluation criteria. XacBank has updated its existing ESOP policy

which should help to further build staff loyalty. It is noted that an Employee Fund now owns 10.03% of XacBank.

	Dec. 2003	Dec. 2004	Dec. 2005	Feb 2006
Total number of staff	420	506	617	669
% Credit officers	28%	26%	28%	29%
Turnover	22%	16%	20%	2%

Information

Information and equipment is rated « b »

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ Modern equipment (hardware and software) ▪ 9 servers at HQ, 1 server on PC at each branch ▪ Servers run on Windows Servers 2000 & 2003 and on Linux RedHat 9.0 ▪ LAN, Internet connection in all large branches ▪ 504 PCs, 73 laptops, 101 printers
Accounting	<ul style="list-style-type: none"> ▪ Bankers Realm ▪ Centralized accounting ▪ Daily reconciliation of portfolio information ▪ Monthly financial statements detailed by branch, with allocation of the HQ expenses
Portfolio information	<ul style="list-style-type: none"> ▪ Software: Bankers Realm, developed by Craft Silicon of Kenya. XacBank paid the licensing fee, but did not accept the software. No maintenance fees are paid. Craft Silicon doesn't provide maintenance services ▪ In-house built XacBanker (additional modules) to provide additional functionalities and generate certain customized reports ▪ In-house developed GeniusBanker for its franchise cooperatives ▪ Numerous and detailed reports available on demand

Management Information System (MIS) and equipment

MIS is a weakness area for XacBank as its loan tracking system (LTS) Bankers Realm is still having problems (e.g. errors and bugs). XacBank IT staff has built various add-on modules (collectively named XacBanker) in order to provide additional functionality. XacBank management is keenly aware of the problems and has deemed Bankers Realm no longer appropriate for its future needs following an IT audit performed by KPMG last October. Together with the additional XacBanker modules, the LTS nevertheless delivers required functionalities necessary to running the Bank.

Based on its dissatisfaction of the software, XacBank is looking at developing a long-term IT plan. Part of such plan is to consider various replacement alternatives, including building its own systems preferred by management. Despite apparent advantages, the risks of internally developing MIS programs are also plentiful and therefore warrant extra care. Independent IT consultants are working with XacBank to evaluate the current IT situation and to develop alternative solutions for its future needs. Their recommendations are expected to be presented to the next BOD meeting in June.

Data quality is generally good despite system-related problems. XacBank currently employs one full-time IT auditor to ensure that any errors are quickly spotted and corrected. Adequate data safeguards are in place (e.g. access controls, regular back-ups, audit trail capacity) and as such data manipulation and loss risks are limited. Customer data entry by LOs at branches raises some segregation of duties issues despite subsequent (time-consuming) checking and validation by branch managers.

Information on activities

Despite the problems cited above, reliable and detailed information on portfolio and savings activities can generally be obtained in a timely fashion. 25 of the 59 branches and extension units in the capital city are connected to the central database and other non-connected branches/units send their data via mail server to the HQ for consolidation at the end of every day. XacBank plans to connect all branches to HQ to enable automatic full consolidation of portfolio data, but it still has to work out the technical feasibility of connecting remote rural branches/units. XacBank is able to generate relevant reports (portfolio & delinquency) and microfinance ratios on demand. There is a good understanding and use of information throughout the organization.

Financial and accounting information

Thanks to the well-functioning accounting systems, XacBank's financial and accounting data are easily available, very detailed and generally of high quality. XacBank's Finance and Accounting Division (FAC) performs regular tracking of budgets and comprehensive analysis of variances. Financial transparency and disclosure are excellent as evidenced by XacBank being twice awarded with "Honorable Mention" by CGAP Financial Transparency Awards for 2004 and 2005. Reporting standards and capability are equally excellent. While the experienced XacBank CFO is leaving soon, the existing standardized and systematic processes and qualified FAC personnel should ensure continued generation of quality data and reports.

External audit & accounting policy change

XacBank produced IFRS accounts in 2005. XacBank's external auditors KPMG Malaysia provided an unqualified opinion for its 2005 accounts. It is estimated that the implementation of IAS-compliant loan loss provisioning standards (IAS 32 and 39) together with a change in provisioning requirement for loans to individuals by the BOM boosted 2005 net banking earnings by 263.9 M MNT (216.2 K USD). This one-off gain is accordingly booked as an extraordinary revenue item.

■ Risk

Risk Management is rated « a »

Procedures and internal controls

XacBank's management has a good understanding of institutional, operational and financial risks. High control culture is shared among staff. Relevant procedures are formalized in operating manuals (for all divisions and departments) and are both well understood and applied by staff, though HR procedures need further formalization. Regular updates are performed to follow the rapid evolution of activities. Appropriate processes have been defined to quantify and monitor each type of risks and several departments have been added to the organizational chart to strengthen internal control, though those dedicated units (in both divisions and branches) still need to gain experience.

The Credit Department has developed very comprehensive procedures for each type of products, with relevant authorization level and staff at HQ to verify the LOs' analysis, together with elaborated tools to ease potential clients' assessment. Portfolio is tightly managed, which is eased by the availability of information. The authorization levels of staff and branches are defined according to competencies, skills and results and are regularly reviewed. The segregation of duties at branch level is good and has been evolving with time, with lessons taken from fraud cases¹. Newly introduced internal control unit in all branches (comprised of branch staff and in charge of verifying all signatures and documents) contributes to internal control reinforcement.

Several policies have been defined to limit market risks and monitor them, notably during RMC meetings. Those bimonthly meetings involve the whole management team and aim at reviewing the Bank's panel of risks (e.g. concentration of loans and deposits, foreign currency position, maturity and currency gaps) and take quickly appropriate measures if limits are reached. Cash security is adequate. Most loan transactions are done in checks. XacBank no longer collects savings in cash through is mobile banking units.

Internal audit

Both management team and BOD give great importance to internal audit. The AC (comprised of 8 members, including the vice-chairman of the BOD) approves the annual audit plan, reviews the reports, validates the findings and verifies the follow-up of recommendations. The Internal Audit Department has all required skills (i.e. diverse backgrounds adapted to the function, one IT person recently joined the

¹ Since the 2002 internal fraud, signatures procedures have been reviewed, new control levels have been added and deposit collection by mobile lending units has been abandoned.

team) and tools to perform deep audits of both branches and HQ. The size of the Department² though quite small compared to the volume of activities, allows for biannual visits of all branches, during which a material number of clients is visited (selected risky clients, and a random panel of an average 10% of all portfolio). The audit policies are very detailed and the comprehensive methodology (with grades system) used eases the follow-up of recommendations. The confidential audit plan is pertinent and correctly covers all risky areas.

■ Activities

Activities: products and services is rated « a »

Marketing and competition

Despite the presence of 17 banks and 137 NBFIs, the overall banking sector is dominated by three private banks, namely Trade & Development Bank, Golomt Bank and Khan Bank together representing over 50% of total banking assets. Most banks are lending to commercial, industrial and public sector companies and individuals (most often salaried) based in cities and large towns. Only Khan Bank, Post Bank and XacBank have significant rural presence and branch network.

Leading banks (K MNT, 12/2005)	Assets	Assets share	Loans	Loans share
Trade & Development	308,847	19.5%	150,208	17.2%
Golomt Bank	295,721	18.6%	136,043	15.6%
Khan Bank	205,005	12.9%	138,495	15.8%
XacBank	59,252	3.7%	38,077	4.4%
Total banking sector	1,585,163	100%	874,264	100%

Market competition is very strong in urban areas. In areas in and around the capital city, market saturation and over-indebtedness are becoming material issues despite overall good borrowing and repayment behavior displayed by the general population. Competition in rural areas in this vast country is still modest with many villages having only one banking service provider (often Khan Bank). Saving and loan associations are very small in size and mostly weak in capacity to provide effective competition/choice in rural areas. In rural microfinance, the two primary competitors are Khan Bank and XacBank.

These two leading banks are formidable competitors in markets where both institutions are present. Both are recognized internationally and have a number of common characteristics: significant foreign ownership, strong governance and management, solid funding base and

² 9 at the time of the mission, AC authorized the hiring of a 10th person during the year.

beneficiaries of significant foreign technical assistance. Khan Bank is strong due to its huge national network (420 branches/units in virtually every city, town and village of Mongolia) and to its ability to mobilize low cost deposits through this network. XacBank is well known for its product innovation and market aggressiveness. Khan Bank has strongly reacted to XacBank's moves to rural areas and has incumbent advantages due to its massive infrastructure inherited from the former State Bank. Microfinance market domination by these two banks will continue in the medium term. While XacBank has progressively gained in market share, it is not likely to challenge Khan Bank's leadership position any time soon.

XacBank remains positioned as a microfinance bank serving marginalized (unbanked or underbanked) customers, but also serves better off families and legal entities as its activities have grown beyond its original micro-loans for productive purposes. Building on innovative products, it strives to become a full-serviced bank from individuals to SMEs. Its strategies are to innovate (i.e. introduce new products), to provide more products to the same clients and to look for new promising market segments (e.g. fee-based products) while maintaining a good level of personalized service. On the geographical coverage front, XacBank continues to expand into rural areas, but it will open new branches only based on strict volume and growth potential criteria following systematic market research.

Credit methodology

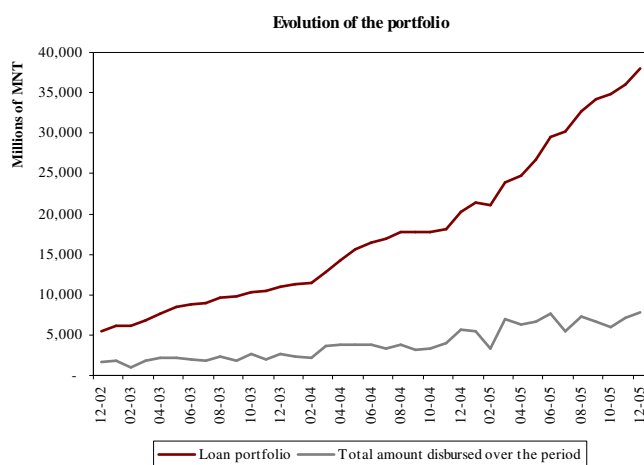
Appropriate lending methodologies, tools and procedures have been developed for each type of product³, with specific trainings of staff (who specialize by type of client). Credit risk management is rigorous, and policies and limits are regularly reviewed to suit each type of risks according to the clients' profiles. Authorization limits of field staff are set by HQ and loans exceeding these limits are reviewed by Loan Review Department at the HQ. Tight credit methodology, regular visits to clients, rigorous response to delinquency by both branch and risk management department staff and relevant procedures and limits result in high quality portfolio. The diversification rules and limits mitigate credit risks and should ensure continued high portfolio quality. Nevertheless, ABC analysis needs to be updated to better evaluate each product's profitability and determine latitude to further decrease interest rates according to competition level.

