

**PARABANK JOINT-STOCK COMMERCIAL BANK**

**Financial Statements and Auditors' Report**

**31 December 2003**

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## AUDITORS' REPORT

To the Board of Directors of Parabank Joint-Stock Commercial Bank:

1. We have audited the accompanying balance sheet of Parabank Joint-Stock Commercial Bank ("the Bank") as at 31 December 2003 and the related statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
4. Without qualifying our opinion, we draw attention to Note 2 to the accompanying financial statements. The economy of the Republic of Azerbaijan has shown progress in achieving a lower rate of inflation, stable exchange rates and sustainable growth in recent years. However, the economy is largely dependent on oil prices, and all sectors of the economy, including the banking sector, might be affected by fluctuations in oil prices.


*PricewaterhouseCoopers* |

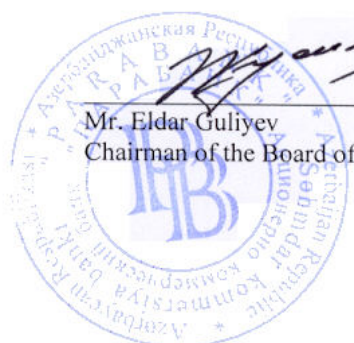
2 August 2004  
Baku, the Republic of Azerbaijan


**PARABANK**  
**Balance Sheet as at 31 December 2003**  
*(in millions of Azerbaijani Manats)*

	Note	2003	2002
<b>Assets</b>			
Cash and cash equivalents	5	5,970	4,264
Mandatory cash balances with the National Bank of the Republic of Azerbaijan		762	1,670
Loans and advances to customers	6	32,157	22,882
Other assets	7	377	547
Deferred tax asset, net	18	746	640
Premises and equipment	8	1,412	1,488
<b>Total assets</b>		<b>41,424</b>	<b>31,491</b>
<b>Liabilities</b>			
Customer accounts	9	22,509	18,058
Other borrowed funds	10	8,695	3,010
Other liabilities	11	219	133
<b>Total liabilities</b>		<b>31,423</b>	<b>21,201</b>
<b>Shareholders' equity</b>			
Share capital	12	12,068	12,045
Accumulated deficit		(2,067)	(1,755)
<b>Total shareholders' equity</b>		<b>10,001</b>	<b>10,290</b>
<b>Total liabilities and shareholders' equity</b>		<b>41,424</b>	<b>31,491</b>

Approved for issue by the Board of Directors and signed on its behalf on 2 August 2004

  
 Mr. Eldar Guliyev  
 Chairman of the Board of Directors



  
 Mrs. Nadejda Hasanova  
 Chief Accountant

**PARABANK**  
**Statement of Income for the Year Ended 31 December 2003**  
*(in millions of Azerbaijani Manats)*

	Note	2003	2002
Interest income	15	6,003	4,787
Interest expense	15	(3,033)	(2,831)
<b>Net interest income</b>		<b>2,970</b>	<b>1,956</b>
Provision for loan impairment	6	(1,973)	(2,763)
<b>Net interest income/(negative interest margin) after provision for loan impairment</b>		<b>997</b>	<b>(807)</b>
Gains less losses arising from trading in foreign currencies		336	119
Foreign exchange translation gains less losses		25	146
Fees and commission income	16	1,593	1,788
Fees and commission expense	16	(368)	(727)
Other income		-	72
<b>Operating income</b>		<b>2,583</b>	<b>591</b>
Staff costs		(1,004)	(745)
General, administrative and other operating expenses	17	(1,323)	(848)
<b>Profit/(loss) before tax</b>		<b>256</b>	<b>(1,002)</b>
Income tax (expense)/credit	18	(126)	211
<b>Net profit/(loss)</b>		<b>130</b>	<b>(791)</b>

