

**Joint Stock Company
KAZKOMMERTSBANK**

Review report

**Condensed consolidated
interim financial statements**

For six-month period ended 30 June 2004

JSC KAZKOMMERTSBANK

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REVIEW REPORT

To the Shareholders and Board of Directors of JSC Kazkommertsbank:

We have reviewed the accompanying condensed consolidated balance sheet of JSC Kazkommertsbank and its subsidiaries (the "Bank") as of 30 June 2004, and the related condensed consolidated profit and loss account, statements of cash flows and changes in equity for the six-month period then ended (the "Condensed consolidated interim financial statements"). These condensed consolidated interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue the report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed consolidated interim financial statements are free of material misstatements. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not presented fairly, in all material respects in accordance with International Financial Reporting Standards.

Deloitte & Touche

2 August 2004

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2004 (in Kazakhstani tenge and in thousands, except per share amounts)

	Notes	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Interest income	4, 16	23,815,031	15,120,749
Interest expense	4, 16	(11,659,737)	(8,330,423)
Net interest income before allowance for loan losses		12,155,294	6,790,326
Allowance for loan losses		(5,364,898)	(3,184,471)
NET INTEREST INCOME		6,790,396	3,605,855
Income from services and commission received		4,610,689	3,515,601
Expense on services and commission paid		(742,548)	(698,114)
Net (loss)/gain on operations with trading securities		(224,932)	508,913
Net gain on foreign exchange operations		964,305	560,055
Net gain/(loss) on investments in securities		9,137	(78,364)
Dividends received		14,327	371,457
Other income		495,818	353,983
NET NON-INTEREST INCOME		5,126,796	4,533,531
OPERATING INCOME		11,917,192	8,139,386
OPERATING EXPENSE		(4,402,012)	(3,641,545)
OPERATING GAIN		7,515,180	4,497,841
Recovery of/(allowance for) losses on other transactions		124,475	(76,664)
INCOME BEFORE INCOME TAX		7,639,655	4,421,177
(Loss)/gain from participation in associated companies		(15,534)	93,488
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		7,624,121	4,514,665
Income tax expense	5	(1,962,387)	(105,164)
NET INCOME BEFORE MINORITY INTEREST		5,661,734	4,409,501
MINORITY INTEREST		(397,330)	(96,307)
NET INCOME		5,264,404	4,313,194
Earnings per share			
Basic and diluted (in KZT)	6	13.18	13.51

Signed on behalf of the Bank:



N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank
29 July 2004
Almaty, Republic of Kazakhstan



P. A. Cheus
Chief Accountant of JSC Kazkommertsbank

The notes on pages 6 – 21 form an integral part of these financial statements. The Review Report is on page 1.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED BALANCE SHEET

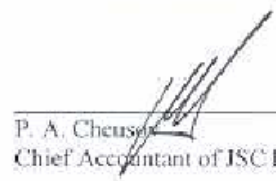
AS AT 30 JUNE 2004

(in Kazakhstani tenge and in thousands)

	Notes	30 June 2004 (unaudited)	31 December 2003
ASSETS			
Cash and balances with national (central) banks		17,308,773	28,484,613
Precious metals		-	300,158
Loans and advances to banks, less allowance for losses		27,701,010	38,582,824
Trading securities	7	81,431,377	71,200,859
Securities purchased under repurchase agreements less allowance for losses		9,004,264	2,608,318
Derivative financial instruments		35,940	15,399
Loans to customers, less allowance for loan losses	8, 16	377,244,947	283,062,443
Investments in securities			
- securities available-for-sale	9	63,891	137,554
- securities held-to-maturity	9	75,920	32,372
Investments in associates	10	130,672	146,206
Fixed assets, less accumulated depreciation		6,083,127	5,867,947
Intangible assets, less accumulated amortization		414,565	436,051
Other assets, less allowance for losses	11	2,980,862	3,366,413
TOTAL ASSETS		522,475,348	434,241,157
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks		83,959,000	76,221,919
Securities sold under repurchase agreements		7,418,193	37,250,675
Derivative financial instruments		19,461	801
Customer accounts	16	178,059,384	151,589,416
Debt securities issued	12	162,610,947	98,233,366
Other funds borrowed		2,715,358	3,525,473
Dividends payable	14	324,075	404
Other liabilities	13	9,597,347	8,402,672
		444,703,765	375,224,726
Subordinated loan		22,146,691	8,732,914
Total liabilities		466,850,456	383,957,640
Minority interest		4,852,537	4,704,625
SHAREHOLDERS' EQUITY			
Share capital		4,019,022	4,018,930
Share premium		9,454,110	9,453,411
Fixed assets revaluation reserve		773,732	569,783
Retained earnings		36,525,491	31,536,768
Total shareholders' equity		50,772,355	45,578,892
TOTAL LIABILITIES AND EQUITY		522,475,348	434,241,157