³ Microenterprise and SME loans are thoroughly analyzed using well-defined Excel spreadsheets. Wholesale loans to SCUs are disbursed according to a scoring methodology. The other lending methodologies for consumer loans, overdrafts and home improvement are based mainly on the quality of the client's guarantees.

USD, unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006
Loan portfolio (K USD)	9,428	16,802	31,186	32,147
Loan portfolio (M MNT)	11,012	20,314	38,078	38,577
Evolution	100.4%	84.5%	87.5%	1.3%
Average outstanding loan (K USD)	7,225	12,843	23,536	32,133
Number of active borrowers	18,610	31,962	50,101	53,365
Evolution	69.0%	71.7%	56.8%	6.5%
Average outstanding loan per client	506.62	544.14	650.70	618.91
% of GDP per capita	98%	95%	113%	108%
Average amount disbursed	636	668	728	682
% of GDP per capita	123%	120%	132%	122%
PAR 31-365	1.9%	0.4%	0.6%	0.9%
PAR > 365	0.0%	0.0%	0.0%	0.1%
Write-off ratio	0.2%	1.1%	0.0%	0.0%

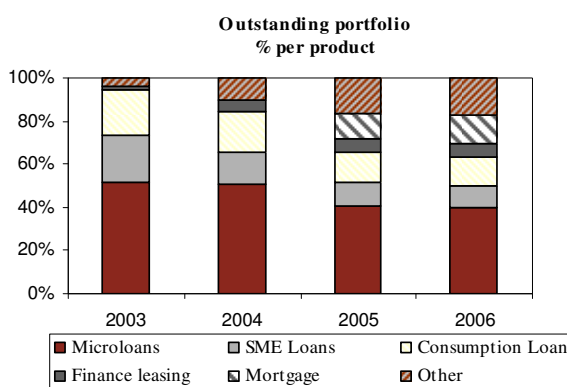
XacBank benefits from committed, well-trained and motivated LOs with good market knowledge (they usually come from their work region). They are supported by experienced Credit and Branch Managers having a clear vision of their roles of both supervision and support. Nevertheless, XacBank suffers from high turnover at the LO level (some of them leaving the organization, others being internally promoted), which explains the limited number of Senior LOs and high training costs. An area for improvement is the analysis capacity of LOs in branches to handle product targeting SMEs as all these files are still reviewed by HQ staff, thereby slowing the process.

Evolution of the portfolio

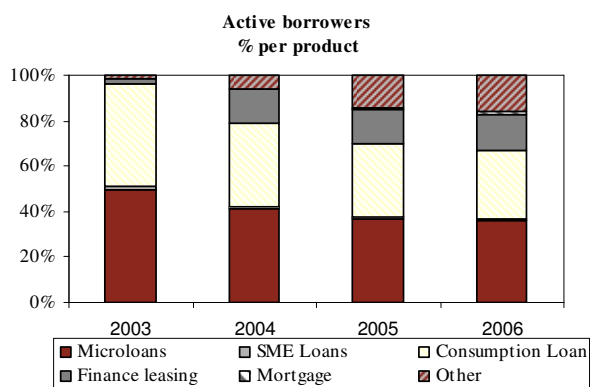


Loan portfolio witnessed accelerated growth since the inception of the Bank underpinned by the rapidly growing number of borrowers (> +56% increase per year) and by the increase in the average loan size disbursed (increase from 636 USD to 728 USD between 2003 and 2005). The launch of new products and diversification of clientele targeted (salaried employees, richer urban individuals) changed the

structure of portfolio and resulted in greater diversification in terms of clients and sectors.



Microloans still account for the highest portion of the portfolio but their weight have decreased over the years (40% at the beginning of 2006 vs. 52% end of 2003), mainly because of the success of recently developed products, noticeably mortgage (12.8% in 2006 vs. 0% in 2003) and finance leasing (6.2% in 2006 vs. 0.8% in 2003). Diversification is also seen through evolution of borrowers with micro and consumption loan clients form 65% of total clients at the beginning of 2006 down from 95% in 2003.



Quality of the portfolio

The quality of the portfolio is high and improving over time (PAR>30 of 0.6% end of 2005 vs. 1.9% in 2003), despite fast portfolio growth and increased competition. PAR by products varies and is closely monitored at different levels. Each branch monitors its own PAR and PAR by product/type of clients is followed at HQ. Credit and risk management policies are constantly updated according to the banking environment and level of risk. Generally, all loan types perform well explaining the high quality of the portfolio. SME PAR indicators have greatly improved over time due to more experienced field staff and better adapted lending methodology.

SME Loans	Dec. 2003	Dec. 2005
Outstanding amount	2,432,163	3,994,039
Number of active loans	290	360
PAR 31	7.3%	0.5%
Write-off amount	0.4%	0.0%

PAR is currently concentrated in agricultural businesses, and noticeably in crop loans (PAR31 of 10.2% of in Feb. 2006), caused by bad climate conditions during the past months. As a result, PAR is concentrated in branches with bigger agricultural portfolio even if product mix successfully mitigates overall credit risk. Some products have virtually no arrears, such as wholesale, herder group loans, overdrafts, mortgage, saving-backed and card loans (all of them show a PAR1 below 0.7% and PAR31 below 0.2%).

Loans can be rescheduled upon decision of relevant Credit Committees, they are closely monitored and account for less than 0.05% of all portfolio. XacBank historically had very low write-off ratios due to the effectiveness of its loan recovery policies. Loans are written-off after 365 days in arrears at the HQ level, but remain active at the branch level as staff still tries to recover past due amounts.

Portfolio diversification

XacBank has defined comprehensive credit policies which are approved and closely monitored by BOD, including several limits⁴ in order to mitigate the credit risk by avoiding concentration on one related party, sector or type of business. A targeted loan mix has been defined (e.g. commercial loans should represent between 50-60% of the portfolio, consumer loans between 25-35%...etc.), based upon the purpose of the loans, in order not to rely too heavily on one product or sector, and to anticipate revenues from activities from the mix of effective interest rates.

Other limits aim at mitigating the concentration risk both at the branch and bank level: total loans up to 10 M MNT shall not fall below 50% of the Bank's total loan portfolio, and loans up to 5 M MNT shall not fell below 80%. Mobile lending unit and franchise are also closely monitored as they should not exceed 30% of all portfolio and 50% of a single branch. Loans to a single soum (village) shall not exceed 20% of the total loans from any single branch. Loan maturity is also closely followed and the average maturity of the total loan portfolio is not expected to exceed two years.

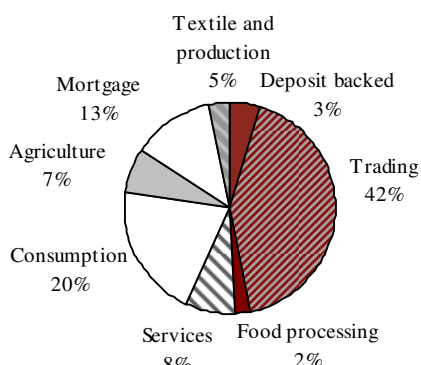
Risk Management Department (RMD) is in charge of verifying the achievement of the specified targets, and defining limits to be respected for each branch, according to the region specificities. Analysis of portfolio composition per interest rate, maturity, sector, product and amount is performed on a daily basis, thanks to extensive and reliable information available.

- Sector: The portfolio is invested in a wide range of sectors, with trade and consumption accounting logically

⁴ Some of them being imposed by BOM and others being internally defined.

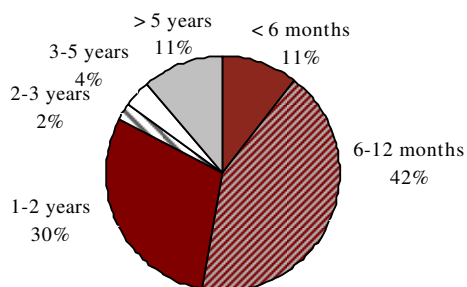
for more than 62% of the portfolio as of Dec. 2005. The composition of the portfolio varies noticeably from one branch to another according to its location; consumption loan products are mainly disbursed in big cities.

Outstanding portfolio per sector, Dec. 2005



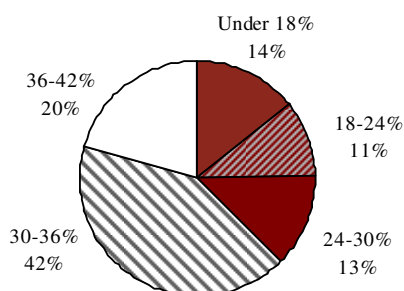
- 20 largest borrowers: XacBank sets a maximum exposure limit of 40% of equity. As of December 31, 2005, this ratio amounted to 17.08%.
- Maturity: In 2005, 53% of outstanding portfolio was short term (<12 months), 83% at less than 2 years, and 11% more than 2 years. The higher term loans are linked to the success of the mortgage loan product (with maturity up to 10 years). XacBank aims for an average portfolio maturity of maximum 2 years and this limit is respected.

Outstanding portfolio per term, Feb. 2006



- Interest rate: RMD closely follows the composition of portfolio per interest rate to achieve the return goals set in the Strategic Plan. This repartition is linked to the product mix, as each product has a specific yield (*See annexes for more details*). An interesting ABC analysis of profitability per product was done in 2004 and is to be updated in 2006 to provide Credit Department with valuable information.

Outstanding portfolio per interest rate, Feb. 2006



Credit risk coverage

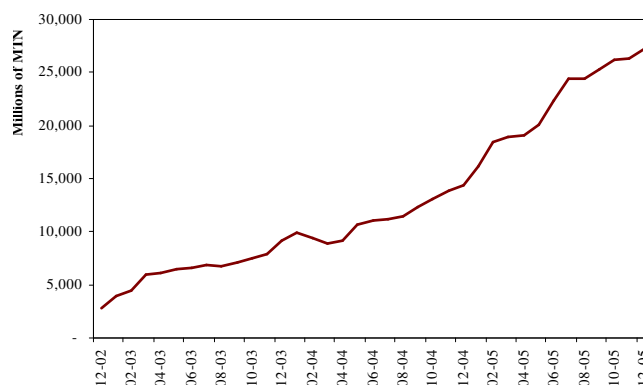
XacBank uses a variety of guarantees that are legally enforceable. Most of the loans are guaranteed by physical collateral, and only the herder loan is a group solidarity loan, but it is also backed by livestock collateral. Guarantees used to cover the credit risk defined for each kind of product and include movable and immovable assets (on 50% to 70% of the loan value), apartments, livestock, member share capital, salary, income stove, assets purchased with leasing, savings...

