

National Bank of the Kyrgyz Republic

**DEVELOPMENT TRENDS
OF THE BANKING SYSTEM**

SECOND HALF OF 2009 (16)

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Development Trends of the Banking System

The purpose of the «Banking system development trends» is the analysis and assessment of the Kyrgyz banking system development as a financial mediator, detection of obstacles for achieving and supporting of stability, as well as the evaluation of stability components of the banking system of Kyrgyzstan. It is published at the date for January 1 and July 1 in Kyrgyz, Russian and English languages.

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Annual report of the National Bank of the Kyrgyz Republic

Annual report of NBKR is a full report about the executed work of the National Bank for the accounting year; it contains short characteristic of the results of functioning changes of the real sector of economy, as well as a description of decisions and actions of the National Bank in money and credit sphere. The report includes information about economic development and money and credit policy, financial accountability, general information about the National Bank, statistical annexes. It is published in the Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

Bulletin of NBKR contains macroeconomic indices of the Kyrgyz Republic by real, financial and foreign-economic sectors, as well as by state finances. Materials of the National statistic committee, Ministry of finances, commercial banks, State Commission under the Government of the Kyrgyz Republic by securities market and the National Bank of the Kyrgyz Republic are used when preparing the bulletin. It is published every month in the Kyrgyz, Russian and English languages.

Balance of payments of the Kyrgyz Republic

The last tendencies in development of external sector are reflected in this edition, as well as tables with data by analytical and neutral forms of balance of payments, structure of external trade, international reserves, external debt and international investment position of the Kyrgyz Republic are contained in this edition. It is published every three months in January, May, July and October.

Inflation Report of the Kyrgyz Republic

Report contains description of dynamics of consumer prices in the Republic and its regions, analysis of main factors of inflation, information about decisions of the National Bank of the Kyrgyz Republic in the monetary policy and presents inflation forecast for the next period. It is published every three months in Kyrgyz, Russian, and English.

Press-release of the National Bank of the Kyrgyz Republic

Press-release of NBKR contains chronicle of events happening in the National Bank and bank system in general, operational information by financial market. It is published every week in the Kyrgyz and Russian languages.

Regulatory acts of the National Bank of the Kyrgyz Republic

Regulatory acts of the National Bank are published officially in the indicated edition with the purpose of provision of commercial banks and general public with regulatory documents making bank legislation of the Kyrgyz Republic. Expected periodicity of the edition is once a month in the Kyrgyz and Russian languages.

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INTRODUCTION

In the second half of 2009, a decrease in the growth rates of credit volumes in real economy as well as some decrease in financial intermediation indicators was marked in the republic's banking system. Nevertheless, a considerable supply of liquidity and excess of capital adequacy level of the commercial banks over the specified normative requirement testified to rather stable banking system

In the reporting period, the positive trend of increase in the resource base of the financial and credit system continued; however, their increment rates decreased considerably. The increase was due to an increase in assets and capitalization of the banking and non-banking credit institutions, in deposit base of banking system as well as due to foreign investment inflow in the financial sector of economy. The increase in the volume of time deposits (increase in deposit base of commercial banks) indicates the increase in banks' capacity to increase average-term and long-term financing of economy.

In the conditions of the resource base growth, the positive trend of increase in the credit volumes in economy, which formed in the recent years, continued in the second half of 2009 but credit increment rates notably decreased. The reduction of growth rates for credit portfolio was marked due to decrease in the volume of financial system credits.

In spite of the indirect detrimental effect of the world financial crisis on the individual growth values, there was marked retention of stability in the banking system. There also can be marked an improvement of the quality of commercial banks' capital base as well as enlargement of the range, and improvement of the quality, of the banking and payment services that are the positive factors for the republic's economy development.

Moreover, it's noteworthy that the Specialized Fund for Banks Refinancing under the National Bank of the Kyrgyz Republic has started to operate. Information about the activity of the Specialized Fund for Banks Refinancing under the National Bank of the Kyrgyz Republic can be found in Special Issues Section of present issue of the Banking System Development Trends.

I. STATE OF THE FINANCIAL AND CREDIT SYSTEM OF THE KYRGYZ REPUBLIC

According to the results of the second half of 2009, the aggregate assets of the financial and credit system¹ increased by 3 percent as compared to the corresponding period of 2008, while the increment of this indicator was provided by the non-banking financial institutions.