Signed on behalf of the Bank:


 N. A. Zhusupova
 Chairperson of the Management Board of JSC Kazkommertsbank
 29 July 2004
 Almaty, Republic of Kazakhstan


 P. A. Cheusov
 Chief Accountant of JSC Kazkommertsbank

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JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2004 (in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Retained earnings	Total
Balance at 31 December 2002	3,499,688	5,473,313	6,872	23,085,915	32,065,788
Fixed assets revaluation	-	-	716,702	-	716,702
Dividends on preferred shares	-	-	-	(339,422)	(339,422)
Net profit for the period	-	-	-	4,313,194	4,313,194
Balance at 30 June 2003 (unaudited)	<u>3,499,688</u>	<u>5,473,313</u>	<u>723,574</u>	<u>27,059,687</u>	<u>36,756,262</u>
Balance at 31 December 2003	4,018,930	9,453,411	569,783	31,536,768	45,578,892
Fixed assets revaluation	-	-	251,941	-	251,941
Amortisation of fixed assets revaluation	-	-	(47,992)	47,992	-
Sale of Treasury Stock repurchased	92	699	-	-	791
Dividends payable	-	-	-	(323,673)	(323,673)
Net income for the period	-	-	-	5,264,404	5,264,404
Balance at 30 June 2004 (unaudited)	<u>4,019,022</u>	<u>9,454,110</u>	<u>773,732</u>	<u>36,525,491</u>	<u>50,772,355</u>

Signed on behalf of the Bank:



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29 July 2004
Almaty, Republic of Kazakhstan



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JSC KAZKOMMERTSBANK

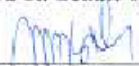
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2004 (in Kazakhstani tenge and in thousands)

	30 June 2004 (unaudited)	30 June 2003 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation and minority interest	7,624,121	4,514,665
Adjustments for:		
Allowance for loan losses	5,364,898	3,184,471
(Recovery of)/allowance for losses on other transactions	(124,475)	76,664
Unrealised gain and amortisation of discount on dealing securities	(196,555)	(959,422)
Amortization of discount/premium on securities issued	(44,939)	6,311
Depreciation and amortisation of fixed and intangible assets	627,652	488,546
Decrease in interest accruals	192,186	2,008,141
Equity loss/(gain) from participation in associated companies	15,534	(93,488)
Net change in recovery value of derivative financial instruments (net)	(1,881)	(57,526)
Cash flows from operating activities before changes in operating assets/liabilities	13,456,541	9,168,362
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets		
Minimum reserve deposit with the Central Bank of the Russian Federation	(56,011)	-
Loans and advances to banks	4,780,171	(12,088,580)
Precious metals	300,158	-
Trading securities	(10,164,583)	(58,497,919)
Securities available-for-sale	82,677	5,460,957
Securities held-to-maturity	(42,309)	726
Securities purchased under repurchase agreements	(6,375,848)	873,083
Loans and advances to clients	(98,850,343)	(20,437,596)
Dividends received	14,327	370,453
Other assets	292,772	(3,184,397)
Increase/(decrease) in operating liabilities		
Loans and advances from banks and repurchase agreements	(22,189,360)	(22,239,461)
Customer accounts	26,896,488	29,424,544
Other borrowed funds	(793,718)	(311,756)
Other liabilities	(424,586)	3,760,372
Cash outflow from operating activities before taxation	(93,073,624)	(67,701,212)
Income tax paid	(413,239)	(56,065)
Net cash outflow from operating activities	(93,486,863)	(67,757,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets (net)	(516,285)	(1,501,059)
Purchase of intangible assets (net)	(53,120)	(50,324)
Acquisition of investments in subsidiaries	-	(19,540)
Net cash outflow from investing activities	(569,405)	(1,570,923)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of debt securities	63,544,749	69,744,694
Subordinated loan	13,155,859	2,606,805
Sale of shares repurchased	791	-
Net cash inflow from financing activities	76,701,399	72,351,499
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(17,354,869)	3,023,299
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	47,322,122	55,226,912
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29,967,253	58,250,211