The provisioning policy is adapted to the activities, even though less conservative than before as the healthy portfolio is no longer provisioned, which has been authorized by BOM to be compliant with IAS. This change of methodology resulted in a drop of risk coverage ratio from more than 353% as end of 2004 to 50% in 2006. The settlement by mutual consent seems to function in certain cases as shown by the amount recovered on past-due loans.

	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006
Risk coverage ratio	83.1%	353.5%	50.0%	49.6%
PAR 31 net of loan loss provision / Equity	1.1%	(4.0%)	1.3%	1.9%

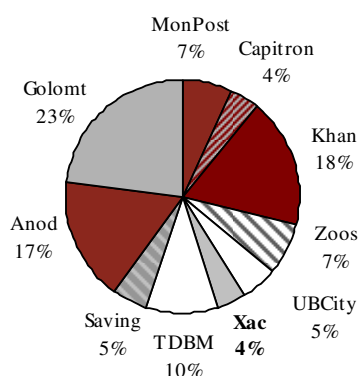
Saving activities

Savings evolution



XacBank first launched saving products upon reception of its bank license in October 2001, and offers today an attractive range of products, with current average interest rates of 7.2% for MNT demand deposits and of 15.2% for time deposits similar to the averages observed on the market of 7.1% and 16.7%, respectively. XacBank is known for its innovative saving products some of which have been copied by its competitors. It is also a pioneer in giving specific and appealing names to savings accounts such as Aging Gracefully for long-term savings and Xac Palace for housing savings. With innovative products and adapted marketing, XacBank has been able to meet its deposit mobilizations targets without having to raise deposit rates. The bank today accounts for more than 4% of all deposit portfolio of Mongolia.

Market share of Total Deposit Portfolio, 2005

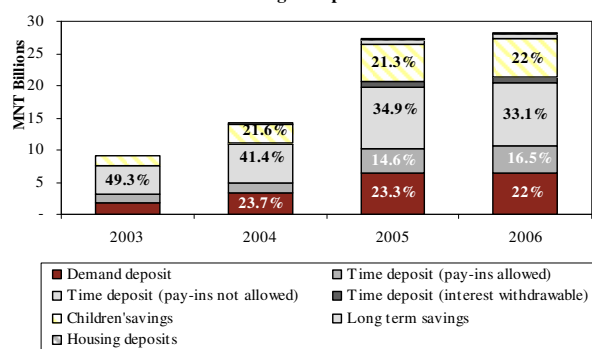


Growth is both driven by increase in number of clients (66% in 2005) and average deposit (306 USD in 2003 and 350 USD at the beginning of 2006), and thanks to the great success of star products such as the Future Millionaire Saving Account (children's savings).

SAVINGS

M USD, unless otherwise stated	Dec. 03	Dec. 04	Dec. 05	Feb. 06
Out. Deposits	7,819	11,854	22,299	23,954
Out. Deposits (M MNT)	9,132	14,332	27,227	28,745
Evolution	209.5%	56.9%	90.0%	5.6%
Number of depositors	25,574	39,166	65,056	68,480
Evolution	763.7%	53.1%	66.1%	5.3%
Av. Bal. /Depositor (USD)	306	303	343	350

Savings composition



Financing and liquidity

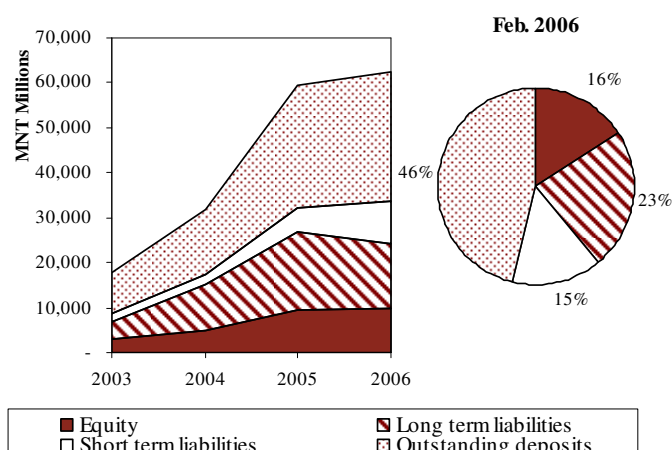
Financing and liquidity is rated « a »

Thanks to strong shareholders' support and good historical profitability levels, XacBank was able to meet and exceed the 8 billion MNT minimum capital requirement – an increase decreed by BOM ahead of the effective date of March 2006.

Capital structure & Leverage

	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006
Capital adequacy ratio	24.7%	18.7%	21.1%	21.5%
Liabilities / Equity	4.7x	5.5x	5.2x	5.3x

Funding structure



Financing strategy

XacBank reported a capital adequacy ratio (CAR) of 21% at the end of 2005, twice its prudential target of 10% and above the Basel II requirement of 8%. XacBank's management seems to pursue a conservative capitalization strategy that balances desired higher leverage level while also boosting its capital base. This is evidenced by its proposed loan transaction with KfW which, when signed, will have a senior debt tranche, but also a subordinated debt tranche that will build its Tier II capital (currently at zero). CAR remains at a very healthy level despite growing leverage as measured by the liabilities to equity ratio shown in the above table.

XacBank's funding base is stable and diversified based on a mix of client deposits, commercial borrowings from both domestic and international sources and growing equity base thanks to its policy of retaining 2/3 of net profits. XacBank projects higher debt levels for the next three years primarily from time deposits and, to a lesser extent, from commercial debts for its funding. These higher debt levels do not however constitute a material change to the existing balance sheet structure (i.e. larger liabilities in absolute amounts, but not in percentages). Being well capitalized and having a good borrowing track record, XacBank should continue to attract significant interest from commercial sources. Planet Rating believes that XacBank's debt absorption and servicing capacity is good based on current projections. Refinancing risk is considered low.

It is expected that XacBank's capital adequacy ratio will stay above the 10% mark despite higher debt levels. XacBank is part of the new collateralized debt obligation being launched by Blue Orchard and Morgan Stanley and it is working with its peers in Mongolia to create a mortgage refinancing company. If successful, both of these schemes will allow XacBank to securitize and free up its assets and to redeploy them quickly leading to better asset utilization and higher overall profitability.

ALM risks

Risk management framework

XacBank sets ALM risk limits and actively manages them through its RMC in addition the regular oversight and monitoring work done by the EC and CC. Regular reporting on risk positions are done through monthly reports to EC and quarterly to the BOD. XacBank's draft Funds Management Strategy outlines various limits based on a set of predetermined ratios (e.g. prudential ratios imposed by BOM and those included as loan covenants agreed to with creditors). XacBank does not engage in trading activities (e.g. trading of securities, commodities or currencies).

In the future, XacBank aims to have a more dynamic risk management tool with the recent introduction of the VAR (value-at-risk) assessment model which is being tested at this time. It is understood that XacBank is negotiating with some foreign parties to obtain technical assistance (to be funded by TA grants) with regard to risk management. It is expected that the risk management consultant will help management to consolidate existing policies and develop an integrated Market Risk Management Policy which is currently still in a draft form. In the mean time, XacBank adopts a conservative policy at minimizing market risks and ensuring compliance with prudential requirements.

Exposure & Compliance

Beside from well-managed credit risks (see "A" section), overall ALM risks at XacBank are considered low. As of December 31, 2005, XacBank reported total open FX position as a percentage of Tier I capital (primarily in USD) of 2.31% which is well inside the BOM's prudential ratio band of +/-40%. During 2005, this ratio has moved up and down, but it did not breach the +/-20% threshold. Similarly, reported maturity mismatch as of year end 2005 stood at -45.2% which is much below the prudential covenant imposed by the IFC (i.e. shall not exceed 120% of net worth). Interest rate risk exists as XacBank also funds itself with floating rate loans, mainly from foreign sources. These floating rate liabilities shown in the following table are relatively modest representing 9.5% of total liabilities as of February 28, 2006 (excluding IFAD debt because of its effective 6% interest cap).

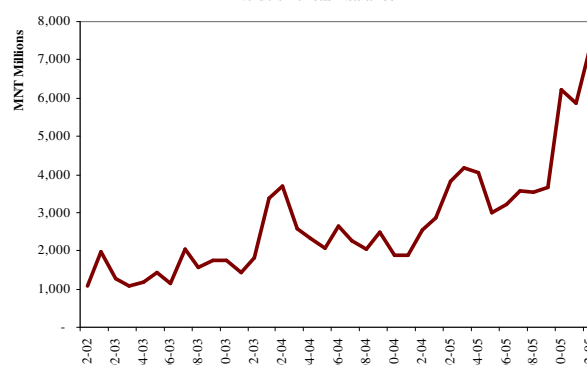
Lender	Outstanding amount in MNT	Rate
USD - Dexia	450,000	6%+6M Libor
USD - Dexia	1,200,000	5.75%+6M Libor
USD - IFC	396,000	3.5%+6M libor
USD - MicroVest*	1,200,000	5.21%+6M Libor
USD - Oikocredit	869,904	5.75%+6M Libor
EUR - Oikocredit	854,160	5.75%+6M Libor
USD - IFAD	1,338,564	3.5%+6M Libor, =< 6%

Source: XacBank as of February 28, 2006, *convertible loan

While XacBank is exposed to basis risk in the current rising interest rate environment, its overall exposure to interest rate risk is moderate given that most of its interest-rate sensitive assets (87%) and liabilities (73%) are short term (i.e. less than one year allowing quicker re-pricing if needed) based on data taken from the maturity report of rate-sensitive assets-liabilities provided to the IFC as of December 31, 2005). Based on disclosed data, XacBank is currently in compliance with all of BOM and creditors' prudential ratios.

Liquidity management

Evolution of cash balance



	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006
Cash & ST investments / Total assets	16.3%	21.0%	20.6%	20.9%
Liquidity ratio	33.50%	28.45%	26.56%	29.51%

XacBank continues to manage its liquidity well and efficiently despite growing cash and ST investment positions as shown on the above graph since its cash and ST investments ratios to total assets have maintained around or below the 20% mark since the past 3 years. Its loans to assets ratio of 64% in 2005 compares well to the overall banking sector average of 55.2%. Liquidity risk is low as XacBank has always maintained its liquidity ratios significantly above its prudential liquidity target of 18%.

