TURANBANK COMMERCIAL BANK

FINANCIAL STATEMENTS AND AUDITORS’ REPORT

AS AT 31 DECEMBER 2003

TURANBANK COMMERCIAL BANK
FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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AUDITORS' REPORT

To the Board of Directors of Turanbank:

1. We have audited the accompanying balance sheet of Turanbank Commercial Bank ("the Bank" as defined in Note 1 to the financial statements) as at 31 December 2003, and the related statements of income, of cash flows and of changes in participants' 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 the 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 of the Republic of Azerbaijan is largely dependent on oil prices, and all sectors of the economy, including the banking sector, could be adversely affected in the future by fluctuations in oil prices.

PricewaterhouseCoopers

19 April 2004
Baku, Republic of Azerbaijan

Turanbank Commercial Bank
Balance Sheet as at 31 December 2003
(in millions of Azerbaijani Manats)

	Note	2003	2002
Assets			
Cash and cash equivalents	5	4,451	3,932
Mandatory cash balances with the National Bank of the Republic of Azerbaijan		1,762	1,056
Loans and advances to customers	6	49,302	24,205
Investment securities available-for-sale	7	660	575
Premises and equipment	8	1,996	1,243
Other assets	9	774	1,503
Total assets		**58,945**	**32,514**
Liabilities			
Customer accounts	10	21,999	12,501
Other borrowed funds	11	21,716	10,253
Other liabilities	12	232	184
Total liabilities		**43,947**	**22,938**
Participants' equity			
Redeemable participants' capital	13	15,501	12,303
Revaluation reserve for premises and equipment		110	153
Accumulated deficit	14	(613)	(2,880)
Total participants' equity		**14,998**	**9,576**
Total liabilities and participants' equity		**58,945**	**32,514**

Approved for issue by the Board of Directors and signed on its behalf on 19 March 2004:

Mr. Nazim Sadigov
Chairman of Board of Directors

Azərbaycan Respublikası Kommersiya Bankı
„Turan"
„Туран"
Коммерческий Банк

Mrs. Mahira Gurbanova
Chief Accountant

The notes set out on pages 5 to 31 form an integral part of these financial statements.

Turanbank Commercial Bank
Statement of Income for the Year Ended 31 December 2003
(in millions of Azerbaijani Manats)

	Note	**2003**	**2002**
Interest income	15	5,666	2,816
Interest expense	15	(2,584)	(1,144)
Net interest income	15	**3,082**	**1,672**
Provision for loan impairment	6	(644)	(663)
Net interest income after provision for loan impairment		**2,438**	**1,009**
Foreign exchange translation gains less losses		55	167
Fee and commission income	16	3,274	1,963
Fee and commission expense	16	(808)	(530)
Losses on origination of loans and advances to customers at rates below market	6	(35)	-
Losses on origination of customer accounts at rates above market	10	(68)	-
Other income		55	37
Operating income		**4,911**	**2,646**
Staff costs		(893)	(652)
General, administrative and other operating expenses	17	(1,014)	(1,096)
Profit before tax		**3,004**	**898**
Income tax expense	18	(780)	(382)
Net profit		**2,224**	**516**

(in millions of Azerbaijani Manats)