Interest paid and received by the Bank in cash during the six-month period ended 30 June 2004 amounted to KZT 10,873,006 thousand and KZT 23,220,486 thousand, respectively.

Interest paid and received by the Bank in cash during the six-month period ended 30 June 2003 amounted to KZT 6,585,352 thousand and KZT 15,625,470 thousand, respectively.

Signed on behalf of the Bank:



N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank
29 July 2004
Almaty, Republic of Kazakhstan



P. A. Cheusov
Chief Accountant of JSC Kazkommertsbank

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JSC KAZKOMMERTSBANK

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR SIX-MONTH PERIOD ENDED 30 JUNE 2004

(in Kazakhstani tenge and in thousands, except per share amounts)

1 ORGANISATION

JSC Kazkommertsbank (the “Kazkommertsbank”) was incorporated on 12 July 1990 as an open joint stock company in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of OJSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the “NBRK”) on 21 October 1991. In 1994, OJSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank was incorporated in May 1993 as a joint stock company. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of the Kazkommertsbank is 135 “Zh”, Gagarin Ave., Almaty, Republic of Kazakhstan.

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (England). In December 2003 Kazkommertsbank obtained a license for branch opening in the Republic of Cyprus.

Kazkommertsbank is a parent company of the Banking Group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommerts- bank ownership interest	Type of operation
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	100%	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	Insurance
Kazkommerts International B.V.	Kingdom of Netherlands	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	73.97%	Commercial bank

The subsidiaries Kazkommerts Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100 %) are not included in the condensed consolidated financial statements due to the immaterial impact of their financial statements.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (the “MKB”), a commercial bank operating in the Russian Federation, MKB was included in the consolidated financial statements of the Bank since the Bank has the ability to, and has exercised, effective control over its operations. There is an agreement between the shareholders and the Bank on the purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

2. BASIS OF PRESENTATION

Accounting basis – The condensed consolidated interim financial statements of the Bank have been prepared by management in accordance with International Financial Reporting Standards. Certain information and disclosures normally required to be included in the notes to the annual financial statements have been omitted or condensed. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Bank's Annual Report for the year ended 31 December 2003.

The condensed consolidated interim financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the revaluation of buildings and constructions and the cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, and financial assets and liabilities held for trading, derivative financial instruments.

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Bank, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to setup of provisions for loan and investment losses and determination of the fair value of financial instruments.

Although the condensed consolidated interim financial statements are unaudited, they do reflect all adjustments that, in the opinion of management of the Bank, are necessary for a fair presentation of the results of operations for the interim periods. All such adjustments to the financial statements are of a normal, recurring nature. Because the results from common banking activities are so closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The condensed consolidated interim financial statements of the Bank include the accounts of material majority owned subsidiaries, and MKB, operations of which are controlled by the Bank.

All intercompany transactions and related balances have been eliminated from the consolidated financial statements.