■ Efficiency and Profitability

Efficiency and Profitability is rated « a »

Profitability analysis	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006*
ROE	9.1%	19.7%	20.7%	18.0%
Liabilities / Equity	470.6%	550.2%	520.7%	533.1%
ROA	1.9%	3.2%	3.3%	2.9%
Profit generation				
Operational self-sufficiency	114.0%	123.0%	124.5%	118.9%
Portfolio Yield	44.9%	39.6%	35.3%	32.4%
Operating expense ratio	27.1%	19.3%	15.8%	15.2%
Staff productivity	44	63	81	80
Loan officer productivity	158	239	286	278
Average outstanding loan per client (USD)	507	526	622	602
Funding expense ratio	14.0%	12.7%	14.7%	12.9%
Cost of savings	15.8%	13.1%	12.8%	12.6%

Cost of liabilities	5.2%	6.3%	8.7%	6.6%
Loan Loss Provision expense ratio	1.5%	1.8%	0.0%	0.8%
PAR 31-365	1.9%	0.4%	0.6%	0.9%
Write-off ratio	0.2%	1.1%	0.0%	0.0%
Asset management				
Outstanding Loan Portfolio / Assets	60.9%	63.4%	64.0%	61.7%
Non-portfolio income as a % of financial revenues	3.5%	3.0%	3.9%	3.9%

*2006 figures has been annualized for ease of comparison

Profitability overview

XacBank has been profitable for many years (ROE and ROA of 20.7% and 3.3% in 2005, respectively) and outperforms most of its Mongolian peers with regard to profitability indicators. Only Khan Bank achieved higher ROE of 26.6% in 2005. These numbers compared favorably with an average ROE range earned/predicted for American and European commercial banks of between 14-18% (albeit they are operating in mostly mature markets). XacBank's profitability trended upward as declining portfolio yield was compensated by decreasing operating expense ratio due to better economies of scale. As of December 2005, the operational self-sufficiency reached a comfortable level of 124.5%.

Portfolio yield and Net interest margin

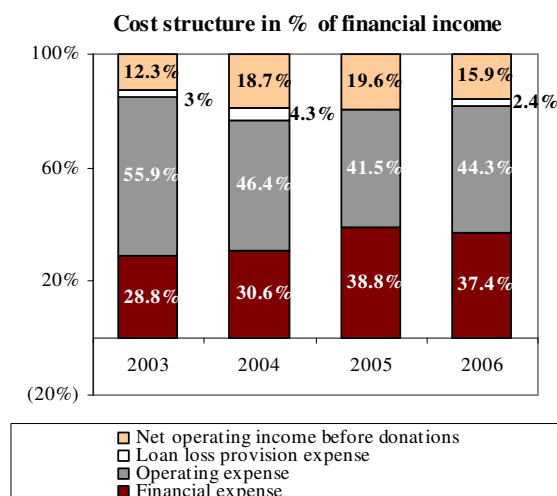
	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Portfolio yield	49.3%	44.9%	39.6%	35.3%
Net interest margin	35.3%	25.1%	22.0%	16.4%

The portfolio yield halved over the period (from 49.3% in 2002 to 35.3% in December 2005) due to several competitive interest rate cuts and increase weight in the portfolio of low interest rate products. XacBank's strong portfolio quality ensures that there is no notable yield gap between the theoretical yield and the actual portfolio yield (See "A" section for details of the structure of portfolio). The drop in portfolio yield has been partially compensated by better asset utilization rates (portfolio/total assets ratio increased from 60.9% in 2002 to 64% in 2005) and improvement of the portfolio quality (PAR>31 of 1.9% in 2002 vs. 0.6% in 2005).

XacBank remains reliant on interest income from client lending. Fee-based income is not forecasted to become a material source of income for the next two years. XacBank's net interest margin (NIM) has been compressed over the years to 16.4% as of the end of February 2006. While lower than before, this NIM level is comparable to those of the ProCredit Banks in the Eastern Europe and Central Asia. The NIM, thus portfolio yield will continue to feel the competitive pressure. Whether the historical yield declining trend can be stopped or slowed will depend on: 1) how fast and how successful XacBank is moving to develop more fee-based products; and 2) how far it can move away

from the traditional banking strategy of holding assets on the balance sheets (e.g. securitization of the loan portfolio).

Operating expense ratio



Thanks to gains in economies of scale and productivity, the operating expense ratio dropped from 27.1% in 2003 to 15.8% in 2005. Operating expenses account for 41.5% of financial income in 2005 vs. close to 56% in 2003.

- LO productivity has been trending upward over the period and reached 286 in 2005. Updating of the ABC analysis of product profitability should help to identify further cost rationalization areas and therefore should further enhance efficiency.
- Higher portfolios along with cost control measures derive better economies of scale, although costs is expected to rise in the short term with planned investments in new IT system and technology applications.
- Global staff productivity is quite low because of high ratio of HQ and back office/support staff despite constant improvement as measured by global staff productivity (from 44 in 2003 to 81 in 2005). The completed spin-off of XacSecurity from XacBank in October 2005 will contribute to bring up this ratio in the long run.
- Areas for improvements: higher productivity for LOs specialized in SMEs product and reduction of turnover of field staff.

Funding expense ratio

The funding expense ratio dropped in 2004 (14% in 2003 to 12.7% in 2004) and increased again in 2005 (14.7%) with a drop in the cost of savings being outweighed by increasing cost of liabilities. This ratio is expected to increase in 2007 as XacBank's funding mix is to rely more on commercial sources. Nevertheless, XacBank's ability to negotiate well-priced loans and to attract low-cost depositors will likely mitigate a large increase in this ratio.

Loan Loss Provision expense ratio

Due to compliance to IAS requirements resulting in the change of its historical conservative provisioning method

(i.e. see Risk section for more details), XacBank did not make a provision for 2005, but it is expected to resume in 2006. As long as there are no major external shocks, this ratio should remain low in the coming years due to XacBank's continued tight portfolio management practices.

Asset management

64% of assets were deployed in the portfolio as of December 2005 (vs. 60.9% in 2004) which is almost 10% higher than the banking sector's 2005 average loans to assets of 55.2%, but it is lower than that of its chief microfinance rival Khan Bank at 67.6% suggesting that further improvement can be achieved in this area.

Adjusted performance

Details concerning the specific adjustments are included in the annexes

According to Planet Rating's adjustment methodology, XacBank has achieved financial self-sufficiency; with different adjustments weight having changed over the period, mainly because of the change in the provisioning methodology, less conservative than the GIRAFE adjustment methodology (*see details in annexes*). The adjustment expense ratio of 0.9% in 2005 is attributable to the standard adjustments of inflation, loan loss provisions, and in-kind donations (trainings and salary of consultant).

	Dec. 04	Dec. 05	Feb. 06
Adjustment expense ratio	1.7%	1.1%	2.7%
AROE	2.5%	7.3%	3.7%
AROA	2.1%	2.6%	1.2%
Financial self-sufficiency	117.1%	120.2%	108.9%

Profitability outlook

Continued pressure on margins and higher expenses due to planned IT investments make XacBank's own ROE targets of 24.4% and 28.1% for 2006 and 2007, respectively, hard to reach despite planned higher leverage. In the long run however, the profitability outlook is strong based on the following factors (which could take several years to unfold): 1) successful development and diversification of fee-based products; 2) better economies of scale and scope; 3) higher efficiency and productivity with new MIS and IT applications. Primary challenges are risk management during the launch of new products/services outside its core lending area, resolution of outstanding MIS issues and cost control in a fast growing structure.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking

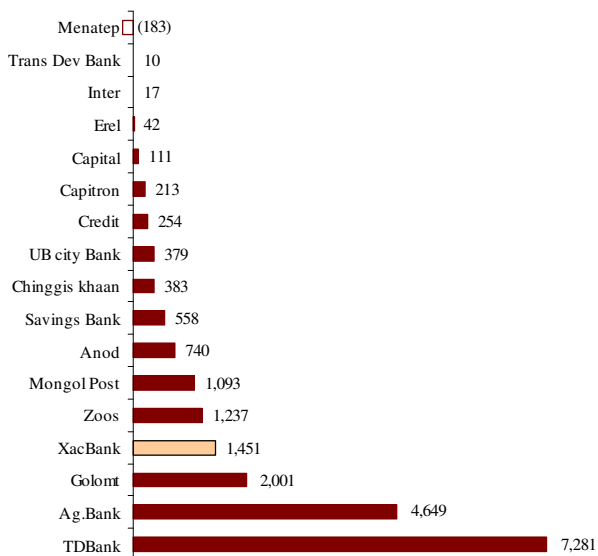
All data presented is as of end of 2005.