The financial intermediation indicator, defined as a ratio of the aggregate credit portfolio to the gross domestic product (GDP)², decreased in comparison with the corresponding period of the previous year and constituted 17.8 percent (Diagram 1.1). As of the second half of 2009, the credit lower growth rate for the banking system credits amounted to “-“ (minus) 1.8 percent³ in comparison with the corresponding period of 2008.

The banks continued to hold a leading position in the financial and credit system (Diagram 1.2), and according to the results of the second half of 2009, their share constituted 74.6 percent⁴ in the aggregate credit portfolio of the financial and credit system that constituted 3.6 percentage points decrease in comparison with the corresponding period of 2008.

The ratio dynamics of the volume of special reserve for coverage of potential losses (RCPL) to the volume of credits in the banking system and non-bank financial institutions (NBFI) indicated some deterioration in the quality of the credit portfolio of banks (Diagram 1.3). The share of special RCPL in the NBFI credit portfolio increased in the second half of 2009 and constituted 2.4 percent; as to the banking system, this value increased to 0.2 percentage points and constituted 4.8 percent.

In the second half of 2009 there was an increase in the weighted average interest rates for credits of the commercial banks and credit unions in comparison with the corresponding period of the previous year.

Diagram 1.4 demonstrates the weighted average interest rates on credits issued by the commercial banks (in the national and foreign currencies) and by the non-banking financial institutions,

Diagram 1.1. Dynamic of Change in Credit Portfolio (CP) of Financial and credit System (FCS), as percentage to GDP

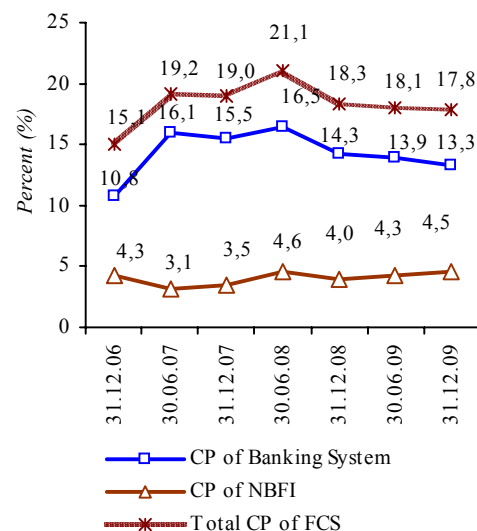
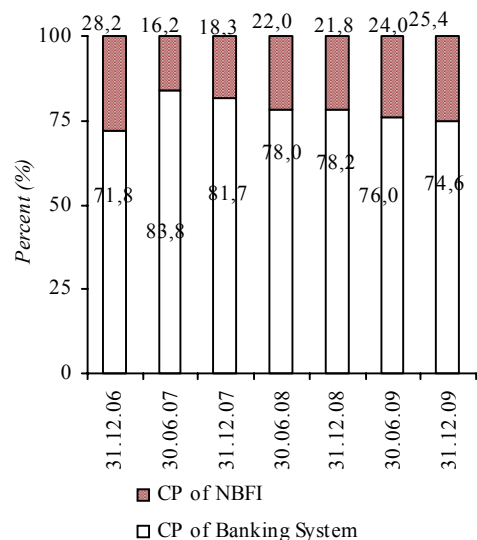


Diagram 1.2. Structure of total credit portfolio (CP)



¹ The indicators of the commercial banks and non-banking financial institutions licensed by the NBKR are analyzed herein as the indicators of the financial credits system.

² The data on actual GDP for the recent 12 months is taken.

³ Credit portfolio of the banking system includes the credit portfolio of bankrupt banks.

⁴ All banking system data are obtained from the Periodical Regulatory Banking Report (PRBR).