Investments in associates – Investments in companies in which the Bank has a stake of greater than 20%, and, in the opinion of management, has the ability to significantly influence the operating and financial activities of those companies, are accounted for using the equity method, unless the Bank acquired and holds those companies for resale in the near future, or that company operates under severe long term restrictions, that significantly impair its ability to transfer funds to the Bank.

Investments in other subsidiaries and associated companies – Investments in companies where the Bank owns more than 20% of the share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to re-sell such investments in the near future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or approximated fair value, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument.

Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and balances on correspondent accounts with banks in countries included in the Organization for Economic Co-operation and Development (OECD).

Precious metals – Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

Loans and advances to banks – In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Trading securities – Trading securities represent debt and equity securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements – The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its liquidity management and trading with securities.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Transactions under repo agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on investments in securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities under repos is recognized as interest income or expense.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

Derivatives entered into by the Bank include forwards, swaps, options on operations with foreign currency and securities.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans – Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as an initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans – Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has received all available collateral.

Non-performing loans – Loans to legal entities are placed on non-performing status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Loans to physical persons are placed on non-performing status with the approval of the authorised bodies of the Bank. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-performing loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowances for losses – The Bank establishes allowances for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and other collateral.

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 consolidated 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 consolidated statement of income using the effective yield method.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the

borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted from loans to customers and banks reflected in the balance sheet.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at purchase cost, less any allowance for impairment taking into account amortization of discount/premium plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets – Fixed and intangible assets, with the exception of buildings and constructions, are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by an independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Furniture and equipment	10 – 30%
Intangible assets	15 – 33.3%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation – Taxes on income are computed in accordance with the laws of the countries where Kazkommertsbank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued – Debt securities issued represent bonds and promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

Share capital and share premium – Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations – The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans to legal entities become overdue by more than 30 days. Interest income also includes interest income earned on investment in securities. Other income is credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange – The exchange rates at period-end used by the Bank in the preparation of the financial statements are as follows:

	30 June 2004	31 December 2003	30 June 2003
KZT/US Dollar	136.45	144.22	148.00
KZT/Euro	165.66	180.23	168.90
KZT/Gold (1 ounce)	53,852.55	60,031.58	51,134.00
KZT /Russian Rouble	4.70	4.93	4.88
KZT /Kyrgyz som	3.20	3.26	3.64

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fiduciary activities – The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank’s financial statements. The Bank accepts the operational risk on these activities, but the Bank’s customers bear the credit and market risks associated with such operations.

Reclassifications – Certain reclassifications have been made to the financial statements of the previous period to conform to the classification accepted in the financial statements of the current period.

4. NET INTEREST INCOME

	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Interest income		
Interest on loans to customers	20,520,901	13,647,319
Interest on loans and advances to banks	646,413	572,970
Interest on debt securities	2,647,717	900,460
Total interest income	<u>23,815,031</u>	<u>15,120,749</u>
Interest expense		
Interest on customer accounts	3,579,627	3,881,515
Interest on loans and advances from banks	1,583,062	1,005,442
Interest on debt securities	5,719,362	2,874,231
Other interest expenses	777,686	569,235
Total interest expense	<u>11,659,737</u>	<u>8,330,423</u>
Net interest income before allowance for loan losses	<u>12,155,294</u>	<u>6,790,326</u>

5. INCOME TAXES

Tax effect of temporary differences as of 30 June 2004 and 31 December 2003 comprise:

	30 June 2004 (unaudited)	31 December 2003
Deferred assets:		
Investments in associates	4,589	-
Other assets	-	398,466
Total deferred assets:	<u>4,589</u>	<u>398,466</u>

Deferred liabilities:		
Loans to banks and customers	3,901,109	3,005,134
Provisions under guarantees and letters of credit	73,620	92,916
Investments in associates	-	71
Fixed and intangible assets	328,177	245,292
Other assets	36,711	-
Total deferred liabilities:	<u>4,339,617</u>	<u>3,343,413</u>
Net deferred tax liabilities	<u>4,335,028</u>	<u>2,944,947</u>