Classification based on MBB criteria

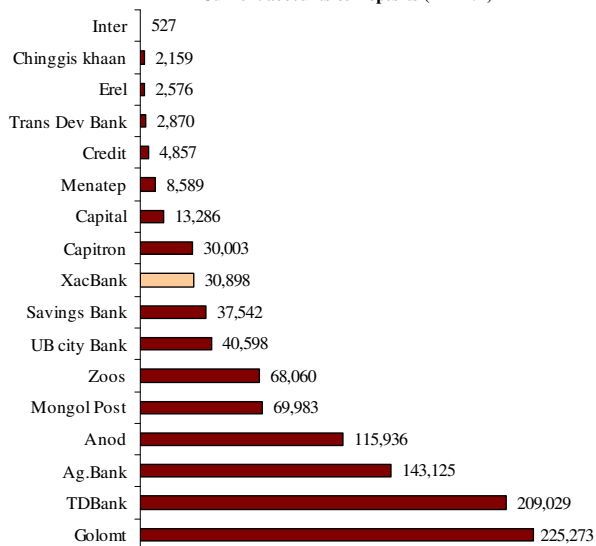
Area	Europe and Central Asia (ECA)
MBB peer group	ECA Large Broad: AgroInvest, XACBANK, FM, FOR A, OBM, Sunrise, Partner, XAC
Maturity	Mature
Scale of operations	GLP > 8 M EUR
Target	Avg. Balance per Borrower/GNI per Capita >= 20% and population <=150%

Source: MBB August 2005

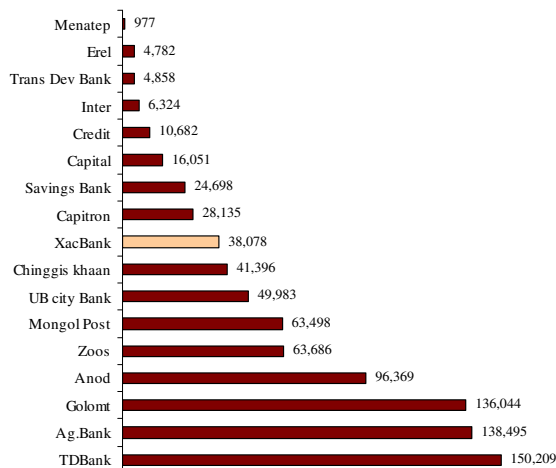
Net profit (MMNT)



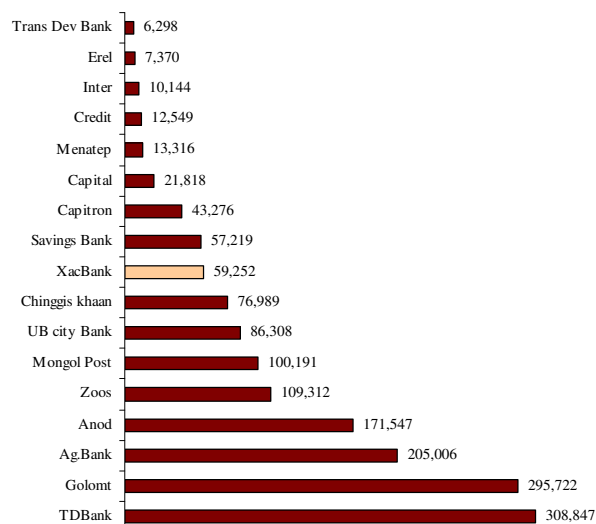
Current accounts & Deposits (MMNT)



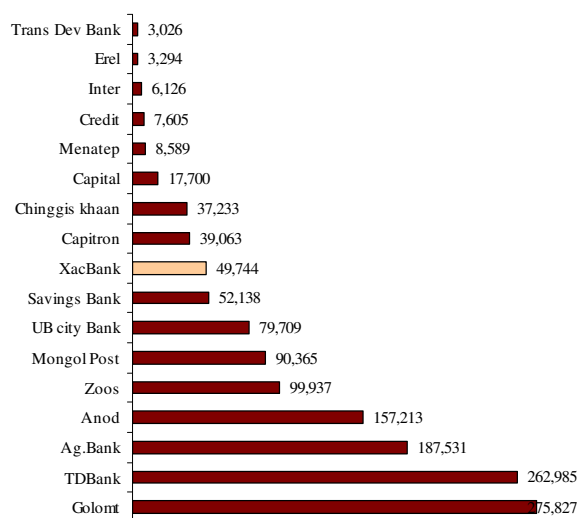
Loans (MMNT)



Assets (MMNT)



Total liabilities (MMNT)



■ Annexes

Acronyms

AC	Audit Committee
ALM	Asset/Liability Management
BOD	Board of Directors
CC	Credit Committee
CEO	Chief Executive Officer
EBRD	European Bank for Reconstruction and Development
EC	Executive Committee
ESOP	Employee Stock Option Plan
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FI	Financial intermediary
FY	Fiscal Year (Jan. 1st to Dec. 31st)
HQ	Headquarters
HR	Human Resources
GNBI	Global Network for Banking Innovation in Microfinance
GNP	Gross National Product
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IT	Information technology
KfW	German Development Bank
LIBOR	London Interbank Offered Rate
LO	Loan officer
LTS	Loan Tracking Specialist
MC	Mercy Corps
MBA	Mongolia Bankers Association
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
NA	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
RMC	Risk Management Committee
ROA	Return on assets
ROE	Return on equity
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
USAID	United States International Development Agency
USD	United States Dollar
USDA	United States Department of Agriculture
WWB	Women's World Banking

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets (ROA): Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio

- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio
- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio
- Capital adequacy ratio: Total capital (Tier I + II) / Risk-weighted assets
- Liquidity ratio: Total value of cash, marketable securities and inter-bank placements / total liabilities

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

- The MFI follows partially the CGAP disclosure guidelines.
- The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
- The financial statements provided include 3 full years of data.
- Portfolio reporting
 - Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").
 - The loan loss reserve is shown as a negative asset in the balance sheet. Provisions are calculated according to the methodology described in the table.

Provisioning methodology	Rate
Healthy portfolio	0.0%
Rescheduled	40.0%
less than 30 days	5.0%
31 – 60	5.0%
61 – 90	5.0%
91 - 180	40.0%
181 - 365	75.0%
over 365 days	100.0%
Write off amount	100.0%

- Loans are written off every December from the loan loss reserve and the loans outstanding. The Bank Risk Management Committee makes the decision for write-off loans on the following circumstances (quarterly basis): Starting from 181st day as the loan can not be redeemed though all possible actions to get the loan repaid that have been taken for up to 180 days beginning the day of breach of the loan agreement in case the borrower lost paying capacity and can not repay the loan as the loan collateral was lost; starting from 181st day, in case the borrower has moved out of the residence area and/or is missing, the borrowers's residing address was determined and loan work-out measures have been taken for up to 180 days with the help of court and police authorities; in case the address could not be determined; In case of insufficiency of collateral and/or drop of its market value resulting in repayment of some parts of the loan and the borrower can not pay the remaining debt when collateral was foreclosed and sold to repay the loan, in 10 working days after the collateral was foreclosed; In case of insolvency of the debtor though the court decision to redeem the loan was passed and/or the loan was not repaid in 90 days after the court decision with account of incapability of the debtor to

repay the loan immediately and possibility to repay the loan partially for some period of time, from 91st day. In case the borrower is heavily sick and/or had deceased, which led to complete halt of business operations and incapability of the family and relatives to repay the loan, in 15 working days after the reason has been determined; In case the loan repayment can not be made in a short period of time due risk incurred to the borrower's business activities, the loan repayment can not be finished in upto 180 days, as though the loan repayment is made from the business and other sources in small amounts but the payment itself is deducted fro the interest and penalty and not sufficient to repay the loan principal, in upto 90 days after the breach of the loan agreement obligations intensive actions to redeem the loan shall be taken; the situation shall be clarified and if the loan is not repaid from the 91st day; In 15 days after the emergency in case of force major.

3.4 The following table reconciles the LL Reserve movements:

K MMNT	Dec. 2003	Dec. 2004	Dec. 2005
Loan loss reserve, January 1st	69,799	171,769	268,561
+ Loan loss provision expense	125,445	266,114	-
- Provision reversal	10,368	2,187	130,469
- Loans written off	13,109	167,134	10,485
Loan loss reserve, year end	171,769	268,561	127,607

3.5 Accrual vs. Cash accounting: Accrued interests on Loans are accounted. If loan is on arrears more than 90 days, XacBank stops accruing interest on Loans.

4 Portfolio quality

4.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

4.2 Renegotiation of loans: the MFI does refinance/reschedule loans. The Risk Management Committees reschedules the loans on the following circumstances: Borrower's business is prohibited or constrained under the law, policy and resolutions; market, economic and price sudden changes have affected to the borrower's sales income, expenses, cash flow; interim delay in procurement of goods, raw materials, sales and collection of receivables due to reasons not depending on the borrowers but which can be solved in 30 days; The borrowers had changed the business type during the loan period due to market condition or got into repaying capacity risk as a result of running sub business and investment, but this can be solved in 30-60 days; the borrower capable of running business further and stable; Fully capable to repay the loan and running the business though the business operations were halted temporarily leaving impossible to make the loan repayment according to the agreement as a result of the illness and death of the borrower and her/his related individuals; Capable of repaying the loan using salary and other income of the family though the borrower's employer did not pay salaries on time or was idling temporarily and for long time; was dismissed by the employer's initiative.

4.3 Insider loans: the MFI does allow employees to borrow funds, through 2 products, one employee consumption loan and one housing loan., for a total of 96,874.1 and 403,928.2 USD as of end 2005 respectively. Loans to employees are formalized in a contract between the MFI and the employee that state the amount granted and repayment schedule. Loans repayments are automatically withdrawn from salary.

5 Donations

5.1 Revenue from donations is shown separately from income generated by operations in the income statement.

5.2 Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income

statement. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet.

5.3 In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

6 Details of liabilities

6.1 Loans and conditions are listed in a table at the end of the report

6.2 Deposits: See A domain and appendices for details on savings collection

7 Other significant Accounting Policies

7.1 Accrual or deferral income/expense accounting: none

7.2 Depreciation of fixed assets: Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives 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

7.3 Inflation accounting: none

7.4 Currency mismatch: please refer to the F area for more information on potential mismatch.

Adjustments

	Dec. 2003	Dec. 2004	Dec. 2005
Adjustment for the cost of funds = (a*b)-c	70,883	77,708	-
Average amount of borrowings (a)	3,345,796	8,158,113	16,431,273
Shadow price of borrowings (b)	7.3%	7.3%	7.3%
Interest expense on borrowings (c)	173,361	517,834	1,435,960
Adjustment for inflation = (d-e)*f	83,478	97,664	148,382
Avg. Equity (d)	3,026,015	3,989,851	7,202,727
Average fixed assets (e)	1,249,880	1,911,903	4,235,095
Inflation rate (f)	4.7%	4.7%	5.0%
Adjustment for in-kind donations	90,000	90,000	40,000
Staff and technical assistance	40,000	40,000	40,000
Other	50,000	50,000	
Adjustments for provisions	-	-	113,166
Loan losses	-	-	113,166
Other risks			
Other adjustments			
Total adjustments	244,361	265,372	301,547