**PARABANK**  
**Statement of Cash flows for the Year Ended 31 December 2003**  
*(in millions of Azerbaijani Manats)*

	Note	2003	2002
<b>Cash flows from operating activities</b>			
Interest received		6,080	4,250
Interest paid		(3,103)	(2,671)
Income received from trading in foreign currencies		336	119
Fees and commissions received		1,593	1,788
Fees and commissions paid		(368)	(727)
Other operating income received		-	72
Other operating expenses paid		(2,089)	(1,418)
Income tax paid		(232)	(73)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>2,217</b>	<b>1,340</b>
Net decrease/(increase) in mandatory reserves with the NBA		908	(320)
Net increase in loans and advances to customers		(11,325)	(7,054)
Net decrease/(increase) in other assets		271	(205)
Net increase in customer accounts		4,521	3,109
Net increase in other liabilities		79	16
<b>Net cash used in operating activities</b>		<b>(3,329)</b>	<b>(3,114)</b>
<b>Cash flows used in investing activities</b>			
Acquisition of premises and equipment		(263)	(546)
<b>Net cash used in investing activities</b>		<b>(263)</b>	<b>(546)</b>
<b>Cash flows from financing activities:</b>			
Share issue	12	23	3,228
Proceeds from other borrowed funds		6,185	1,510
Repayment of other borrowed funds		(500)	-
Dividends paid	14	(435)	-
<b>Net cash provided from financing activities</b>		<b>5,273</b>	<b>4,738</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>25</b>	<b>146</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,706</b>	<b>1,224</b>
Cash and cash equivalents as at the beginning of the year	5	4,264	3,040
<b>Cash and cash equivalents as at the end of the year</b>		<b>5,970</b>	<b>4,264</b>

**PARABANK****Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2003***(in millions of Azerbaijani Manats)*

	Note	Share capital	Accumulated deficit	Total shareholders' equity
<b>Balance as at 1 January 2002</b>		<b>8,817</b>	<b>(964)</b>	<b>7,853</b>
Share issue	12	3,228	-	3,228
Net loss		-	(791)	(791)
<b>Balance as at 31 December 2002</b>		<b>12,045</b>	<b>(1,755)</b>	<b>10,290</b>
Share issue	12	23	-	23
Dividends declared on preference shares	14	-	(442)	(442)
Net profit		-	130	130
<b>Balance as at 31 December 2003</b>		<b>12,068</b>	<b>(2,067)</b>	<b>10,001</b>

## **1 Principal Activities**

Parabank Joint-Stock Commercial Bank (“the Bank”) was established on 3 December 1991 as a limited liability company. On 19 January 1993 the Bank was reregistered as a joint-stock commercial bank with limited liability of the shareholders. The Bank was registered in the Republic of Azerbaijan to provide commercial banking services and has been operating under a full banking licence granted by the National Bank of the Republic of Azerbaijan (“the NBA”) since 3 December 1992. The Bank does not have a controlling party and is mainly owned by individuals.

The Bank has 109 employees as at 31 December 2003 (2002: 96). All of the Bank’s operations are carried out in the Republic of Azerbaijan by the head office in Baku and 9 branches. The Bank’s registered office is located at 65 Fizuli Street, Baku, AZ1014, the Republic of Azerbaijan.

## **2 Operating Environment of the Bank**

The economy of the Republic of Azerbaijan has shown progress in achieving a lower rate of inflation, stable exchange rates and sustainable growth in recent years. The ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

However, the economy is largely dependant on oil prices and all sectors of the economy, including the banking sector, might be affected by fluctuations in oil prices. The need for further developments in bankruptcy regulations, formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Republic of Azerbaijan.

The prospects for future economic stability in the Republic of Azerbaijan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Bank’s control.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

## **3 Basis of Preparation**

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board, including International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee and Interpretations issued by the Standing Interpretations Committee. The Bank has prepared these financial statements in accordance with applicable International Financial Reporting Standards for the first time as at 31 December 2002. The Bank maintains its accounting records in accordance with the Law on Banks and Banking Activity of the Republic of Azerbaijan dated 14 June 1996, Azeri tax legislation, and rules and regulations of the National Bank of Azerbaijan. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The financial statements have been measured in the national currency of the Republic of Azerbaijan, the Azerbaijani Manat (“AZM”).

The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### **4 Significant Accounting Policies**

Where necessary, corresponding figures have been adjusted to conform with changes in presentation in the current year. Accrued interest income and accrued interest expense previously disclosed along with other assets and other liabilities, respectively, are presented within the related balance sheet items in these financial statements.

**Cash and cash equivalents.** Cash and cash equivalents are items that can be converted into cash within a day. All short-term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

**Mandatory cash balances with the NBA.** Mandatory cash balances with the NBA represent regulatory reserve deposits that are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

**Originated loans and advances and provisions for loan impairment.** Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

**Investment securities held-to-maturity.** This classification includes investment securities with a fixed maturity, which Management has both the intent and the ability to hold to maturity. Management determines the appropriate classification of its investment securities at the time of the purchase. Investment securities held-to-maturity are included in other assets on the face of the balance sheet.