Relationships between tax expenses and accounting profit for the six months ended 30 June 2004 and 30 June 2003 are presented below:

	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Profit before taxation and minority interest	<u>7,624,121</u>	<u>4,514,665</u>
Tax at the statutory tax rates	2,287,236	1,354,400
Tax effect of permanent differences	<u>(324,849)</u>	<u>(1,249,236)</u>
Income tax expense	<u>1,962,387</u>	<u>105,164</u>
	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Current income tax expense	572,306	95,484
Deferred tax expense	<u>1,390,081</u>	<u>9,680</u>
Income tax expense	<u>1,962,387</u>	<u>105,164</u>

6. EARNINGS PER SHARE

	30 June 2004 (unaudited)	30 June 2004 (unaudited)
Income:		
Net income for the period	5,264,404	4,313,194
Less:		
Dividends on preference stock	<u>(323,673)</u>	<u>(339,422)</u>
Income less dividends on preference shares	4,940,731	3,973,772
Weighted average number of common stock for basic and diluted earnings per share (pieces)	<u>374,926,091</u>	<u>294,176,887</u>
Earnings per share – basic and diluted (KZT)	<u>13.18</u>	<u>13.51</u>

7. TRADING SECURITIES

	Interest to nominal	30 June 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities:				
Short-term NBRK notes	3.17-6.31%	46,383,201	1.96-5.11%	22,700,525
State treasury bills of the Republic of Kazakhstan	5.05-8.35%	12,639,774	5.8-9.99%	6,061,421
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125-13.625%	5,751,564	11.125-13.625%	6,399,117
Other corporate bonds of the Russian Federation emitters	7.4 - 20.5%	4,480,963	14.5-18 %	566,447
Kaztransoil bonds	8.5%	2,497,302	8.5-9%	2,649,512
Avtovaz bonds	11.78%	1,172,748	15.25%	151,400
Bonds of Almaty Merchant Bank	8.5-9%	1,647,759	-	-
Karazhanbasmunai bonds	8 %	1,292,678	-	-
	8.1 –			
Bonds of Kazakh mortgage company	11.75 %	980,147	8-8.6%	767,742
Bonds of Freddie MAC	5.7 – 5.9 %	955,335	9.28-15.29%	3,909,001
	7.125-		7.125-	
Bonds of Development Bank of Kazakhstan	7.375%	928,124	7.375%	1,017,559
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	456,511	12.75%	360,521
Atyrau region's administration bonds	8.5-8.6%	450,306	8.5-8.6%	468,790
Kazakhtelecom bonds	-	-	10.0%	428,638
Astana municipality bonds	8.5%	327,605	8-8.5%	352,098
Bonds of local executive bodies of the Russian Federation	13 – 15%	220,913	13.76 %	168,345
Bonds of federal loan of the Ministry of finance of Russian Federation	11- 12%	208,158	-	-
KAZTRANSCOM Bonds	8 %	178,490	8.0%	157,996
KAZATOMPROM bonds	8.5 %	90,057	8.5%	95,544
Bonds of OJSC Mangistau REK	13%	66,389	-	-
			7.875-	
Eurobonds of TuranAlem Finance B.V.	7.88 %	47,043	11.5%	1,951,242
Kaztransoil Eurobonds	8.5 %	18,185	8.5%	20,094
Almaty Kus bonds	10 %	9,139	10.0%	9,886
Caspian Bank bonds	9.5 %	2,849	9.5%	3,008
Bonds of Eastern Kazakhstan regional administration	-	-	5.97-6.3%	149,307
Bonds of Nevinnomyssky Azot	-	-	18.0%	69,351
Bonds of VITA	-	-	8.6-14%	66,863
State bonds of the Federal Republic of Germany	-	-	4.5%-5.25%	7,731,347
The Netherlands state bonds	-	-	3.75%	3,676,560
Fannie MAE bonds	-	-	2.0%	3,605,301
Bonds of Federal Home Loan Bank	-	-	2.18%	3,579,163
Bonds of PetroKazakhstan Oil Products	-	-	10.0%	1,744,830
US treasury bonds	-	-	3.63%	1,392,056
		<u>80,805,240</u>		<u>70,253,664</u>