XacBank	K MNT				K USD				Evolution		
	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006	04/03	05/04	06/05
Balance sheet											
ASSETS	17,803,402	31,598,772	59,252,298	62,273,584	15,243	26,136	48,528	51,895	77.5%	87.5%	5.1%
Short Term Assets	14,437,614	28,196,096	52,114,453	53,600,894	12,361	23,322	42,682	44,667	95.3%	84.8%	2.9%
Cash and Due from Banks	1,822,281	2,538,802	7,271,228	9,199,517	1,560	2,100	5,955	7,666	39.3%	186.4%	26.5%
Short Term Investments	1,080,400	4,110,600	4,937,318	3,810,238	925	3,400	4,044	3,175	280.5%	20.1%	(22.8%)
Short Term Net Loan Portfolio	10,840,446	20,044,995	37,950,282	38,397,281	9,281	16,580	31,081	31,998	84.9%	89.3%	1.2%
Short Term Gross Loan Portfolio	11,012,215	20,313,557	38,077,889	38,576,848	9,428	16,802	31,186	32,147	84.5%	87.5%	1.3%
(Loan Loss Reserve)	171,769	268,561	127,607	179,567	147	222	105	150	56.4%	(52.5%)	40.7%
Interest Receivable	206,721	391,545	685,501	757,996	177	324	561	632	89.4%	75.1%	10.6%
On loan portfolio	206,721	391,545	685,501	757,996	177	324	561	632	89.4%	75.1%	10.6%
On investments	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	487,765	1,110,154	1,270,125	1,435,862	418	918	1,040	1,197	127.6%	14.4%	13.0%
Long term assets	3,365,789	3,402,675	7,137,844	8,672,690	2,882	2,814	5,846	7,227	1.1%	109.8%	21.5%
Long Term Net Investments	1,946,792	965,169	1,105,161	2,555,323	1,667	798	905	2,129	(50.4%)	14.5%	131.2%
Net Fixed Assets	1,386,299	2,437,507	6,032,683	6,114,125	1,187	2,016	4,941	5,095	75.8%	147.5%	1.3%
Other Long Term Assets	32,698	-	-	3,242	28	-	-	3	(100.0%)	-	-
LIABILITIES AND EQUITY	17,803,402	31,598,772	59,252,298	62,273,584	15,243	26,136	48,528	51,895	77.5%	87.5%	5.1%
Liabilities	14,683,554	26,738,919	49,706,696	52,436,770	12,572	22,117	40,710	43,697	82.1%	85.9%	5.5%
Short term liabilities	10,950,109	16,400,645	32,218,454	38,092,089	9,375	13,565	26,387	31,743	49.8%	96.4%	18.2%
Demand Deposits	1,816,232	3,398,260	6,338,161	6,391,550	1,555	2,811	5,191	5,326	87.1%	86.5%	0.8%
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	7,315,918	10,933,685	20,888,452	22,353,533	6,264	9,044	17,108	18,628	49.5%	91.0%	7.0%
Short Term Borrowings	880,022	1,364,484	3,671,545	8,010,229	753	1,129	3,007	6,675	55.1%	169.1%	118.2%
Interest payable	312,716	353,233	675,321	790,199	268	292	553	658	13.0%	91.2%	17.0%
Accounts Payable and Other Short Term Liabilities	-	350,985	644,975	546,578	535	290	528	455	(43.9%)	83.8%	(15.3%)
Long term liabilities	3,733,445	10,338,274	17,488,242	14,344,681	3,196	8,551	14,323	11,954	176.9%	69.2%	(18.0%)
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	3,733,445	10,338,274	17,488,242	14,344,681	3,196	8,551	14,323	11,954	176.9%	69.2%	(18.0%)
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-
Equity	3,119,849	4,859,852	9,545,601	9,836,813	2,671	4,020	7,818	8,197	55.8%	96.4%	3.1%
Paid-In Capital	3,004,000	4,214,081	8,042,751	8,042,751	2,572	3,486	6,587	6,702	40.3%	90.9%	0.0%
Donated equity	9,436	13,864	13,864	13,864	8	11	11	12	46.9%	0.0%	0.0%
Retained earnings without donations and reserves	106,413	631,907	1,488,986	1,780,198	91	523	1,219	1,483	493.8%	135.6%	19.6%
Current year	276,879	787,494	1,488,929	291,212	237	651	1,219	243	184.4%	89.1%	(80.4%)
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-

XacBank Income Statement	Notes	K MNT				KUSD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Feb. 2006	Dec. 03	Dec. 04	Dec. 05	Feb. 06	2004/2003	2005/2004	2006/2005
Financial Revenue (a)		4,098,541	6,463,174	10,905,265	2,208,429	3,659	5,771	9,737	1,972	57.7%	68.7%	(79.7%)
Financial Revenue from Loan Portfolio		3,791,725	6,146,779	10,144,591	2,083,767	3,385	5,488	9,058	1,861	62.1%	65.0%	(79.5%)
Interest on Loan Portfolio		3,573,322	5,746,713	9,413,196	1,950,464	3,190	5,131	8,405	1,741	60.8%	63.8%	(79.3%)
Fees and Commissions on Loan Portfolio		218,398	400,065	730,632	133,288	195	357	652	111	83.2%	82.6%	(83.3%)
Penalty Revenue on Loan Portfolio		4	1	763	15	0	0	1	0	(76.7%)	76,200.2%	1,407.8%
Financial Revenue from Investments		142,189	191,738	420,806	86,520	127	171	376	77	34.8%	119.5%	(79.4%)
Other Operating Revenue		164,627	124,658	339,868	38,142	147	111	303	34	(24.3%)	172.6%	(88.8%)
Financial Expense (b)		1,181,840	1,976,609	4,234,700	826,994	1,055	1,765	3,781	738	67.2%	114.2%	(80.5%)
Interest paid on borrowings		173,361	517,834	1,435,960	239,512	155	462	1,282	214	198.7%	177.3%	(83.3%)
Interest paid on deposits		995,328	1,456,743	2,798,740	587,482	889	1,301	2,499	525	46.4%	92.1%	(79.0%)
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		13,152	2,032	-	-	12	2	-	-	(84.5%)	(100.0%)	-
Financial income [c=a-b]		2,916,700	4,486,566	6,670,565	1,381,435	2,604	4,006	5,956	1,233	53.8%	48.7%	(79.3%)
Net Loan Loss provision expense (d)		123,165	274,891	1,053	52,259	110	245	1	47	132%	(99.6)	
Loan loss provision expense and write-off		123,165	274,891	1,053	52,259	110	245	1	47	123.2%	(99.6%)	4,864.3%
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)		2,290,314	3,001,096	4,526,846	977,953	2,045	2,680	4,042	873	31%	50.8%	(78.4%)
Personnel Expense (includes fringe)		1,129,088	1,444,826	1,987,092	477,757	1,008	1,290	1,774	427	28.0%	37.5%	(76.0%)
Administrative Expense (non-staff operating expenses)		1,161,226	1,556,269	2,539,754	500,195	1,037	1,390	2,268	447	34.0%	63.2%	(80.3%)
Depreciation and amortization		176,657	255,282	512,706	105,419	158	228	458	94	44.5%	100.8%	(79.4%)
Consulting fees		68,864	77,661	71,041	6,074	61	69	63	5	12.8%	(8.5%)	(91.5%)
Rent / Utilities / Stationery / Vehicle and Transportation Expenses		533,027	643,256	727,752	166,656	476	574	650	149	20.7%	13.1%	(77.1%)
Communications / Advertisement / Travel Expense / Representation Expense		302,340	462,257	813,234	124,621	270	413	726	111	52.9%	75.9%	(84.7%)
Insurance / Security / Financial fees		17,047	31,841	148,282	48,909	15	28	132	44	86.8%	365.7%	(67.0%)
FA repair/maintance / Computer hardware and software maintenance / Sanitation		27,875	31,296	45,959	7,105	25	28	41	6	12.3%	46.9%	(84.5%)
Loan collection expense / Subscription / Penalty		2,583	4,906	6,201	661	2	4	6	1	90.0%	26.4%	(89.3%)
Labor safety / Land Ownership		744	905	886	132	1	1	1	0	21.5%	(2.0%)	(85.1%)
Money collection expense / OREO expense		201	92	108	60	0	0	0	0	(54.1%)	17.4%	(44.6%)
Others		31,888	48,774	213,586	40,559	28	44	191	36	53.0%	337.9%	(81.0%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		503,222	1,210,579	2,142,666	351,224	449	1,081	1,913	314	140.6%	77.0%	(83.6%)
Income Taxes (g)		226,343	423,085	653,738	60,012	202	378	584	54	86.9%	54.5%	(90.8%)
Net Operating Income Before Donations [h=f-g]		276,879	787,494	1,488,928	291,212	247	703	1,329	260	184.4%	89.1%	(80.4%)
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		276,879	787,494	1,488,928	291,212	247	703	1,329	260	184.4%	89.1%	(80.4%)
Donations (l)		-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		276,879	787,494	1,488,928	291,212	247	703	1,329	260	184.4%	89.1%	(80.4%)

Product Description**Rural Loan Products**

Loan Products	Herder Group Loan	Wholesale Loan	Herder Loan	Crop Loan
Product Offered In	Jan-01	Jul-02	Jun-04	Apr-02
Criteria For The Borrower	At least 6 months cooperation in the running livestock business between group members, at least 5 member households in the group, 3 years experience in livestock	At least 9-12 months experience in the business, at least 30 members, PAR<5%, provisioned loan loss reserve for the loan portfolio, good accounting system	At least 5 years experience on herding livestock, at least 200 livestock in last 3 years	At least 5 years experience in wheat and horticulture production, should has equipments and machinery, available to finance at least 20% of the cost
Borrowers	Herders	Saving and Loan Cooperatives or NBFIs	Herders	Wheat production, horticultural business enterprises or entrepreneurs
Type Of Business	Livestock	Saving and Credit Activity	Livestock	Wheat production, horticultural business
Loan Purpose	Expenses related to livestock and consumption	Loan activity and fixed assets investment, or liquidity	Expenses related to livestock and consumption	Working capital
Loan Size (mln.MNT)	1.0 – 10.0 mln.MNT	Up to 80% of equity, minimum size 500.0 thous.MNT	upto 5.0 mln.MNT	Up to 15.0
Loan Term	1-12	Up to 12 months	1-12	Up to 12 months
Repayment Condition	Flexible, based on cashflow (livestock business income)	Flexible	Flexible, based on cashflow (livestock business income)	Flexible
Grace Period	-		-	
Interest Rate Per Month	2.5% – 3.3%	1.6% - 2.0%	2.5%-3.5%	2.0%-3.3%
Charge And Commission	Application Fee – 1,000 Service Commission-0.5%	Application Fee – 5,000-15,000 Service Commission-0.5%	Application Fee – 500-1,000 Service Commission-0.5%	Application Fee – 1,000-5,000 Service Commission-0.5%
Collateral	Movable and Immovable Assets, Livestock	Secured by Member share capital	Movable and Immovable Assets, Livestock	Movable and Immovable Assets
Credit Officer	SME and Micro Credit Officers	Micro and SME credit Officers	Micro Credit Officers	Micro and SME credit officers
Number Of Loans as 31/12/05	105	23	3,336	599
% in total	0.2%	0.0%	6.7%	1.2%
Portfolio (USD)	163,611.9	225,781.7	1,649,183.8	210,234.3
% In Total	0.5%	0.7%	5.3%	0.7%
Avg Loan Balance	1,558.2	9,816.6	494.4	351.0