#### **4 Significant Accounting Policies (Continued)**

Investment securities held to maturity are initially recorded at cost (which includes transaction costs) and subsequently are carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

All regular way purchases of investment securities held to maturity are recorded at trade date, which is the date that the Bank commits to purchase the asset. All other purchases are recorded as derivative forward transactions until settlement.

**Premises and equipment.** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost, less provision for impairment, where required. Upon completion, assets are transferred to the premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the statement of operations when the expenditure is incurred.

**Depreciation.** Depreciation is applied on a straight-line basis over the estimated useful lives of the assets as follows:

Premises 5% per annum;

Computers and communication equipment 20% per annum;

Furniture, fixtures and others 15% per annum;

Motor vehicles 10% per annum;

**Accrued interest income and accrued interest expense.** Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

**Operating leases.** Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the statement of income on a straight-line basis over the period of the lease.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date is disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Statutory legislation identifies the basis of distribution as the current year net profit.

**Income taxes.** Taxation has been provided for in the financial statements in accordance with Azerbaijan legislation currently in force. Income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

#### **4 Significant Accounting Policies (Continued)**

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

**Income and expense recognition.** Interest income and expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

**Foreign currency translation.** Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into AZM at the official exchange rate of the NBA at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equities held for trading or available for sale are recorded as part of the fair value gain or loss.

As at 31 December 2003 the principal rate of exchange used for translating foreign currency balances was USD 1 = 4,923 Azerbaijani Manats and EUR 1 = 6,195 Azerbaijani Manats (2002: USD 1 = 4,893 Azerbaijani Manats and EUR 1 = 5,080 Azerbaijani Manats). At present, the Azerbaijani Manat is not a freely convertible currency in most countries outside of the Azerbaijan Republic.

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Provisions.** Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Staff costs related contributions.** The Bank's contributions to the social insurance and other funds in respect of the salary of its employees are expensed as incurred and included into staff costs in the statement of income.

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***5 Cash and Cash Equivalents**

	<b>2003</b>	<b>2002</b>
Cash in hand	2,636	1,037
Correspondent accounts with the NBA	1,464	2,436
Correspondent accounts with other banks:		
- Republic of Azerbaijan	1,387	240
- Other countries	483	551
<b>Total cash and cash equivalents</b>	<b>5,970</b>	<b>4,264</b>

Correspondent accounts with the NBA represent balances on correspondent accounts of the Bank with the NBA, through which the Bank performs its settlements with the other local banks in the country. These accounts are non-interest bearing.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 19.

**6 Loans and Advances to Customers**

	<b>2003</b>	<b>2002</b>
Current loans	35,028	25,652
Overdue loans	1,548	1,835
Accrued interest income	503	580
Less: provision for loan impairment	(4,922)	(5,185)
<b>Total loans and advances to customers</b>	<b>32,157</b>	<b>22,882</b>

Movements in the provision for loan impairment are, as follows:

	<b>2003</b>	<b>2002</b>
Provision for loan impairment as at 1 January	5,185	3,180
Loan impairment provision created during the year	1,973	2,763
Loans and advances to customers written off during the year as uncollectible	(2,236)	(758)
<b>Provision for loan impairment as at 31 December</b>	<b>4,922</b>	<b>5,185</b>

Before the beginning of 2003 the Bank did not have conservative lending practices in place, which resulted in a substantial amount of bad loans. This practice has changed starting from 2003 when the Bank commenced its cooperation with German Azerbaijan Fund (Refer to Note 10). Starting from 2003 a representative of GAF participates in credit committee meetings.

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***6 Loans and Advances to Customers (Continued)**

Economic sector risk concentrations within the customer loan portfolio are, as follows:

	<b>2003</b>	<b>%</b>	<b>2002</b>	<b>%</b>
Individuals	26,582	73%	20,057	71%
Manufacturing	3,511	9%	2,278	8%
Trade and services	2,655	7%	2,716	10%
Agriculture	2,611	7%	1,772	6%
Transportation and communication	888	2%	493	2%
Other	832	2%	751	3%
<b>Total loans and advances to customers (aggregate amount)</b>	<b>37,079</b>	<b>100%</b>	<b>28,067</b>	<b>100%</b>

Loans to individuals mainly include loans for purchase of vehicles and loans to sole entrepreneurs engaged in various business activities.