	Note	2003	2002
Cash flows from operating activities:			
Interest received		5,330	2,709
Interest paid		(2,610)	(1,171)
Fee and commissions received		3,274	1,963
Fee and commissions paid		(808)	(530)
Other operating income received		74	1
Operating expenses paid		(1,675)	(1,429)
Dividends received		4	19
Cash flows from operating activities before changes in operating assets and liabilities		**3,589**	**1,562**
Changes in operating assets and liabilities			
Net increase in mandatory reserves with the NBA		(706)	(388)
Net decrease in investment securities held to maturity		-	282
Net increase in loans and advances to customers		(25,508)	(11,290)
Net decrease/(increase) in other assets		134	(198)
Net increase in customers accounts		9,521	4,039
Net decrease in other liabilities		(160)	(35)
Net cash used in operating activities		**(13,130)**	**(6,028)**
Cash flows from investing activities:			
Acquisition of investment securities available for sale		(108)	(97)
Acquisition of premises and equipment	8	(930)	(167)
Acquisition of intangible assets		(102)	(32)
Proceeds from disposal of premises and equipment		70	26
Net cash used in investing activities		**(1,070)**	**(270)**
Cash flows from financing activities:			
Net increase in other borrowed funds	11	11,466	4,372
Increase in redeemable participants' capital	13	3,198	2,625
Net cash from financing activities		**14,664**	**6,997**
Effect of exchange rate changes on cash and cash equivalents		55	167
Net increase in cash and cash equivalents		**519**	**866**
Cash and cash equivalents as at the beginning of the year	5	3,932	3,066
Cash and cash equivalents as at the end of the year	5	**4,451**	**3,932**

Turanbank Commercial Bank
Statement of Changes in Participants' Equity for the Year Ended 31 December 2003
(in millions of Azerbaijani Manats)

	Redeemable participants' capital	Revaluation reserve for premises and equipment	Accumulated deficit	Total participants' equity
Balance as at 1 January 2002	**9,678**	**190**	**(3,433)**	**6,435**
Increase in redeemable participants' capital (Note 13)	2,625	-	-	2,625
Realized surplus on revaluation	-	(37)	37	-
Net profit	-	-	516	516
Balance as at 31 December 2002	**12,303**	**153**	**(2,880)**	**9,576**
Increase in redeemable participants' capital (Note 13)	3,198	-	-	3,198
Realized surplus on revaluation	-	(43)	43	-
Net profit	-	-	2,224	2,224
Balance as at 31 December 2003	**15,501**	**110**	**(613)**	**14,998**

Note 1: Principal activities

Turanbank ("the Bank") was established in 1992 as a commercial bank in the form of a limited liability company. The Bank has operated under a full banking licence issued by the National Bank of Azerbaijan ("NBA") since 30 December 1992. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan.

The Bank has 7 branches within the Republic of Azerbaijan. The Bank's registered office is located at the following address: 53 Nizami Str., Baku, the Republic of Azerbaijan, AZ 100001. The number of the Bank's employees as at 31 December 2003 was 109 (2002: 96).

Note 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 dependent on oil prices and all sectors of the economy, including the banking sector, may be affected by fluctuations in oil prices. The need for further developments in the bankruptcy regulations, formalised 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.

Note 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 maintains its accounting records in accordance with Azerbaijani banking and accounting regulations. 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").

Note 3: Basis of preparation (continued)

The preparation of the financial statements requires the use of estimates and assumptions that affect 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.

Where necessary, corresponding figures has been adjusted to conform with changes in the presentation of the current year. Accrued interest income and accrued interest expense previously disclosed separately are presented within the related balance sheet items in these financial statements.

Note 4: Significant accounting policies

The following significant accounting policies have been applied in the preparation of these financial statements:

Cash and cash equivalents. Cash and cash equivalents are items which 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 mandatory reserve deposits which 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 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 re-measured 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.

Note 4: Significant accounting policies (continued)

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.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Investment securities available for sale. This classification includes investment securities, which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investment securities available for sale, for which there is no available external independent quotation, have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investment securities available for sale are recorded in the statement of changes in participants' equity. When the investment securities available for sale are disposed of, the related accumulated fair value adjustments are recorded in the statement of income as gains less losses arising from investment securities available for sale. Impairment and reversal of impairment of investment securities available for sale is recorded through the statement of income. An investment security available for sale is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Interest earned on investment securities available for sale is reflected in the statement of income as interest income on investment securities available for sale. Dividends received are included in dividend income within the statement of income.

Note 4: Significant accounting policies (continued)

All regular way purchases and sales of investment securities available for sale are recorded at trade date, which is the date that the Bank commits to purchase or sell the asset.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

The revaluation was performed to restate the net book value of the asset to a level, which reflected their market value. The indices vary according to asset type and acquisition date. The revaluation reserve for premises and equipment included in the participants' equity is transferred directly to accumulated deficit when the surplus is realised, i.e. on the retirement or disposal of the asset.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to 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 income when the expenditure is incurred.

Depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises 3% per annum;

Computers and communication equipment 25% per annum;

Furniture, fixtures and other 20% per annum;

Motor vehicles 20% per annum;

Computer software development costs. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Note 4: Significant accounting policies (continued)

Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of five years.

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.

Borrowings. Borrowings are recorded initially at "cost", being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the period of the borrowings using the effective yield method.

Borrowings 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 borrowings. 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 liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective yield method.

Income taxes. Taxation has been provided for in the financial statements in accordance with Azerbaijani legislation currently in force. The 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.

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded 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.

Deferred income tax relating to the fair value remeasurement of investment securities available for sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the statement of income when the gain or loss on the securities is realised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Note 4: Significant accounting policies (continued)

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 recorded on an accrual basis when the service has been provided. Loan origination fees for loans, which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan.

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 equity securities 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, EUR 1 = 6,195 Azerbaijani Manats, 1 RUR = 167.14 Azerbaijani Manats (2002: USD 1 = 4,893 Azerbaijani Manats, EUR 1 = 5,080 Azerbaijani Manats and RUR 1 = 153.94 Azerbaijani Manats). At present, the AZM is not a freely convertible currency in most countries outside of the Republic of Azerbaijan.

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 social insurance funds in respect of the salary of its employees are expensed as incurred and included into staff costs.

(in millions of Azerbaijani Manats)

Note 5: Cash and cash equivalents

	2003	2002
Cash in hand	952	804
Cash balances with the NBA (other than mandatory reserve deposits)	2,553	2,331
Correspondent accounts with other banks:		
- Republic of Azerbaijan	530	769
- Other countries	416	28
Total cash and cash equivalents	**4,451**	**3,932**

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

Note 6: Loans and advances to customers

	2003	2002
Current loans	48,527	23,526
Overdue loans	7,220	6,480
Less: provision for loan impairment	(6,445)	(5,801)
Total loans and advances to customers	**49,302**	**24,205**

The movement in the provision for impairment on loans to customers is, as follows:

	2003	2002
Provision for loan impairment as at 1 January	5,801	5,814
Provision for loan impairment during the year	644	663
Loans and advances to customers written off during the year as uncollectible	-	(676)
Provision for loan impairment as at 31 December	**6,445**	**5,801**

During 2003 a loss on origination of loans and advances to customers provided at rates below market in the amount of AZM 35 million (2002: nil) has been recorded in the statement of income.

(in millions of Azerbaijani Manats)

Note 6: Loans and advances to customers (continued)

The economic sector risk concentration of the loan portfolio is, as follows:

	2003	%	2002	%
Individuals				
- purchase of apartments	10,315	19	7,932	27
- other consumption loans	2,293	4	692	2
Total individuals	**12,608**	**23**	**8,624**	**29**
Legal entities				
Construction	24,554	44	10,048	33
Manufacturing	9,297	17	2,797	9
Trade and services	7,571	14	7,274	25
Agriculture	1,343	2	673	2
Others	374	1	590	2
Total legal entities	**43,139**	**77**	**21,382**	**71**
Total loans and advances to customers (aggregate amount)	**55,747**	**100**	**30,006**	**100**

As at 31 December the Bank has 3 borrowers with aggregate loan amount above AZM 11,000 million. The total amount of these loans is AZM 23,331 million or 42% of the aggregate amount of the loan portfolio.

As at 31 December 2003 the estimated fair value of loans and advances to customers was AZM 49,302 million (2002: AZM 24,205 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.

Note 7: Investment securities

	2003	2002
Investment securities available-for-sale		
Unlisted equity securities	660	575
Total investment securities	**660**	**575**

Geographical, currency, maturity and interest rate analyses of investment securities are disclosed in Note 19.