Products description**Consumption Loan Products**

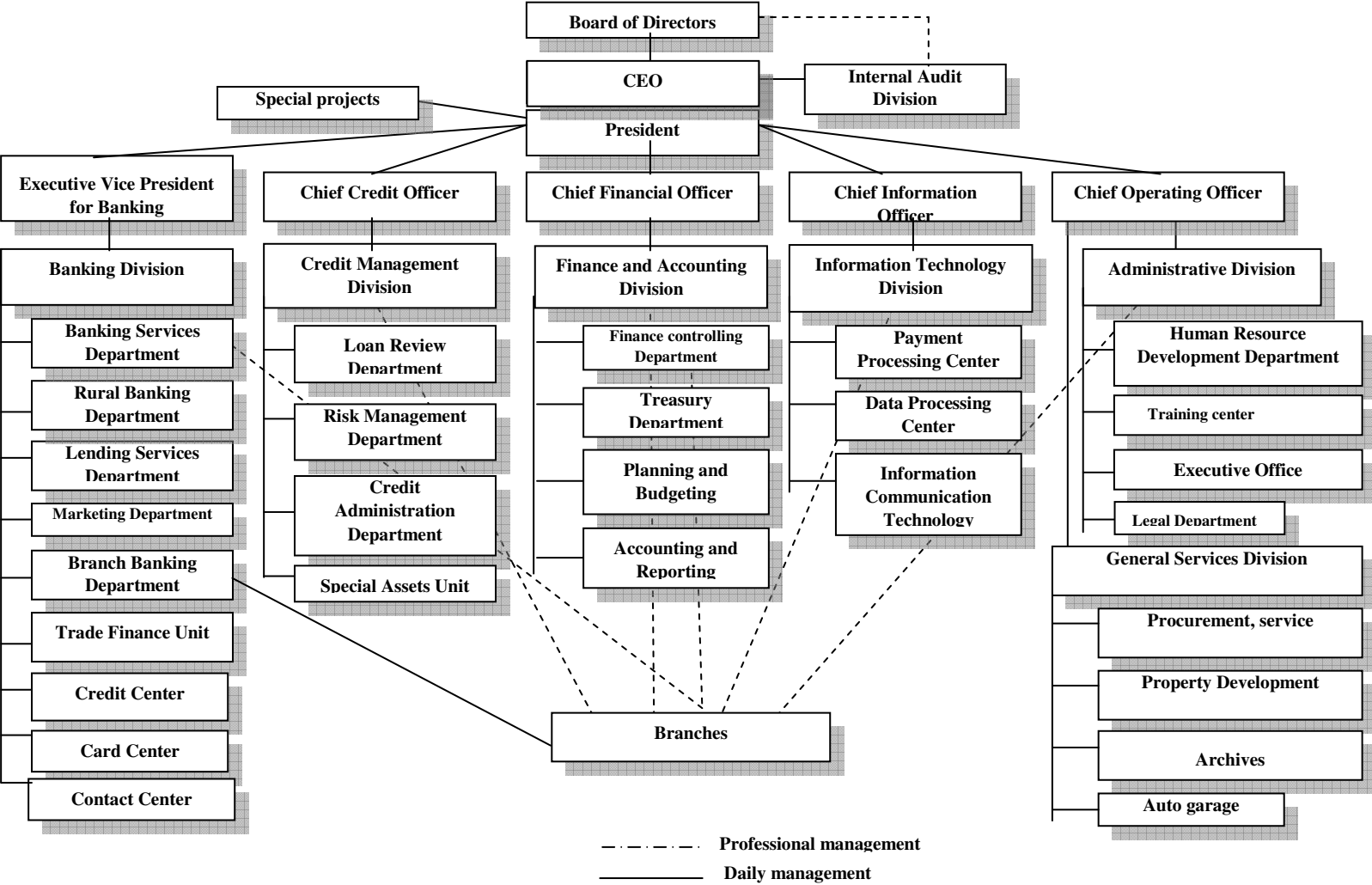
Loan Products	Household Loan	Salary Backed	Overdraft	Stove Loan
Product Offered In	Aug-00	Sep-02	Sep-02	Aug-02
Criteria For The Borrower	At least 12 months employment in the current employer, household income>18,000 MNT	At least 12 months employment in the current employer, has an current account in the Bank, and get the salary through the current account		Households, who has business or salary and pension income
Borrowers	Salaried (employed) people	Employee of the contracted entities with the Bank		Individuals
Type Of Business	-	-	-	-
Loan Purpose	Consumption	Consumption	Consumption	Consumption
Loan Size (Mln.MNT)	Up to 3.0 mln.MNT	Upto 6-7 months salary	Upto 60 percent of monthly salary	49,350-60,900 MNT
Loan Term	1-12	1-12	Up to 12 months contract	3-6 months
Repayment Condition	Monthly	Monthly	Fully paid in 30 days	Monthly equal installment
Grace Period	-	-	-	-
Interest Rate Per Month	2.5% - 3.0%	2.5%-2.9%	3.50%	4.00%
Charge And Commission	Application Fee – 500 Service Commission-0.5%	Application Fee – 500 Service Commission-0.5%	Application Fee – 1,000 Service Commission-0.5%	Application Fee – 100 No service commission
Collateral	Movable and Immovable Assets	Salary, movable and immovable assets	Salary income	Stove and additional movable assets on 50% of the loan value
Credit Officer	Micro credit officers	Micro credit officers	Customer Services' officer	Micro Credit officers
Number of loans as 31/12/05	13,160	2,272	1,184	-
% In Total	26.3%	4.5%	2.4%	0.0%
Portfolio Outstanding (USD) as 31/12/05	3,881,672.8	616,520.6	168,279.2	
% In Total	12.4%	2.0%	0.5%	0.0%
Avg Loan Balance (USD)	295.0	271.4	142.1	

Type Of Loan	Finance Leasing	Saving Backed	Employee's Consumption Loan	Employee's Housing Loan	Residential Housing Loan - Mortgage
Product Offered In	Apr-03	Sep-02	Dec-99	July,2001	Apr, 2005
Criteria For The Borrower	6-12 months experience for the business	Depositors, who have time-deposit in the Bank	Employed in XacBank for 12 months	Employed at least for 24 months	Employed people more than 2 years. 2. Business people
Borrowers	Any type of people and entities	Depositors	XacBank's Employee	XacBank's Employee	Business entrepreneurs, or employed people
Type Of Business	-	-	-	-	-
LOAN SIZE (Mln.MNT)	For Individual up to 2.0	Loan term < 1 month - 95% in total of savings	Up to 5 times higher than monthly net salary	Up to 75% of the cost	Up to 30,000 USD, depends on the value of the apartments which the borrower wants to buy
	For Business up to 30.0 mln. MNT	Loan term >1 month - 85% in total of savings			
Loan Term	1-12	Up to 12 months, not excess than loan term	1-12	1-60	up to 120 month or 10 years
Repayment Condition	20%-40% down payment Monthly	Flexible	Monthly	Monthly	Monthly /annuity repayment/
Grace Period	-	-	-	-	-
Interest Rate Per Month	MNT 2.0%-2.8% USD 1.5%-2.5%	Savings % per year +3.3% / USD/Savings % per year +6.6% / MNT/	1.5%	MNT 8.0% / USD 5.0%	XacBank based rate + borrowers risk related interest. Average interest rate per month is 1.52%
Charge And Commission	Application Fee – 1,000-5,000	Application Fee-500	-	-	Application fee -5000 MNT
	Service Commission-0.5%	Service Commission 0.2%, max MNT 50,000	-	-	Service commission - 1%
Collateral	Assets purchased with leasing	Savings	Movable and Immovable Assets Loan to value 70%	Immovable Assets /House or Apartment/	Appartments
NUMBER OF LOANS As 31/12/05	7,653	1,353	264	70	606
% In Total	15.3%	2.7%	0.5%	0.1%	1.2%
Portfolio Outstanding (Usd)	1,755,307.7	1,025,387.7	96,874.1	403,928.2	3,82,498.1
% In Total	5.6%	3.3%	0.3%	1.3%	12.3%
Avg Loan Balance (Usd)	229.4	757.9	366.9	5,770.4	6,304.5

Saving products description

Product name	Description
<i>PROSPERITY</i> -Demand Deposit	Deposit placed in the bank for an uncertain period of time upon acceptance of conditions set forth by the bank is called a PROSPERITY-Demand Deposit.
<i>TREASURE</i> - Time deposit	A Deposit, allowing the Depositor to pay in money into his/her deposit account during the agreement term but not withdraw and placed with the bank for a specified period of time is called Treasure- Time deposit (pay-ins allowed)
<i>WEALTHY</i> - Time deposit	A Deposit not allowing the Depositor to pay in and withdraw from his/her deposit account during the agreement term and placed with the bank for a specified period of time is called Wealthy- Time Deposit (pay-ins not allowed).
<i>SPRINKLE</i> -Time Deposit	Deposit with a provision not allowing Depositor to pay in money into his/her deposit account during the agreement term but withdraw within the amount of interest paid and placed with the bank for a specified period of time is called Sprinkle Time Deposit (interest withdrawable).
<i>FUTURE MILLIONAIRE</i> – Child Savings	A Deposit, allowing the Depositor to pay in money into his/her deposit account during the agreement term but not withdraw and opened on the name of a child, who is under the age of 18, and with the term of child will reach 18 years is called Children's savings.
<i>AGE GRACEFULLY</i> -Long Term Savings	A Deposit allowing the Depositor to pay in money into his/her deposit account during the agreement term and for the first certain period of agreement not withdraw but after this certain period allowing the Depositor to withdraw and placed with the bank for a specified period of time is called Age Gracefully -Long Term Savings
<i>XAC PALACE</i> - Housing Deposit	A Deposit allowing the Depositor to accumulate savings toward a home purchase and at maturity the balance may be applied toward a down payment and qualify for a XacBank housing loan is called Xac Palace-Housing deposit. Additional amounts may be added to the deposit, but withdrawals are not allowed during the term of the agreement.