The Bank has a credit agreement with the National Fund for Assistance to Entrepreneurship of the Ministry of Economic Development of the Republic of Azerbaijan. According to the agreement, borrowed funds have to be used by the Bank only for the purposes of financing of eligible loans to small and medium entrepreneurs (“sub-loans”). As at 31 December 2003 the outstanding amount of loans issued at the expense of funds provided under the agreement with NFAE was AZM 2,854 million (2002: AZM 1,010 million). These loans carry an interest rate of 7% per annum. The Bank bears credit risk on these loans. Refer to Note 10.

As at 31 December 2003 the estimated fair value of loans and advances to customers was AZM 32,157 million (2002: AZM 22,882 million). Refer to Note 21.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 19. The information on related party balances is disclosed in Note 22.

**7 Other Assets**

	<b>2003</b>	<b>2002</b>
Prepayments	132	212
Advance payments for purchase of premises and equipment	120	6
Intangible assets	101	113
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	198
Other	24	18
<b>Total other assets</b>	<b>377</b>	<b>547</b>

Intangible assets represent purchased computer software and are stated net of accumulated amortisation in the amount of AZM 24 million (2002: AZM 12 million).

Treasury bills are short-term government securities issued by the Ministry of Finance of the Republic of Azerbaijan and are purchased at a discount. Treasury bills outstanding as at 31 December 2002 matured in June 2003 and bore interest of 4.8% per annum. As at 31 December 2002 the estimated fair value of treasury bills of the Ministry of Finance of the Republic of Azerbaijan was AZM 198 million.

Geographical, currency and maturity analyses of other assets are disclosed in Note 19.

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***8 Premises and Equipment**

	Buildings	Furniture, fixtures and others	Computers and communication equipment	Motor vehicles	Total
<b>Net book amount as at 1 January 2003</b>	<b>688</b>	<b>204</b>	<b>209</b>	<b>387</b>	<b>1,488</b>
<b>Cost</b>					
Opening balance	792	565	729	724	2,810
Additions	-	53	86	10	149
Disposals	-	-	-	-	-
<b>Closing balance</b>	<b>792</b>	<b>618</b>	<b>815</b>	<b>734</b>	<b>2,959</b>
<b>Accumulated depreciation</b>					
Opening balance	(104)	(361)	(520)	(337)	(1,322)
Depreciation charge (Note 17)	(40)	(52)	(88)	(45)	(225)
Disposals	-	-	-	-	-
<b>Closing balance</b>	<b>(144)</b>	<b>(413)</b>	<b>(608)</b>	<b>(382)</b>	<b>(1,547)</b>
<b>Net book amount as at 31 December 2003</b>	<b>648</b>	<b>205</b>	<b>207</b>	<b>352</b>	<b>1,412</b>

**9 Customer Accounts**

	2003	2002
Corporate customers:		
- Current/settlement accounts	1,496	1,642
- Term deposits	947	-
Retail customers:		
- Current/demand accounts	520	259
- Term deposits	19,308	15,849
Accrued interest payable	238	308
<b>Total customer accounts</b>	<b>22,509</b>	<b>18,058</b>

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***9 Customer Accounts (Continued)**

The economic sector risk concentration of the customer accounts is, as follows:

	<b>2003</b>	<b>%</b>	<b>2002</b>	<b>%</b>
Individuals	20,066	89%	16,416	91%
Construction	1,101	5%	55	0%
Trade and Services	1,036	5%	1,312	7%
Other	306	1%	275	2%
<b>Total customer accounts</b>	<b>22,509</b>	<b>100%</b>	<b>18,058</b>	<b>100%</b>

As at 31 December 2003 the estimated fair value of customer accounts was AZM 22,509 million (2002: AZM 18,058 million). Refer to Note 21.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 19.

**10 Other Borrowed Funds**

	<b>2003</b>	<b>2002</b>
Domestic Institutions		
- National Bank of the Republic of Azerbaijan	1,500	2,000
- National Fund for Assistance to Entrepreneurship	2,854	1,010
Foreign Institutions		
- Funds Borrowed from German Azerbaijan Fund	4,337	-
Accrued interest payable	4	-
<b>Total other borrowed funds</b>	<b>8,695</b>	<b>3,010</b>

The Bank has a credit agreement with the National Bank of the Republic of Azerbaijan. This borrowing carries an interest rate of 7% per annum and matures in September 2004.