(in millions of Azerbaijani Manats)

Note 8: Premises and equipment

	Buildings	Furniture, fixtures and others	Computers and office equipment	Motor vehicles	Total
Net book amount as at 1 January 2003	**1,056**	**57**	**68**	**62**	**1,243**
Book amount at cost or valuation					
Opening balance	**1,174**	**331**	**382**	**212**	**2,099**
Additions	516	188	141	85	930
Disposals	-	(26)	(60)	(112)	(198)
Transfers	-	18	(18)	-	-
Closing balance	**1,690**	**511**	**445**	**185**	**2,831**
Accumulated depreciation					
Opening balance	**(118)**	**(274)**	**(314)**	**(150)**	**(856)**
Depreciation charge (Note 17)	(43)	(48)	(36)	(27)	(154)
Disposals	-	24	60	91	175
Transfers	-	(17)	17	-	-
Closing balance	**(161)**	**(315)**	**(273)**	**(86)**	**(835)**
Net book amount at 31 December 2003	**1,529**	**196**	**172**	**99**	**1,996**

Furniture, fixtures and others, computers and office equipment and motor vehicles were revalued as of 1 January 1996 and 1 January 1998 using market prices, which approximated the fair value of these fixed assets as of these dates. The resulting revaluation surplus net of depreciation charges as at 31 December 2003 amounts to AZM 110.

(in millions of Azerbaijani Manats)

Note 9: Other assets

	2003	2002
Deferred tax asset, net (Note 18)	428	1,100
Intangible assets	266	189
Amounts in the course of settlement	40	19
Prepaid expenses	37	71
Restricted cash	-	107
Other	3	17
Total other assets	**774**	**1,503**

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

Note 10: Customer accounts

	2003	2002
Corporate customers:		
- Current/settlement accounts	3,222	3,565
- Term deposits	8,716	5,025
Blocked deposits against letters of guarantee	-	322
Individuals:		
- Current/demand accounts	1,089	1,791
- Term deposits	8,972	1,798
Total customer accounts	**21,999**	**12,501**

During 2003, a loss on origination of term deposits at rates below market in the amount of AZM 68 million (2002: nil) has been recorded in the statement of income.

The information on letters of credit and guarantee letters outstanding as at 31 December 2003 is disclosed in Note 20.

(in millions of Azerbaijani Manats)

Note 10: Customer accounts (continued)

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

	2003	%	2002	%
Individuals	10,058	46	3,589	29
Insurance	5,786	26	4,508	36
Trade and service	3,588	16	806	6
Transportation	1,530	7	1,175	9
Construction	691	3	1,385	12
Agriculture	166	1	290	2
Public	35	-	401	3
Other	145	1	347	3
Total customer accounts	**21,999**	**100**	**12,501**	**100**

As at 31 December 2003, the estimated fair value of customer accounts amounted to AZM 21,999 million (2002: AZM 12,501 million). Refer to Note 21.

Geographical, currency, maturity and interest rate analyses of customer accounts are provided in Note 19. The information on related party balances is disclosed in Note 22.

Note 11: Other borrowed funds

	2003	2002
Funds borrowed from:		
- NBA	15,000	7,100
- Local commercial banks and other bodies	6,298	2,698
Fund borrowed from foreign banks	418	455
Total other borrowed funds	**21,716**	**10,253**

Funds borrowed from the NBA as at 31 December 2003 include four loans amounting to AZM 5,000, AZM 4,000, AZM 1,500, and AZM 4,500, which all bear interest rate of 7% p.a. and mature on 24 January 2004, 18 March 2004, 30 September 2004, and 31 May 2004, respectively.

On 9 October 2002 the Bank signed credit agreement with the National Fund for Support of Entrepreneurship (“the Fund”), a program under the auspices of the Ministry for Economic Development of the Republic of Azerbaijan, for financing of small and medium size enterprises. The credit line is not supposed to exceed 30% of the Bank’s statutory capital, bears interest rate of 0.5%-4% per annum and is repayable after five years. As at 31 December 2003 outstanding borrowings from the Fund amounted to AZM 3,805 million (2002: AZM 2,205 million).