	Ownership share	30 June 2004 (unaudited)	Ownership share	31 December 2003
Shares:				
Kazakhtelecom GDN	0.54%	439,192	0.54%	219,209
Kazakhmys	0,11%	97,591	0.11%	83,649
Ust-Kamenogorsk Titanium and Magnesium Plant	1,25%	89,354	1.07%	56,474
Gazprom	-	-	0.82%	543,508
Mosenergo	-	-	0.03%	44,355
		<u>626,137</u>		<u>947,195</u>
Total trading securities		<u><u>81,431,377</u></u>		<u><u>71,200,859</u></u>

8. LOANS TO CUSTOMERS

	30 June 2004 (unaudited)	31 December 2003
Originated loans	390,739,426	291,696,017
Accrued interest income on loans to customers	11,356,486	10,619,519
Evaluation reserve	(186,749)	(184,015)
	<u>401,909,163</u>	<u>302,131,521</u>
Less allowance for loan losses	<u>(24,664,216)</u>	<u>(19,069,078)</u>
Total loans and advances to customers, net	<u><u>377,244,947</u></u>	<u><u>283,062,443</u></u>

	30 June 2004 (unaudited)	31 December 2003
Loans collateralized by combined collateral	126,441,559	92,882,250
Loans collateralized by real estate	81,152,531	59,312,062
Loans collateralized by other collateral	56,281,370	32,617,124
Loans collateralized by guarantees of enterprises	41,445,127	40,874,235
Loans collateralized by shares of other companies	21,190,883	13,449,095
Loans collateralized by inventories	16,367,592	27,035,014
Loans collateralized by equipment	15,989,956	10,959,952
Loans collateralized by cash or Kazakhstani Government guarantees	5,067,778	8,536,912
Loans collateralized by guarantees of financial institutions	3,972,711	4,341,365
Unsecured loans	34,186,405	12,307,527
Evaluation reserve	(186,749)	(184,015)
	<u>401,909,163</u>	<u>302,131,521</u>
Less allowance for loan losses	<u>(24,664,216)</u>	<u>(19,069,078)</u>
Total loans and advances to customers, net	<u><u>377,244,947</u></u>	<u><u>283,062,443</u></u>

	30 June 2004 (unaudited)	31 December 2003
Analysis of loans by industry:		
Trade	85,455,616	57,556,850
Construction	51,314,633	35,165,785
Individuals	42,834,397	30,384,717
Energy	40,559,733	50,154,044
Agriculture	39,626,113	34,860,944
Transport and communication	32,559,596	14,369,282
Food	26,457,177	22,100,007
Hotel business	13,395,209	14,498,641
Finance sector	12,858,893	1,344,245
Mining and metallurgy	12,753,885	10,410,124
Real estate	10,200,248	5,984,741
Machinery construction	10,133,631	5,018,271
Culture and art	1,721,847	2,067,449
Medicine	1,570,349	1,509,968
Other	20,654,585	16,890,468
Evaluation reserve	(186,749)	(184,015)
	<u>401,909,163</u>	<u>302,131,521</u>
Less allowance for loan losses	<u>(24,664,216)</u>	<u>(19,069,078)</u>
Total loans to customers, net	<u><u>377,244,947</u></u>	<u><u>283,062,443</u></u>

9. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	30 June 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities				
Almaty Merchant Bank	-	<u>-</u>	8.6%	<u>2,860</u>
		<u>-</u>		<u>2,860</u>
Shares available for sale:				
Aktubinsk chrome plant	3.07 %	22,805	3.07%	22,805
Kazakhtelecom, including:				
- ordinary shares	0.04%	22,012	0.04%	15,164
- preference shares	0.18%	4,072	0.01%	2,149
OJSC Kazakhmys Corporation	0.01%	6,426	-	-
OJSC Aluminy Kazakhstana	0.025%	6,404	0.023%	6,404
AktobeMunaiGaz	0.004%	2,172	0.004%	2,172
Bank CenterCredit	-	<u>-</u>	1.9%	<u>86,000</u>
		<u>63,891</u>		<u>134,694</u>
Total securities available-for-sale		<u><u>63,891</u></u>		<u><u>137,554</u></u>