The Bank has a credit agreement with the National Fund for Assistance to Entrepreneurship of the Ministry of Economic Development of the Republic of Azerbaijan. According to the agreement, borrowed funds have to be used by the Bank only for the purposes of financing of eligible loans to small and medium entrepreneurs (“sub-loans”). The amounts borrowed under the agreement mature between 2005 and 2008, according to the repayment schedule of the sub-loans. The amounts borrowed carry interest rates between 1.5% and 4% per annum depending on the economic sector of the entrepreneurs.

In January 2003 the Bank signed a credit agreement with the German Azerbaijan Fund (GAF) for a credit line of EUR 500,000. The Bank is one of the four banks in the Republic of Azerbaijan, which have credit lines provided by the GAF. GAF has been established by Kreditanstalt für Wiederaufbau (KfW) and is operated by Savings Bank Foundation for International Cooperation (“SBFIC”), a member of German Savings Bank Group. The credit line limit was increased to EUR 1,000,000 in July 2003. As at 31 December 2003 the Bank has utilized EUR 700,000 or AZM 4,337 million of the credit line amount available. The amounts borrowed under this credit agreement are payable in eight semi-annual instalments after a grace period of one year. The borrowing carries an interest rate of LIBOR+3.5%.

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***10 Other Borrowed Funds (Continued)**

As at 31 December 2003 the estimated fair value of other borrowed funds was AZM 8,695 millions (2002: AZM 3,010 million). Refer to Note 21.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 19.

**11 Other Liabilities**

	2003	2002
Taxes and other payables to state budget of the Republic of Azerbaijan	150	30
Dividends payable (Note 14)	20	13
Amounts in course of settlement	6	58
Other payables	43	32
<b>Total other liabilities</b>	<b>219</b>	<b>133</b>

Geographical, currency and maturity analyses of other liabilities is provided in Note 19.

**12 Share Capital**

The authorised share capital of the Bank is AZM 12,068 million and consists of 9,818 ordinary and 2,250 preference shares with the par value of AZM 1,000,000 each. Preference shares carry an interest between 7% and 12% per annum.

	2003		2002	
	Amount	%	Amount	%
Ordinary shares	9,818	81%	9,795	81%
Preference shares	2,250	19%	2,250	19%
<b>Total paid-in capital</b>	<b>12,068</b>	<b>100%</b>	<b>12,045</b>	<b>100%</b>

Increase in share capital represents ordinary share capital authorised in 2002 and paid in 2003.

**13 Accumulated Deficit**

In accordance with the Law on Banks and Banking Activity of the Republic of Azerbaijan, the Bank allocates its profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with Azerbaijani Accounting Rules. The Bank's reserves under Azerbaijani Accounting Rules as at 31 December 2003 are AZM 323 million (2002: AZM 165 million). The differences between reserves under Azerbaijani Accounting Rules and IFRS mainly arise from loan loss provisions and deferred taxes. Statutory profits are allocated on an annual basis.

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***14 Dividends**

	2003		2002	
	Ordinary	Preference	Ordinary	Preference
<b>Dividends payable as at 1 January</b>	-	13	-	13
Dividends declared during the year	-	442	-	-
Dividends paid during the year	-	(435)	-	-
<b>Dividends payable as at 31 December (Note11)</b>	-	20	-	13

Dividends declared during the year represent dividends for 2003 and 2002 amounting to AZM 277 million and AZM 165 million, respectively. Dividend per preference share amounted to AZM 196 thousand.

**15 Interest Income and Expense**

	2003	2002
<b>Interest income</b>		
Interest income on loans and advances to customers	5,937	4,766
Interest income on due from other banks	58	10
Interest income on investment securities	8	11
<b>Total interest income</b>	<b>6,003</b>	<b>4,787</b>
<b>Interest expense</b>		
Interest expense on customer accounts	(2,666)	(2,660)
Interest expense on funds borrowed	(367)	(171)
<b>Total interest expense</b>	<b>(3,033)</b>	<b>(2,831)</b>
<b>Net interest income</b>	<b>2,970</b>	<b>1,956</b>

**16 Fee and Commission Income and Expense**

	2003	2002
<b>Fee and commission income</b>		
Fees from cash withdrawals	1,121	1,525
Fees from fund transfers	352	204
Other	120	59
<b>Total fee and commission income</b>	<b>1,593</b>	<b>1,788</b>
<b>Fee and commission expense</b>		
Fees paid to other banks for cash withdrawals	(268)	(421)
Fees paid to other banks for fund transfers	(97)	(281)
Other	(3)	(25)
<b>Total fee and commission expense</b>	<b>(368)</b>	<b>(727)</b>