Diagram 1.3. Level of special Reserve for Coverage of Potential Losses in Credit Portfolio of the banking system and NBF

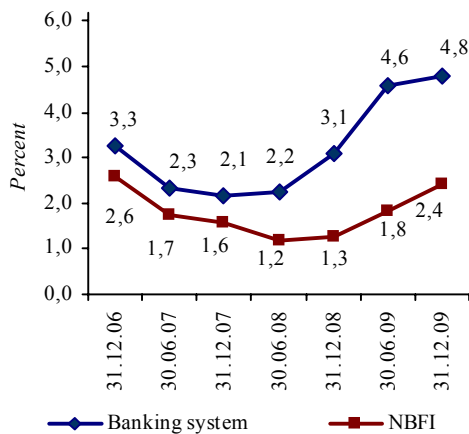
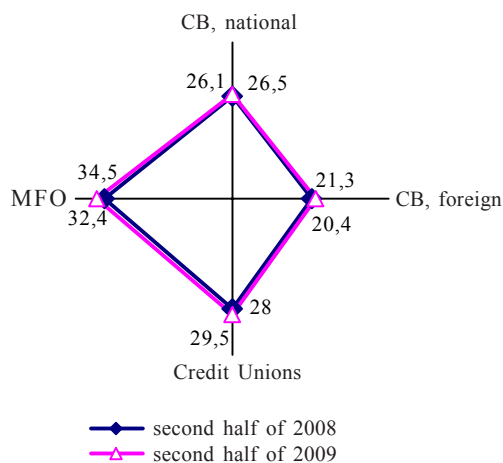


Diagram 1.4. "Spread" of weighted average interest rates for credits of the various financial credit institutions, percent



Note: CB, national – commercial banks, national currency; CB, foreign – commercial banks, foreign currency; MFO – microfinancing institutions.

which enables, to some extent, to assess the level and the trend of change in the value of credit resources. At the same time. Diagram 1.4 doesn't reflect the weighted average rates for the pawn offices' credits, in which this figure is missing (–132.3 percent in the comparable period of 2008) for the second half of 2009.

The level of weighted average interest rates for newly issued credits of the commercial banks increased both in foreign and the national currencies. Thus, in the second half of 2009 the average level of interest rates for the credits in foreign currencies increased to 0.9 and in national currencies increased to 0.4 percentage points in comparison with the corresponding period of 2008.

Thus, the state of Kyrgyzstan financial and credit system in the reporting period is characterized by:

- continuing increase in absolute amount of key indicators;
- deceleration of the growth rates for some financial intermediation indicators, however, a considerable deceleration of the growth rates for this indicator was observed in the banking system;
- some deterioration of qualitative characteristics of the commercial banks' credit portfolio;
- increasing in liquidity of the commercial banks;
- increasing in the level of capital adequacy of the banking system.

II. STATUS OF THE BANKING SYSTEM

2.1. Banking System Structure

As of the end of the second half of 2009, 22 commercial banks (including the Bishkek Branch Office of the National Bank of Pakistan) operated in the republic; including 16 banks with foreign capital share. In 11 of them the foreign capital share accounted for more than 50 percent. All banking institutions of the republic are universal by their type of activity

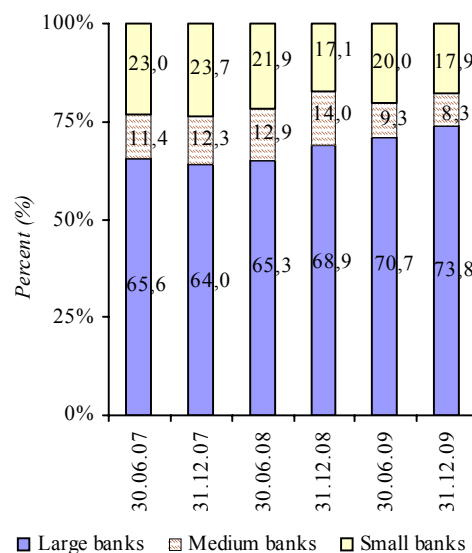
As of the end of the second half of 2009, the growth trend in absolute expression of key performance indicators, in particular, of assets, liabilities and deposit base of the commercial banks, continued as a whole for the banking system

The analysis of the banking system structure in terms of the market segment occupied by the groups of 'large', 'medium' and 'small' banks¹ (Diagram 2.1.1) indicated an increase in the market share of 'large' banks; their specific weight increased by 3.1 percentage points in the reporting period. The share of 'medium' and 'small' banks decreased by 1.0 percentage points and by 2.1 percentage points correspondingly.

The segment of 'large' banks comprised one bank that held 73.8 percent of market share. This bank was qualified as the 'large' one due to the high share values, which it held in the total deposit base that accounted for 44.1% (without regard to the deposits of banks and other NBFIs as well as to those of governmental authorities), while its share in the aggregate assets of the banking system accounted for 32.6 percent. Meanwhile, this bank was involved in the group of major participants in credit market (13.7%).