Organizational chart



Ownership Structure of XAC-GE LLC

As of February 28, 2006

SHAREHOLDERS		# of shares	Amount	Ownership %
1	LEOS /NGO/	214,581	214,581,000	3.43%
2	LGDF /NGO/	166,226	166,226,000	2.66%
3	Mercy Corps	1,254,180	1,254,180,000	20.06%
4	Open Forum /NGO/	264,141	264,141,000	4.22%
5	MWF /NGO/	198,507	198,507,000	3.17%
6	NewCom LLC	214,581	214,581,000	3.43%
7	Rotary Club UB	150,153	150,153,000	2.40%
8	Tuushin /LLC/	898,106	898,106,000	14.36%
9	CYDAN SCC	68,900	68,900,000	1.10%
10	MicroVest	639,107	639,107,000	10.22%
11	ShoreCap International	778,295	778,295,000	12.45%
12	Triodos	778,296	778,296,000	12.45%
13	Employees	33,746	33,746,000	0.54%
14	EIT /LLC/	593,572	593,572,000	9.49%
Total paid-in capital		6,252,391	6,252,391,000	100.0%

SHAREHOLDERS BY CATEGORY

Mercy Corps	1,254,180	1,254,180,000	20.06%
ShoreCap International	778,295	778,295,000	12.45%
Triodos	778,296	778,296,000	12.45%
MicroVest	639,107	639,107,000	10.22%
Local NGOs	993,608	993,608,000	15.89%
Local companies	1,775,159	1,775,159,000	28.39%
Other individuals	33,746	33,746,000	0.54%
Total paid-in capital	6,252,391	6,252,391,000	100.00%

Source: XacBank

Funding Sources

As of February 28, 2006

	Currency	Disbursed	Ending Balance	Interest	Condition	Security	Interest rate
LOCAL FINANCE INSTITUTIONS							
Postbank	MNT	800,000	800,000	12.00%	Loan		
Postbank	MNT	800,000	800,000	14.00%	Loan		
Chingishaan bank	MNT	500,000	500,000	12.00%	Loan		
Zoos bank	MNT						
SUB-TOTAL		2,100,000	2,100,000				
FOREIGN FINANCE INSTITUTIONS							
Dexia Micro-Credit Fund	USD	604,500	450,000	10.670%	Loan	No collateral	6%+6M Libor
Dexia Micro-Credit Fund	USD	1,193,000	1,200,000	9.750%	Loan	No collateral	5.75%+6M Libor
International Finance Corporation	USD	483,600	396,000	7.320%	Loan	No collateral	3.5%+6M libor
Deutsche Bank MicroCredit Development Fund	USD	151,125	150,000	2.000%	Loan	No collateral	2.00%
Calvert Foundation	USD	599,700	600,000	6.000%	Loan	No collateral	6.00%
MicroVest1, LP	USD	1,813,500	1,200,000	9.770%	Convertible to equity	No collateral	5.21%+6M Libor
ASN-Novib Fonds	USD	1,209,000	1,200,000	9.000%	Loan	No collateral	9.00%
Oikocredit	MNT	444,690	444,690	13.000%	Loan	No collateral	13.00%
Oikocredit	USD	885,127	869,904	10.100%	Loan	No collateral	5.75%+6M Libor
Oikocredit	EUR	891,060	854,160	8.020%	Loan	No collateral	5.75%+6M Libor
Shorecap	USD	610,500	600,000	9.000%	Loan	No collateral	9.00%
Triodos Doen	MNT	560,185	560,185	13.000%	Loan	No collateral	13.00%
Triodos Doen	USD	612,500	600,000	9.000%	Loan	No collateral	9.00%
SUB-TOTAL		10,058,487	9,124,939				
PROJECT FUNDS							
MongolBank /UNDP/	MNT	150,289	-				
MongolBank / ADB /	MNT	1,473,824	320,168	5.50%	Loan		
Micro Finance Development Fund	MNT	237,711	118,856	5.00%	Loan		
Micro Finance Development Fund	MNT	799,955	799,955	8.00%	Loan		
Employee Generation Fund	MNT	1,000,000	500,000	6.00%	Loan		
IFAD	USD	506,914	1,338,564	6.00%	Loan		3.5%+6M Libor, =< 6%
Mongolbank /Deposits/	MNT	42,200	42,200	10.00%	Loan		
SUB-TOTAL		6,310,893	3,119,743				
TOTAL		18,469,380	14,344,682				

Source: XacBank

Prudential Ratios & Capital Adequacy Ratio Report

PRUDENTIAL	Requirement	2004/12/31	2005/03/31	2005/06/30	2005/09/30	31/12/2005 (audited)	2006/03/31	2006/5/31
1 Equity and risk weighted assets ratio (10%)	10%	18.73%	15.50%	14.41%	15.47%	21.12%	19.70%	18.69%
2 First tier capital and risk weighted assets ratio (5%)	5%	18.73%	15.50%	14.41%	15.47%	21.12%	19.70%	18.69%
3 First tier capital and total assets ratio (5%)	5%	18.42%	15.18%	13.71%	14.62%	17.98%	16.39%	15.31%
4 20 largest borrowers to the equity ratio	40%	31.09%	38.78%	29.14%	25.73%	17.02%	18.12%	25.78%
5 Single largest borrowers to the equity ratio	20%	6.98%	15.34%	3.71%	5.29%	1.70%	1.77%	4.79%
6 Related parties loans to the equity ratio Total<20%	20%	10.17%	9.96%	15.55%	13.23%	8.38%	10.09%	13.97%
7 Related parties loans to the equity ratio Per Client<5%	5%	0.68%	0.64%	3.71%	5.29%	1.40%	1.15%	4.79%
8 Foreign currency exposure Per currency (+/-15%)	+/-15%	-10.90%	-9.42%	5.53%	12.41%	0.76%	-7.51%	-6.25%
9 Foreign currency exposure Total (+/-40%)	+/-40%	-10.90%	-9.42%	5.53%	15.08%	2.31%	-7.91%	6.50%

REPORT ON CAPITAL ADEQUACY as of May 31, 2006

USD'000

Core Capital (Tier I)	
Paid-in capital (share capital)	6,845
Reserve funds	896
Profit (loss) for current year	520
Retained earnings from previous years	0
Less: Intangible assets and goodwill	-
Total Tier I Capital	8,261
Supplemental Capital (Tier II)	
Provisions for loan losses (maximum of 1.25% of risk-weighted assets)	-
Ordinary preferred shares	-
Term preferred shares	-
Subordinated debt	-
Other quasi-equity (maximum of 50.0% of Tier I Capital)	-
Total Tier II Capital	-
Total Capital Funds (Tier I + Tier II)	8,261
Total Assets (from worksheet)	60,009
Total Risk-Weighted Assets (from worksheet)	45,868
Core Capital (Tier I) as percentage of Risk-Weighted Assets	18%
Total Capital (Tier I + Tier II) as percentage of Risk-Weighted Assets	18%
Total Capital Funds (Tier I + Tier II) as percentage of Total Average Assets	14%

REPORT ON OPEN FOREIGN CURRENCY POSITION as of May 31, 2006		[Currency]					Thousands
FINANCIAL ASSETS		US\$	EURO	[CNY]	[RUB]	[JPY]	TOTAL /US\$/
Cash funds, central bank deposits, deposits with other banks		4,048.26	439.13	2,547.20	1,032.24	2,599.97	4,991.53
Securities held to maturity		-	-	-	-	-	-
Placements with other banks		3,500.00	-	-	-	-	3,500.00
Loans and other receivables		8,115.3	237.5	-	-	-	8,420.49
Trading assets		-	-	-	-	-	-
Other financial assets		270.29	1.12	0.30	-	-	271.77
Total (1)		<u>15,933.80</u>	<u>677.74</u>	<u>2,547.50</u>	<u>1,032.24</u>	<u>2,599.97</u>	<u>17,183.78</u>
FINANCIAL LIABILITIES		US\$	EURO	[CNY]	[RUB]	[JPY]	TOTAL
Deposits		3,916	77	-	590	-	4,037
Borrowings from other banks		12,145	600	-	-	-	12,917
Liabilities to central bank		-	-	-	-	-	-
Subordinated debt and bonds		-	-	-	-	-	-
Other financial liabilities		389	17	2	-	-	411
Total (2)		<u>16,450</u>	<u>694</u>	<u>2</u>	<u>590</u>	<u>-</u>	<u>17,364</u>
OFF-BALANCE SHEET ITEMS		US\$	EURO	[CNY]	[RUB]	[JPY]	TOTAL
Off-balance sheet liabilities		-	-	-	-	-	-
Total (3)		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPEN POSITION		US\$	EURO	[CNY]	[RUB]	[JPY]	TOTAL
Long position amount (1)-(2)-(3)		(517)	(16)	2,546	442	2,600	(180)
<i>As % of Tier I Capital</i>		-6%	-0.25%	3.84%	0.20%	0.22%	-2.18%

MATURITY REPORT - FINANCIAL ASSETS AND LIABILITIES as of May 31, 2006						USD'000
ASSETS						TOTAL
	1-30 days	31-90 days	91-180 days	181-365 days	1-5 years	
Cash and short-term funds	3,047					3,047
Current accounts with other banks	5,461					5,461
Placements with other banks	26	2,000	1,351	1,426	-	4,802
Loans	3,996	7,434	9,456	9,736	8,648	39,270
Accrued interest on loans	800					800
Receivable	152					152
Other assets	93	102	106	174	51	526
Total Rate-Sensitive Assets (1)	<u>13,575</u>	<u>9,536</u>	<u>10,913</u>	<u>11,335</u>	<u>8,700</u>	<u>54,058</u>
LIABILITIES						TOTAL
Deposits (individuals and enterprises)	10,370	6,210	4,011	3,633	6,881	31,105
Borrowings from banks or other financial institutions	1,027	3,264	2,345	1,090	11,492	19,217
Liabilities to central bank	-	95	71	-	-	166
Other financial liabilities	634	284	86	163	84	1,252
Total Rate-Sensitive Liabilities (2)	<u>12,030</u>	<u>9,853</u>	<u>6,512</u>	<u>4,887</u>	<u>18,457</u>	<u>51,740</u>
ASSET-LIABILITY MATURITY MISMATCH						TOTAL
Rate-Sensitive Assets (RSA) - Rate-Sensitive Liabilities (RSL) (1)-(2)	1,545	(317)	4,400	6,448	(9,757)	2,319
Cumulative RSA-RSL	1,545	1,227	5,628	12,076	2,319	4,637
<i>As % of Tier I Capital</i>	19%	15%	68%	146%	28%	56%

Source: XacBank