(in millions of Azerbaijani Manats)

Note 11: Other borrowed funds (continued)

As at 31 December 2003 the Bank has outstanding USD denominated overdraft facilities provided by a foreign bank amounting to AZM 418 million (2002: AZM 455 million). The overdraft bears interest rate of 3.8% per annum.

As at 31 December 2003 the estimated fair value of other borrowed funds was AZM 21,716 million (2002: AZM 10,253 million). Refer to Note 21.

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

Note 12: Other liabilities

	2003	**2002**
Payables to tax and other authorities	130	28
Accrued expenses	102	118
Other	-	38
Total other liabilities	**232**	**184**

Geographical, currency, maturity and interest rate analyses of other liabilities are provided in Note 19.

Note 13: Redeemable participants' capital

The Bank is owned by 17 legal entities and 37 individuals. The Bank's authorised and paid-in capital as at 31 December 2003 is, as follows:

	2003		**2002**	
	Amount	**%**	**Amount**	**%**
Legal entities	2,664	17	2,646	22
Individuals	12,837	83	9,657	78
Total authorised and paid-in capital	**15,501**	**100**	**12,303**	**100**

During the year ended 31 December 2003 the Bank's redeemable participants' capital increased by AZM 3,198 as a result of additional contributions made by existing and new participants.

(in millions of Azerbaijani Manats)

Note 14: Accumulated deficit

In accordance with the Law on Banks and Banking Activity of the Republic of Azerbaijan, the Bank allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory financial statements prepared in accordance with Azerbaijani Accounting Rules. Statutory profits are allocated on an annual basis. The Bank's reserves under Azerbaijani Accounting Rules as at 31 December 2003 are AZM 342 million (2002: AZM 178 million).

Note 15: Interest income and expense

	2003	**2002**
Interest income		
Interest income on loans and advances to customers	5,653	2,775
Interest income on investment securities	13	41
Total interest income	**5,666**	**2,816**
Interest expense		
Interest expense on customer accounts	(1,149)	(426)
Interest expense on funds borrowed	(1,435)	(718)
Total interest expense	**(2,584)**	**(1,144)**
Net interest income	**3,082**	**1,672**

(in millions of Azerbaijani Manats)

Note 16: Fee and commission income and expense

	2003	2002
Fee and commission income		
Fees from cash withdrawals	1,630	919
Commission income on foreign exchange operations	859	552
Fees from fund transfers	570	225
Commissions from letters of credit and guarantee letters	189	267
Other fees	26	-
Total fee and commission income	**3,274**	**1,963**
Fee and commission expense		
Fees paid to other banks for cash withdrawals	(361)	(265)
Fees paid to other banks for fund transfers	(232)	(134)
Commission expense on foreign exchange operations	(203)	(97)
Commission expense on letters of credit and guarantee letters	(12)	(34)
Total fee and commission expense	**(808)**	**(530)**

Note 17: General, administrative, and other operating expenses

	2003	2002
Depreciation of premises and equipment (Note 8)	154	161
Repair and maintenance of premises and equipment	132	103
Security expenses	117	91
Professional fees	112	120
Rent expenses	108	71
Utility expenses	63	41
Training expenses	57	161
Legal expenses	55	71
Communication expenses	47	30
Taxes other than income	32	126
Amortisation expense	25	22
Stationary expenses	24	43
Other	88	56
Total general, administrative, and other operating expenses	**1,014**	**1,096**

(in millions of Azerbaijani Manats)

Note 18: Income taxes

	2003	2002
Current tax expense	(108)	(18)
Movement in deferred taxes	(672)	(364)
Income tax expense	**(780)**	**(382)**

Reconciliation between the expected and the actual taxation charge is, as follows:

	2003	2002
Profit before taxation	3,004	898
Taxation rate	25%	27%
Expected tax expense	(751)	(242)
Adjustments for items, which are not deductible from profits or assessable for profits for taxation purposes:		
Non-deductible expenses	(11)	(52)
Effect of change in tax rate	(18)	(88)
Income tax expense	**(780)**	**(382)**

Effective since 1 January 2003 the income tax rate in Azerbaijan was 25%. The tax rate has been 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 year following the reporting year, and the tax authorities may examine records and/or revise assessments over an indefinite future period.