Consolidated capital of the banking system increased by 10.3 percent in the reporting period. The growth was due to the

Diagram 2.1.1. Change in the Banking System Structure by Types of Banks



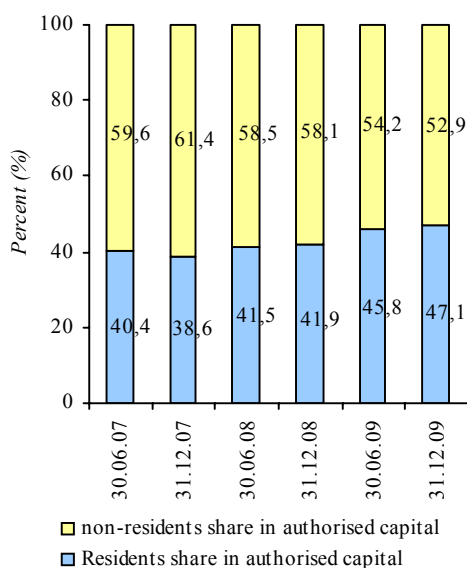
¹ For the purpose of the analysis herein, the term 'large' banks means the banks which share (d_i) in the banking market (averaged square of the share in aggregate assets, credits, deposits and liabilities) exceeds 10 percent; 'medium' banks have the share from 5 percent to 10 percent, and 'small' banks have the share less than 5 percent.

d_i is calculated in compliance with the following formula:

$$d_i = \frac{X_i}{\sum_{i=1}^N X_i} \quad \text{- the share of } i\text{-bank in the banking industry,}$$

where N is the number of the operating commercial banks;

$$X_i = \frac{d_A^2 + d_{kp}^2 + d_{\lambda}^2 + d_{O\sigma}^2}{4} \quad \text{- arithmetic mean of the following indicators: } (d_A^2) \text{ is the square of assets share of } i\text{-bank in the aggregate assets of banks, and, correspondingly, credits } (d_{kp}^2), \text{ deposits, } (d_{\lambda}^2) \text{ and liabilities } (d_{O\sigma}^2).$$

Diagram 2.1.2. Change in the Authorized Capital Structure of Banking System

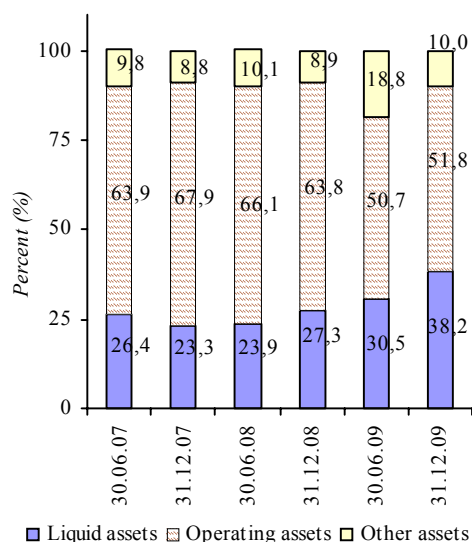
increase in the authorized capital (by Soms 672.0 million) as well as to the current profit made during the second half of 2009 (by Soms 827.9 million).

The foreign capital share accounted for 52.9 percent in the authorized capital of the commercial banks (as of the end of the first half of 2009 it accounted for 54.2 percent (Diagram 2.1.2)

In the second half of 2009 the overall increment rate of the resident banks' authorized capital amounted to 11.4 percent, while the non-resident banks' authorized capital increment made 5.9 percent.

The continuing growth of the banks' capital base promoted building of a sufficient capacity for further development of the banking system.

The increase in the assets of banking system amounted to 4.4 percent as of the end of the second half of 2009. It's noteworthy that regarding the change in the aggregate assets structure (Diagram 2.1.3), 51.8 percent of the banks' assets were operating², and their share increased by 1.1 percentage points. The share of liquid assets³ in aggregate assets of the banking system increased from 30.5 % to 38.2 %. The increase in this category of assets occurred mainly due to the 103.3 % increase in the balances in correspondent accounts of other banks.

Diagram 2.1.3. Change in Assets Structure of Banking System

Sufficient liquidity of banks' assets compared to the normative requirement specified by the NBKR allows banks to increase future credits in economy due to a decrease in the share of liquid assets

The share of 'other' assets amounted to 10.0 percent.