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	30 June 2004 (unaudited)	31 December 2003
Bonds of the Ministry of Finance of the Kyrgyz Republic	69,547	32,372
Notes of the National Bank of the Kyrgyz Republic	<u>6,373</u>	<u>-</u>
Total securities held-to-maturity	<u><u>75,920</u></u>	<u><u>32,372</u></u>

10. INVESTMENTS IN ASSOCIATES

The following enterprise was recorded in the financial statements using the equity method:

	30 June 2004 (unaudited)		31 December 2003	
	% held	Amount	% held	Amount
UlarUmit Pension fund	33.18%	<u>130,672</u>	33.18%	<u>146,206</u>
		<u><u>130,672</u></u>		<u><u>146,206</u></u>

11. OTHER ASSETS

	30 June 2004 (unaudited)	31 December 2003
Prepaid expenses	1,087,193	686,972
Prepayments and other debtors	971,664	1,856,938
Insurance debtors	852,469	792,492
Tax settlements, other than income tax	<u>158,676</u>	<u>60,531</u>
	3,070,002	3,396,933
Less allowance for losses on other assets	<u>(89,140)</u>	<u>(30,520)</u>
Total other assets, net	<u><u>2,980,862</u></u>	<u><u>3,366,413</u></u>

12. DEBT SECURITIES ISSUED

	30 June 2004 (unaudited)	31 December 2003
Eurobonds of Kazkommerts International B.V. due		
in April 2014 (interest rate 7.875%): issued in April 2004 at price 99.15%	54,580,000	-
in April 2013 (interest rate 8.5%): Tranche A issued in April 2003 at price 97.548%	47,757,500	50,477,000
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	20,467,500	21,633,000
in May 2007 (interest rate 10.125%): Tranche A issued in May 2002 at price 99.043%	20,467,500	21,633,000
Tranche B issued in November 2002 and placed in December 2002 at price 107.00%	6,822,500	7,211,000
	<hr/>	<hr/>
	150,095,000	100,954,000
Including/(less):		
Discount on debt securities issued	(1,612,872)	(1,282,078)
Accrued interest on debt securities issued	2,509,722	1,631,951
Eurobonds repurchased by the Bank	(6,618,234)	(4,787,527)
Total issued Eurobonds of Kazkommerts International B.V.	<hr/> 144,373,616	<hr/> 96,516,346
Issued promissory notes	14,202,136	1,717,020
Issued bonds	<hr/> 4,035,195	<hr/> -
Total debt securities issued	<hr/> <hr/> 162,610,947	<hr/> <hr/> 98,233,366

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by Kazkommertsbank. Coupons on Eurobonds are paid semi-annually:

- on Eurobonds with maturity in May 2007 - 8 May and 8 November,
- on Eurobonds with maturity in April 2013 – 16 April and 16 October,
- on Eurobonds with maturity in April 2014 – 7 April and 7 October.

13. OTHER LIABILITIES

	30 June 2004 (unaudited)	31 December 2003
Deferred tax liabilities	4,335,028	2,944,947
Allowance for losses on guarantees and letters of credit	1,389,848	1,426,290
Insurance reserves	912,548	1,056,744
Taxes payable, other than income tax	574,816	313,833
Accounts payable on re-insurers	441,016	478,632
Income tax liability	21,448	-
Other liabilities	<hr/> 1,922,643	<hr/> 2,182,226
	<hr/> <hr/> 9,597,347	<hr/> <hr/> 8,402,672

14. DIVIDENDS PAYABLE

As of 30 June 2004 and 31 December 2003 the dividends payable of KZT 324,075 thousand and 404 thousand, respectively, represented the unpaid dividends due for common and preference shares for the first six months of 2004 and for the year 2003, respectively.

15. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk required to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,389,848 thousand and KZT 1,426,290 thousand as of 30 June 2004 and 31 December 2003, respectively.

As of 30 June 2004 and 31 December 2003, the nominal or contract amounts and risk-weighted amounts comprised:

	30 June 2004 (unaudited)		31 December 2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	20,497,631	20,497,631	22,769,317	22,769,317
Letters of credit and other transaction-related contingent obligations	32,637,069	6,527,414	23,408,923	4,681,785
Commitments on credits and unused credit lines	18,449,350	-	15,866,353	-
Total contingent liabilities and credit commitments	71,584,050	27,025,045	62,044,593	27,451,102
	Amount Payable	Risk Weighted Amount	Amount Payable	Risk Weighted Amount
Derivative financial instruments				
Foreign currency forwards	6,360,155	29,885	4,407,171	14,598
Foreign currency swaps	4,019,751	(13,406)	216,330	-
Forwards with securities	6,839,111	-	12,569,911	-
Total derivative financial instruments	17,219,017	16,479	17,193,412	14,598

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 30 June 2004 and 31 December 2003.

Rental commitments – No material rental commitments were outstanding as of 30 June 2004 and 31 December 2003.

Fiduciary activities – The Bank renders depositary services. As of 30 June 2004 the Bank had securities of clients at nominal account of the securities holder on dealing operations of 46,060,782 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as result the Bank may be assessed additional taxes, penalties and interest. The tax audit carried out by the tax authorities of Kazakhstan, which concluded at the end of May 2004 and covered the tax periods from 1999, 2000, 2001 through 2002, resulted in additional taxes of 2,366 million tenge being assessed on the Bank together with penalties of 1,643 million tenge.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank’s treatment for tax purposes of expenses relating to loan loss provisions as deductions for taxable income purposes. The Bank’s management had applied to the authorized regulatory bodies for clarification of the treatment of such expenses prior to computing its tax returns for 1999, 2000, 2001 and 2002, and had followed the written instructions received.

Accordingly, the Bank’s management is disputing this additional assessment and related penalties, and is confident in its position and is undertaking measures to challenge the claims within the deadlines and in strict compliance with the procedural norms.

The Bank’s management is also confident that all necessary tax charges are paid and, respectively, no reserves are required in addition to those reflected in the statements as deferred income tax liabilities structured with expenses related to the respective years.

The Bank’s management believes that it has paid all taxes due in full as so has made no further provision in these interim financial statements in respect of this matter.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 30 June 2004, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank’s principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Bank’s assets and operations could be at risk due to negative changes in the political and business environment.

16. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IFRS 24, are those counter parties that represent:

- a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries of one parent company);
- b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture;
- c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant

influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	30 June 2004 (unaudited)		31 December 2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers	2,147,112	390,739,426	2,619,017	291,696,017
Accrued interest on loans to customers	125,592	11,356,486	150,067	10,619,519
Allowances for loan losses	(99,573)	(24,664,216)	(70,647)	(19,069,078)
Evaluation reserve	-	(186,749)	-	(184,015)
Customer accounts	2,429,023	175,287,746	2,395,219	148,391,258
Accrued deposit interest	74,766	2,771,638	60,678	3,198,158
Allowances for guarantees and letters of credit	566	1,389,848	632	1,426,290
Guarantees given	23,197	20,497,631	27,057	22,769,317

Included in the profit and loss account for the years ended 30 June 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	30 June 2004 (unaudited)		31 December 2003 (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	95,469	23,815,031	109,031	15,120,749
Interest expense	(90,364)	(11,659,737)	(59,987)	(8,330,423)

17. SUBSEQUENT EVENTS

On 29 July 2004 the Board of Directors of JSC Kazkommertsbank resolved to seek a syndicated loan from Asian and Middle East lenders of 200 million US Dollars.