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***17 General, Administrative and Other Operating Expenses**

	<b>2003</b>	<b>2002</b>
Rent expenses	232	96
Depreciation on premises and equipment (Note 8)	225	170
Communication expenses	183	155
Premises security	117	109
Office supplies	88	60
Repair and maintenance expenses	87	2
Advertising	68	52
Utility expenses	61	41
Fines, penalties and legal fees	54	7
Plastic card related expenses	43	1
Business trip expenses	39	21
Consultancy fees	21	34
Tax expenses other than income tax	20	24
Other expenses	85	76
<b>Total general, administrative and other operating expenses</b>	<b>1,323</b>	<b>848</b>

**18 Income Taxes**

	<b>2003</b>	<b>2002</b>
Current tax expense	(232)	(73)
Deferred taxation movement due to		
- Origination and reversal of temporary differences	137	335
- Reduction in tax rate	(31)	(51)
<b>Income tax (expense)/credit</b>	<b>(126)</b>	<b>211</b>

Reconciliation between the expected and the actual taxation charge is provided below:

	<b>2003</b>	<b>2002</b>
IFRS profit/(loss) before taxation	256	(1,002)
Applicable statutory taxation rate	25%	27%
Theoretical tax (expense)/credit at the applicable statutory rate	(64)	271
Non-deductible expenses	(31)	(9)
Effect of change in tax rate	(31)	(51)
<b>Income tax (expense)/credit for the year</b>	<b>(126)</b>	<b>211</b>

**18 Income Taxes (Continued)**

Effective from 1 January 2000 the income tax rate in Azerbaijan is 27%. The tax rate was reduced to 25% effective from 1 January 2003 and further reduced to 24% effective from 1 January 2004.

In the Republic of Azerbaijan, there is no conclusive procedure for the final agreement of tax assessments. Tax returns are filed by 1 April of the following year, and the tax authorities may examine records and/or revise assessments over an indefinite future period.

Differences between IFRS and the Azerbaijani statutory taxation rules give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax calculation purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, which is effective from 1 January 2004.

	2002	Movement	2003
<b>Tax effect of deductible temporary differences</b>			
Additional loan impairment provision	535	123	658
Additional depreciation on premises and equipment	105	(17)	88
<b>Gross deferred tax asset</b>	<b>640</b>	<b>106</b>	<b>746</b>
<b>Gross deferred tax liability</b>	-	-	-
<b>Net deferred tax asset</b>	<b>640</b>	<b>106</b>	<b>746</b>

	2001	Movement	2002
<b>Tax effect of deductible temporary differences</b>			
Additional loan impairment provision	233	302	535
Additional depreciation on premises and equipment	123	(18)	105
<b>Gross deferred tax asset</b>	<b>356</b>	<b>284</b>	<b>640</b>
<b>Gross deferred tax liability</b>	-	-	-
<b>Net deferred tax asset</b>	<b>356</b>	<b>284</b>	<b>640</b>

The net deferred tax asset represents income taxes recoverable through future revenues and is recorded as a deferred tax asset on the balance sheet.

**19 Financial Risk Management**

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

**19 Financial Risk Management (Continued)**

**Credit risk.** The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Board of Directors and Credit Committee.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

**Market risk.** The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Geographical risk.** The geographical concentration of the Bank's assets and liabilities as at 31 December 2003 is set out below:

	<b>Republic of Azerbaijan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	5,487	333	150	5,970
Mandatory cash balances with the NBA	762	-	-	762
Loans and advances to customers	32,157	-	-	32,157
Other assets	377	-	-	377
Deferred tax asset, net	746	-	-	746
Premises and equipment	1,412	-	-	1,412
<b>Total assets</b>	<b>41,941</b>	<b>333</b>	<b>150</b>	<b>41,424</b>
<b>Liabilities</b>				
Customer accounts	22,509	-	-	22,509
Other borrowed funds	4,358	4,337	-	8,695
Other liabilities	219	-	-	219
<b>Total liabilities</b>	<b>27,086</b>	<b>4,337</b>	<b>-</b>	<b>31,423</b>
<b>Net balance sheet position</b>	<b>13,855</b>	<b>(4,004)</b>	<b>150</b>	<b>10,001</b>

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***19 Financial Risk Management (Continued)**

The geographical concentration of the Bank's assets and liabilities as at 31 December 2002 is set out below:

	<b>Republic of Azerbaijan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Net balance sheet position</b>	<b>9,754</b>	<b>536</b>	<b>-</b>	<b>10,290</b>

\* OECD – Organization for Economic Cooperation and Development

**Currency risk.** The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank has an Asset and Liability Committee (ALCO), which regularly monitors the foreign currency position and makes decisions in line with the expected movements in foreign exchange rates in order to reduce this risk. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2003.