The operations on the basis of the Islamic financing principles have been continued for the purpose of the Presidential Resolution of the Kyrgyz Republic *On Pilot Project for Introduction of the Islamic Financing Principles in the Kyrgyz Republic* and the Memorandum of Understanding between the Kyrgyz Republic and the Islamic Development Bank. The amount of such operations made som 365.1 million as of the end of the second half of 2009 (Soms 232.7 million as of the end of the first half of 2009)

In view of more detailed consideration of changes in the

² 'Operating assets' means the balances on the credit and deposit accounts held in FCI as well as securities and other bank placements yielding interest revenue.

³ 'Liquid assets' means the banks' monetary assets in cash departments and correspondent accounts.

operating assets structure, the analysis of the total deposit base⁴ of the banking system as the main source for the placed funds and changes in the credit portfolio, is offered below. Late in the second half of 2009 the growth of deposit base of the banking system continued. The increment amounted to 21.1, and the amount of deposits came up to Soms 38.3 billion. In terms of deposits, the share of deposits held by individuals accounted for 25.1 percent (1.1 percentage points increase). The increase in the amount of deposits held by individuals made 26.8 %.

The specific weight of deposits held by legal entities made 61.5 percent (2.8 percentage points increase). Meanwhile, the increase in the amount of deposits held by legal entities made 26.9 percent.

The rest share (13.4 percent) belonged to the deposits of the Kyrgyz Republic state agencies. The decrease in this deposit category amounted to 5.5 percent.

The share of fixed deposits increased up to 22.5 percent of the banks' total deposit base during the reporting period (Diagram 2.1.4). This, in its turn, increased the banks' capacity to enhance the medium-term and long-term financing of economy. It's noteworthy that the fixed deposits held by individuals increased by 33.0 percent and their absolute amount made Soms 6,194.4 million; this indicates the increased confidence of the population in the banking system.

Late in the second half of 2009, the increase in 'dollarization' level of the banking system deposit base was observed (Diagram 2.1.5). This value amounted to 61.7 percent against 58.9 percent for the first half of 2009. 'Dollarization' level of the deposits held by legal entities increased by 2.8 percentage points and amounted to 44.5 percent as of the end of the reporting period. The share of deposits held by individuals in foreign currency increased by 0.5 percentage points to make 14.7 percent. The share of deposits held by individuals in the national currency accounted for 25.1 percent of the total deposit base.

The total credit portfolio⁵ of the banking system decreased by 1.1 percent late in the second half of 2009 to make Soms 25.1 Billion. However, 'dollarization' level of the commercial banks' credits decreased to make 62.3 percent as of the end of the reporting period (Diagram 2.1.6).

Diagram 2.1.4. Change in the Deposits Structure of Banking System by Maturity of their Attraction

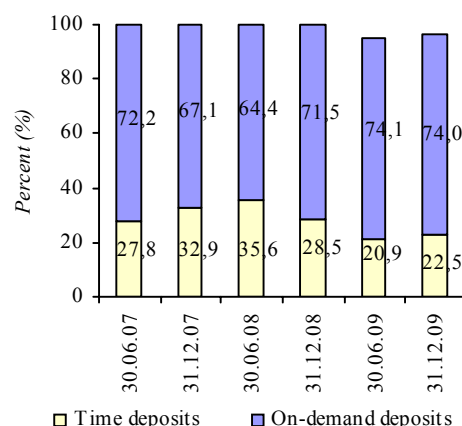


Diagram 2.1.5. Change in the Structure of Banking System Deposits by Types of Currencies