Deferred taxes. Differences between IFRS and the Azerbaijani statutory taxation rules give rise to certain temporary differences between the carrying value of certain assets and liabilities for purposes of both financial reporting and profit tax calculation purposes. The tax effect of these differences is recorded, using a tax rate of 24%, which is effective from 1 January 2004.

The movement of deferred taxes is, as follows:

	2003	2002
Deferred tax asset as at 1 January	1,100	1,464
Movement in deferred taxation	(672)	(364)
Total net deferred tax asset as at 31 December	**428**	**1,100**

(in millions of Azerbaijani Manats)

Note 18: Income taxes (continued)

The deferred tax asset and liability represent the tax effect of temporary differences arising from the different treatment of certain items of income and expenses recorded in the financial statements compared to the local tax return, in accordance with the applicable tax law.

At 31 December 2003 the temporary differences giving rise to the deferred tax assets and liabilities are, as follows:

	2002	Movement	2003
Tax effect of deductible temporary differences			
Provision for loan impairment, net of statutory provision	922	(620)	302
Remeasurement of loan and advances to customer at amortised cost	-	6	6
Remeasurement of customer accounts at amortised cost	-	10	10
Additional depreciation expense on premises and equipment	126	(29)	97
Accrual of other expenses	64	(30)	34
Gross deferred tax asset	**1,112**	**(663)**	**449**
Tax effect of taxable temporary differences			
Accrual of other income	(12)	(9)	(21)
Gross deferred tax liability	**(12)**	**(9)**	**(21)**
Total net deferred tax asset	**1,100**	**(672)**	**428**

(in millions of Azerbaijani Manats)

Note 18: Income taxes (continued)

At 31 December 2002 the temporary differences giving rise to the deferred tax assets and liabilities are, as follows:

	2001	**Movement**	**2002**
Tax effect of deductible temporary differences			
Provision for loan impairment, net of statutory provision	1,305	(383)	922
Additional depreciation expenses	124	2	126
Accrual of other expenses	35	29	64
Gross deferred tax asset	**1,464**	**(352)**	**1,112**
Tax effect of taxable temporary differences			
Accrual of other income	-	(12)	(12)
Gross deferred tax liability	**-**	**(12)**	**(12)**
Total net deferred tax asset	**1,464**	**(364)**	**1,100**

The net deferred tax asset represents income taxes recoverable through future revenues and is recorded as a deferred tax asset on the balance sheet. Deferred income tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable.

Note 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.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay 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.

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

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 and 2002 is set out below:

	Total Assets	**Total liabilities**	**Net balance sheet position**	**Credit related commitments**
As at 31 December 2003				
Azerbaijan	58,529	43,529	15,000	25,227
OECD countries*	416	418	(2)	-
	58,945	**43,947**	**14,998**	**25,227**
As at 31 December 2002				
Azerbaijan	32,486	22,483	10,003	19,014
OECD countries*	28	455	(427)	-
	32,514	**22,938**	**9,576**	**19,014**

*OECD – Organization for Economic Cooperation and Development

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

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 summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Bank's assets and liabilities at their carrying amounts, categorized by currency.

At 31 December 2003, the Bank has the following positions in major currencies:

	USD	**EUR**	**AZM**	**Other**	**Total AZM**
Assets					
Cash and cash equivalents	1,094	416	2,933	8	4,451
Mandatory cash balances with the NBA	1,414	-	348	-	1,762
Loans and advances to customers, net	18,700	-	30,602	-	49,302
Investment securities – available for sale	-	-	660	-	660
Premises and equipment	-	-	1,996	-	1,996
Other assets	41	-	696	37	774
Total assets	**21,249**	**416**	**37,235**	**45**	**58,945**
Liabilities					
Customer accounts	18,095	425	3,479	-	21,999
Other borrowed funds	911	-	20,805	-	21,716
Other liabilities	100	-	132	-	232
Total liabilities	**19,106**	**425**	**24,416**	**-**	**43,947**
Net balance sheet position	**2,143**	**(9)**	**12,819**	**45**	**14,998**
Credit related commitments	**10,531**	**507**	**14,189**	**-**	**25,227**