As at 31 December 2003, the Bank has the following positions in currencies:

	<b>USD</b>	<b>AZM</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	3,082	2,342	470	76	5,970
Mandatory cash balances with the NBA	621	141	-	-	762
Loans and advances to customers	22,984	7,208	1,965	-	32,157
Other assets	17	360	-	-	377
Deferred tax asset, net	-	746	-	-	746
Premises and equipment	-	1,412	-	-	1,412
<b>Total assets</b>	<b>26,704</b>	<b>12,209</b>	<b>2,435</b>	<b>76</b>	<b>41,424</b>
<b>Liabilities</b>					
Customer accounts	20,273	2,236	-	-	22,509
Other borrowed funds	-	4,358	4,337	-	8,695
Other liabilities	9	210	-	-	219
<b>Total liabilities</b>	<b>20,282</b>	<b>6,804</b>	<b>4,337</b>	<b>-</b>	<b>31,423</b>
<b>Net balance sheet position</b>	<b>6,422</b>	<b>5,405</b>	<b>(1,902)</b>	<b>76</b>	<b>10,001</b>

As at 31 December 2002, the Bank had the following positions in currencies:

	<b>USD</b>	<b>AZM</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Net balance sheet position</b>	<b>3,310</b>	<b>6,980</b>	<b>-</b>	<b>-</b>	<b>10,290</b>

**PARABANK****Notes to the Financial Statements – 31 December 2003***(in millions of Azerbaijani Manats)***19 Financial Risk Management (Continued)**

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset and Liability Committee (ALCO) of the Bank.

The table below shows assets and liabilities as at 31 December 2003 and 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have longer-term duration.

The liquidity position of the Bank as at 31 December 2003 is set out below:

	<b>Demand and up to 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 month s</b>	<b>Over 1 year</b>	<b>Overdue/ No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	5,970	-	-	-	-	5,970
Mandatory cash balances with the NBA	762	-	-	-	-	762
Loans and advances to customers	2,435	4,186	9,533	15,333	670	32,157
Other assets	264	-	-	12	101	377
Deferred tax asset, net	-	-	-	746	-	746
Premises and equipment	-	-	-	-	1,412	1,412
<b>Total assets</b>	<b>9,431</b>	<b>4,186</b>	<b>9,533</b>	<b>16,091</b>	<b>2,183</b>	<b>41,424</b>
<b>Liabilities</b>						
Customer accounts	5,112	2,109	7,707	7,581	-	22,509
Other borrowed funds	-	-	2,017	6,678	-	8,695
Other liabilities	69	-	-	150	-	219
<b>Total liabilities</b>	<b>5,181</b>	<b>2,109</b>	<b>9,724</b>	<b>14,409</b>	<b>-</b>	<b>31,423</b>
<b>Net liquidity gap</b>	<b>4,250</b>	<b>2,077</b>	<b>(191)</b>	<b>1,682</b>	<b>2,183</b>	<b>10,001</b>
<b>Cumulative liquidity gap as at 31 December 2003</b>	<b>4,250</b>	<b>6,327</b>	<b>6,136</b>	<b>7,818</b>	<b>10,001</b>	
<b>Cumulative liquidity gap as at 31 December 2002</b>	<b>4,010</b>	<b>4,939</b>	<b>4,949</b>	<b>8,322</b>	<b>10,290</b>	

## **19 Financial Risk Management (Continued)**

Mandatory cash balances with the NBA are included within demand and less than one month as the majority of liabilities, to which these balances relate to, are also included within this category.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

**Interest rate risk.** The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**PARABANK**

*Notes to the Financial Statements – 31 December 2003*

(in millions of Azerbaijani Manats)