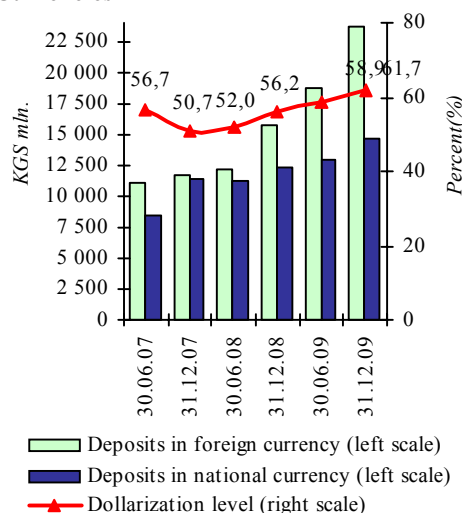
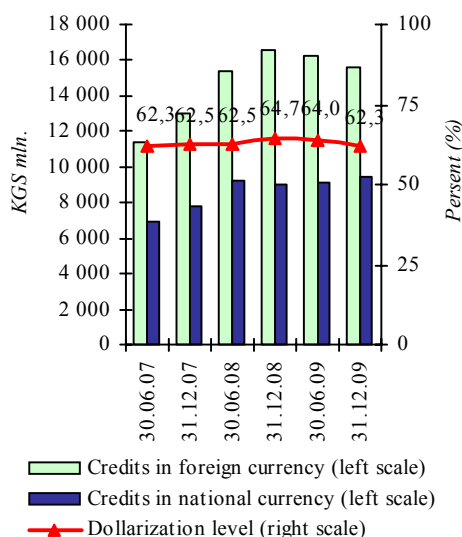
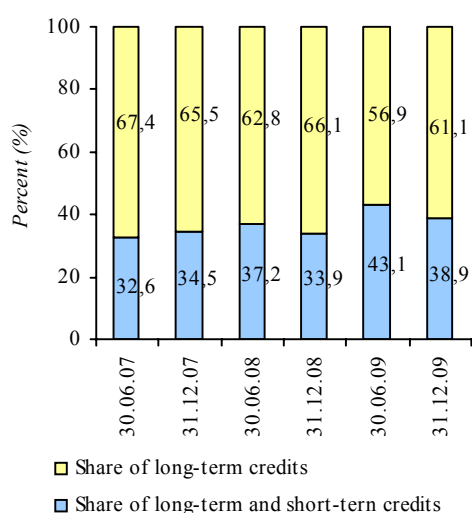


Diagram 2.1.6. Change in the Credit Portfolio Structure of Banking System by Types of Currencies



⁴ Hereinafter this category includes the deposits of enterprises and population as well as the deposits of public authorities of the Kyrgyz Republic.
⁵ Hereinafter this category shall not include any appropriate discount for all credits as well as the credits issued to banks and other financial institutions

Diagram 2.1.7. Change in the Credit Portfolio Structure of Banking System by Maturity



The share of long-term credits⁶ increased from 56.9 percent to 61.1 percent, and the increase in absolute amount made 18.5 percent. Meanwhile, the specific weight of the credits with payment period of less than one year remained rather high (38.9 percent, Diagram 2.1.7).

In order to assess the operating interest rates on credits, such behaviors as variation coefficient of interest rates as well as average and weighted average rates on credits were considered.

The interest rates calculated as 6 months' arithmetic mean value on credits in the national and foreign currencies amounted to 26.5 percent and 21.3 percent correspondingly. As compared with the first half of 2009, the interest rates on credits in the national currency decreased by 0.2 percentage points, and those in foreign currency also decreased by 0.5 percentage points. The coefficient of variation that demonstrated the range of interest rates' spread in credit market decreased slightly both for credits in the national and foreign currencies. As of the end of the second half of 2009, the weighted average rate on credits both in the foreign and national currencies was quite equal to the average rate (Diagrams 2.1.8, 2.1.9).

Therefore, the trends observed in the banking sector in the second half of 2009 were as follows:

- increase in capitalization of the banking system;
- increase in the banks' deposit base on the whole, excluding the deposits and credits of public authorities;
- increase in specific weight of the long-term credits issued to clients in the banks' credit portfolio;
- slight decrease in the amount of credit portfolio against the growth of the banking system assets;
- increase in 'dollarization' level of the banking system deposit base;
- increase in commercial banks' liquidity.