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

At 31 December 2002, the Bank has the following positions in major currencies:

	USD	EUR	AZM	Total AZM
Assets				
Cash and cash equivalents	840	9	3,083	3,932
Mandatory cash balances with the NBA	854	-	202	1,056
Loans and advances to customers, net	9,440	-	14,765	24,205
Investment securities – available for sale	554	-	21	575
Premises and equipment	-	-	1,243	1,243
Other assets	141	-	1,362	1,503
Total assets	**11,829**	**9**	**20,676**	**32,514**
Liabilities				
Customer accounts	9,135	-	3,366	12,501
Other borrowed funds	945	-	9,308	10,253
Other liabilities	115	-	69	184
Total liabilities	**10,195**	**-**	**12,743**	**22,938**
Net balance sheet position	**1,634**	**9**	**7,933**	**9,576**
Credit related commitments	**5,591**	**-**	**13,423**	**19,014**

Liquidity risk. Liquidity risk is defined as the risk when the maturities of assets and liabilities do 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 ALCO of the Bank.

The table below shows assets and liabilities as at 31 December 2003 and 2002 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. 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 a longer term duration.

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

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

	Demand and up to 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Overdue/ No maturity**	**Total**
Assets						
Cash and cash equivalents	4,451	-	-	-	-	4,451
Mandatory cash balances with the NBA	1,762	-	-	-	-	1,762
Loans and advances to customers, net	1,583	7,923	15,247	22,671	1,878	49,302
Investment securities - available for sale	-	-	-	-	660	660
Premises and equipment	-	-	-	-	1,996	1,996
Other assets	44	31	-	-	699	774
Total assets	**7,840**	**7,954**	**15,247**	**22,671**	**5,233**	**58,945**
Liabilities						
Customer accounts	5,697	6,904	7,493	1,905	-	21,999
Other borrowed funds	5,419	10,500	1,992	3,805	-	21,716
Other liabilities	103	129	-	-	-	232
Total liabilities	**11,219**	**17,533**	**9,485**	**5,710**	**-**	**43,947**
Net liquidity gap	**(3,379)**	**(9,579)**	**5,762**	**16,961**	**5,233**	**14,998**
Cumulative liquidity gap as at 31 December 2003	**(3,379)**	**(12,958)**	**(7,196)**	**9,765**	**14,998**	

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

The liquidity position of the Bank as at 31 December 2002 is set out below:

	Demand and up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Overdue/ No maturity	Total
Assets						
Cash and cash equivalents	3,932	-	-	-	-	3,932
Mandatory cash balances with the NBA	1,056	-	-	-	-	1,056
Loans and advances to customers, net	1,768	4,029	12,595	3,968	1,845	24,205
Investment securities - available for sale	-	-	-	-	575	575
Premises and equipment	-	-	-	-	1,243	1,243
Other assets	73	35	-	-	1,395	1,503
Total assets	**6,829**	**4,064**	**12,595**	**3,968**	**5,058**	**32,514**
Liabilities						
Customer accounts	5,766	2,059	3,476	1,200	-	12,501
Other borrowed funds	459	1,589	6,000	2,205	-	10,253
Other liabilities	184	-	-	-	-	184
Total liabilities	**6,409**	**3,648**	**9,476**	**3,405**	**-**	**22,938**
Net liquidity gap	**420**	**416**	**3,119**	**563**	**5,058**	**9,576**
Cumulative liquidity gap as at 31 December 2002	**420**	**836**	**3,955**	**4,518**	**9,576**	

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 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.

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

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.