**19 Financial Risk Management (Continued)**

	<b>Demand and up to 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 month s</b>	<b>Over 1 year</b>	<b>Overdue/ Non interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	5,970	-	-	-	-	5,970
Mandatory cash balances with the NBA	792	-	-	-	-	762
Loans and advances to customers	2,435	4,186	9,533	15,333	670	32,157
Other assets	264	-	-	12	101	377
Deferred tax asset, net	-	-	-	-	746	746
Premises and equipment	-	-	-	-	1,412	1,412
<b>Total assets</b>	<b>9,413</b>	<b>4,186</b>	<b>9,533</b>	<b>15,345</b>	<b>2,929</b>	<b>41,424</b>
<b>Liabilities</b>						
Customer accounts	5,112	2,109	7,707	7,581	-	22,509
Other borrowed funds	-	-	6,354	2,341	-	8,695
Other liabilities	69	-	-	150	-	219
<b>Total liabilities</b>	<b>5,181</b>	<b>2,109</b>	<b>14,061</b>	<b>10,072</b>	<b>-</b>	<b>31,423</b>
<b>Net sensitivity gap</b>	<b>4,250</b>	<b>2,077</b>	<b>(4,528)</b>	<b>5,273</b>	<b>2,929</b>	<b>10,001</b>
<b>Cumulative sensitivity gap as at 31 December 2003</b>	<b>4,250</b>	<b>6,327</b>	<b>1,799</b>	<b>7,072</b>	<b>10,001</b>	
<b>Cumulative sensitivity gap as at 31 December 2002</b>	<b>4,010</b>	<b>4,939</b>	<b>4,949</b>	<b>7,682</b>	<b>10,290</b>	

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of respective assets/liabilities.

	<b>2003</b>			<b>2002</b>		
	<b>EUR</b>	<b>USD</b>	<b>AZM</b>	<b>EUR</b>	<b>USD</b>	<b>AZM</b>
<b>Assets</b>						
Loans and advances to customers	20%	22%	14%	-	24%	18%
<b>Liabilities</b>						
Customer accounts	11%	12%	13%	-	13%	15%
Other borrowed funds	6%	-	5%	-	-	6%

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

## 20 Commitments and Contingent Liabilities

**Legal proceedings.** As at 31 December 2003 and 2002, the Bank was not engaged in any litigation proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates the Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these financial statements.

**Tax legislation.** Commercial and tax legislation in the Republic of Azerbaijan contains provisions that sometimes imply more than one treatment for transactions. Moreover, the tax authorities may make arbitrary judgements regarding business activities and transactions, including the arbitrary classification of the activities of the enterprise when the regulatory basis for this decision is deemed insufficient. Thus, management's judgement of the Bank's business activities and transactions may not coincide with the interpretation of the tax authorities.

In the event that the tax authorities challenge a particular transaction treatment, the Bank may be assessed penalties and taxes on present and past transactions. Although the actual tax due on a transaction may be minimal, penalties can be significant. Management believes that the financial statements adequately reflect the activities of the Bank.

**Capital commitments.** As at 31 December 2003 the Bank had no significant capital commitments.

**Operating lease commitments.** Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are, as follows:

	2003	2002
Not later than 1 year	257	154
Later than 1 year and not later than 5 years	431	482
<b>Total operating lease commitments</b>	<b>688</b>	<b>636</b>

**Credit related commitments.** Credit related commitments might comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the amount of exposure should the contract be fully drawn upon and if the client defaults or the value of any existing collateral becomes worthless.

Outstanding credit related commitments as at 31 December are, as follows:

	2003	2002
Commitments to extend credit	2,427	892
<b>Total credit related commitments</b>	<b>2,427</b>	<b>892</b>

The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements as they may expire or terminate without being funded.

## 21 Fair Value of Financial Instruments

Fair value is the amount, at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

**Financial instruments carried at fair value.** Cash and cash equivalents are carried on the balance sheet at their fair value.

**Due from other banks.** The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity.

**Loans and advances to customers.** Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Borrowings.** The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

## 22 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year-end and income and expense items for the year with related parties are, as follows:

	2003	2002
<b>Loans to shareholders, their controlled entities and close family members</b>		
Outstanding balance as at 31 December (contractual interest rate: 2003: 18%; 2002: 18%)	349	486
Interest expense during the year	59	76

In 2003 the total remuneration of members of the Board of Directors and Supervisory Board of the Bank including pension contributions and discretionary compensation amounted to AZM 140 million (2002: AZM 168 million).

**23 Subsequent Events**

In the second half of 2003 the Bank signed Cooperation Agreement with a German international organisation called Centrum for International Migration, Frankfurt. In accordance with the agreement the organisation got the mandate to find an experienced European bank manager to be a member of the Bank's Management Board and assist the management of the Bank in terms of strategic business development. The new member of the management board was appointed and started to work in May 2004.

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