Diagram 2.1.8. Change in the Interest Rate Behaviors for Credits in National Currency

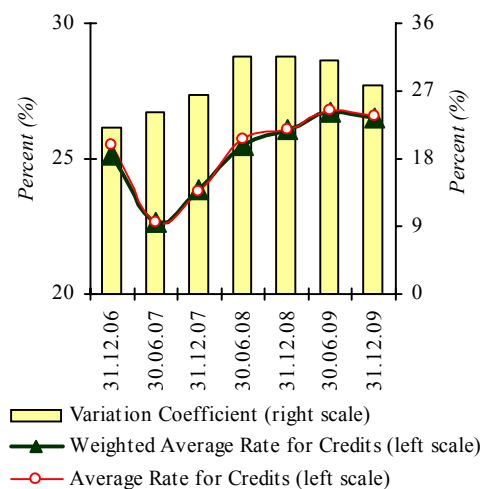
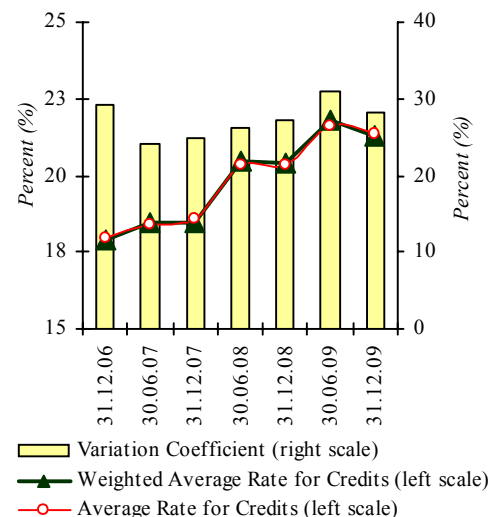


Diagram 2.1.9. Change in the Interest Rate Behaviors for Credits in Foreign Currency



⁶ The 'long-term credits' means the credits issued for a period of more than 1 year.

2.2. Risks

2.2.1. Credit Risk

Credit risk is one of the major risks, which goes with banking activity. This section covers the active banking operations with a credit risk exposure.

To assess credit portfolio quality, the commercial banks use the credit classification scheme¹ that allows to define a potential degree of losses incurred due to credit defaults and to compensate for them on a timely basis by establishing appropriate provisions

The classified and overdue credits, which are the first signs of deterioration in credit portfolio quality, claim the most attention when assessing the credit portfolio quality. In the second half of 2009 a decrease in the share of classified and overdue credits was observed in the credit portfolio (Diagram 2.2.1.1). At the same time, the value of assets default risk (the ratio of special PL to credit portfolio) was within the permissible level.

Change in the volume of credits categorized as the credits ‘under supervision’ can be viewed as one of the factors that can influence an increase or a decrease in the credit risk level in future. The specific weight of such credits decreased late in the second half of 2009 (Diagram 2.2.1.2), and they have kept holding a considerable share in the total credit portfolio (10.8 percent).

The banks created the volume of provisions adequate to the accepted credit classification; it accounted for 6.9 percent of the total credit portfolio (as of the end of the first half of 2009 this figure made 6.7 percent).

In the case of degradation of the classified credits’ quality by one category and supplementing of provisions, the amount of the ‘net’ total capital of banks will decrease inconsiderably.

Therefore, credit risk has remained at an acceptable level.

As of the end of the second half of 2009, the specific weight of the ‘net’ credit portfolio (balances of debts on client credits less the established specific provision for potential losses on

Diagram 2.2.1.1. Change in the Level of Credit Risk in Credit Portfolio of Banking System