	Demand and up to 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	4,451	4,451
Mandatory cash balances with the NBA	-	-	-	-	1,762	1,762
Loans and advances to customers, net	1,583	7,923	15,247	22,671	1,878	49,302
Investment securities - available for sale	-	-	-	-	660	660
Premises and equipment	-	-	-	-	1,996	1,996
Other assets	-	-	-	-	774	774
Total assets	**1,583**	**7,923**	**15,247**	**22,671**	**11,521**	**58,945**
Liabilities						
Customer accounts	1,386	6,904	7,493	1,905	4,311	21,999
Other borrowed funds	5,419	10,500	1,992	3,805	-	21,716
Other liabilities	-	-	-	-	232	232
Total liabilities	**6,805**	**17,404**	**9,485**	**5,710**	**4,543**	**43,947**
Net sensitivity gap	**(5,222)**	**(9,481)**	**5,762**	**16,961**	**6,978**	**14,998**
Cumulative sensitivity gap as at 31 December 2003	**(5,222)**	**(14,703)**	**(8,941)**	**8,020**	**14,998**	
Cumulative sensitivity gap as at 31 December 2002	**1,045**	**1,425**	**4,543**	**5,106**	**9,576**	

(in millions of Azerbaijani Manats)

Note 19: Financial risk management (continued)

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.

2003	**USD%**	**AZM%**
Assets		
Loans and advances to customers	15%	15%
Liabilities		
Customer accounts	11%	8%
Other borrowed funds	14%	7%

2002	**USD%**	**AZM%**
Assets		
Loans and advances to customers		
- Consumer loans	13%	12%
- Corporate loans	23%	17%
Liabilities		
Customer accounts	10%	12%
Other borrowed funds	11%	6%

(in millions of Azerbaijani Manats)

Note 20: Commitments and contingent liabilities

Legal proceedings. As of 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 its 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 these financial statements adequately reflect the activities of the Bank. If a particular treatment were to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital commitments. As at 31 December 2002 the Bank had no significant capital commitments.

Operating lease commitments. As at 31 December 2002 the Bank had no significant operating lease commitments.

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 default 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	12,071	11,463
Guarantees	13,156	7,337
Letters of credit	-	214
Total commitments and contingent liabilities	**25,227**	**19,014**

Most of the letters of credit and guarantee letters outstanding as at year-end represent tender guarantees issued to the companies as a pledge of their intent to participate in bidding tender announced by various institutions. Included in "Guarantees" tender guarantee letters outstanding as at 31 December 2003 amounted to AZM 13,033 million (2002: AZM 7,239 million).

Note 20: Commitments and contingent liabilities (continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

Note 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. As described in more detail in Note 2, the economic conditions of the Republic of Azerbaijan continue to limit the volume of activity in the financial markets. While 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 and investment securities available for sale are carried on the balance sheet at their fair value. External independent market quotations are not available for certain investment securities available for sale. The fair value of these assets are determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 6 for the estimated fair value of loans and advances to customers.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 10 and 11 for the estimated fair values of customer accounts and other borrowed funds, respectively.

(in millions of Azerbaijani Manats)

Note 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 participants, directors, subsidiaries, associates, companies with which the Bank has significant participants 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
	Participants	**Participants**
Loans and advances to customers		
Gross loans amounts outstanding as at year-end (contractual interest rates: 2003: 12%-18%; 2002: 12%-24%)	3,941	3,558
Provision for impairment of loans and advances to customers as at the year end	(225)	(597)
Losses on origination of loans and advances to related parties at rates below market	(35)	-
Interest income for the year based on contractual rates	369	217
Customer accounts		
Customer accounts outstanding as at year end (contractual interest rates: 2003: 3%-13%; 2002: 8%-12%)	7,623	5,562
Losses on origination of customer accounts at rates above market	(68)	-
Interest expense for the year	461	171
Commitments and contingent liabilities		
Un-drawn credit lines as at year end	1,315	820
Fee and commission income		
Fee and commission income for the year	89	66

In 2003 the total remuneration of members of the Executive Board, including discretionary compensation, amounts to AZM 231 million (2002: AZM 214 million).