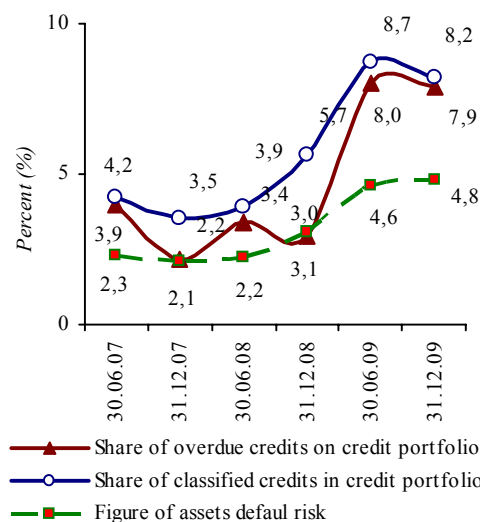
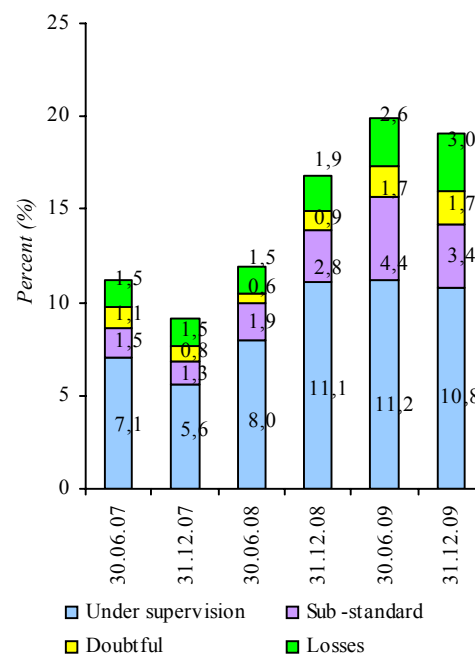
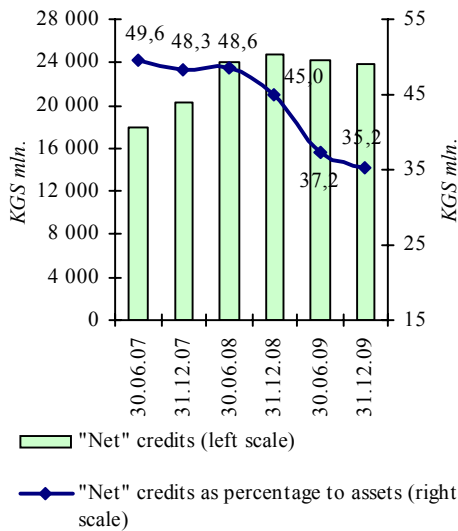


Diagram 2.2.1.2. Change in the Classification of Banking System Credit Portfolio



¹ In order to assess credit portfolio quality, it was accepted to mark out six categories subject to current opportunities of a client to discharge liabilities to a bank (in accordance with the order of classification declension): normal, satisfactory, under supervision, sub-standard, doubtful, and losses. The credits falling within the last three categories are used to be referred to the ‘inoperative’ or ‘classified’ ones as they have the most negative behaviors in terms of repayment of funds. For each of such six categories, a bank must assign a provision, which is specified as the percent of the amount of credits issued.

Diagram 2.2.1.3. Change in the Level of "Net" Credits

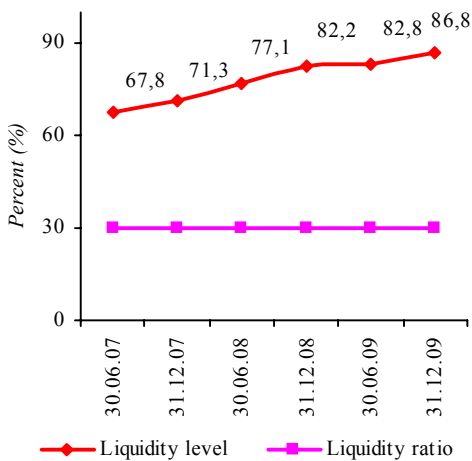


the classified credits) decreased by 2.0 percentage points compared to the previous half-year and amounted to 35.2 percent of the aggregate assets of the banking system (Diagram 2.2.1.3). This resulted in an increase in the specific weights of other asset groups of banks, correspondingly.

2.2.2. Liquidity Risk

People’s confidence in the banking system depends on banks’ timely discharge of their commitments; this implies the availability of sufficient liquidity with banks. With the purpose of regulation, liquidity risk is estimated in accordance with the current liquidity prudential standard².

Diagram 2.2.2.1. Dynamic of Change in the Calculated Value of Current Liquidity

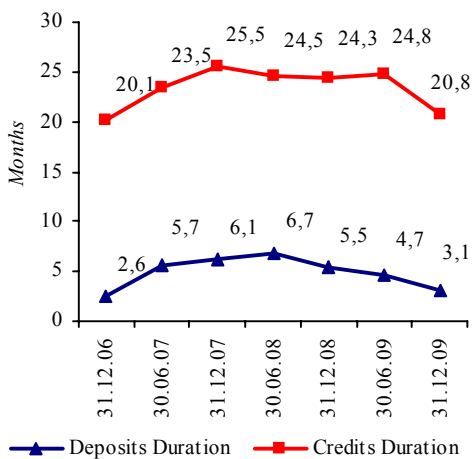


Actual level of the liquidity prudential standard maintained by the banking system remained rather high. On the average for the banking system, the calculated value of such regulation increased by 4.0 percentage points as compared with the end of the first half of 2009 to make 86.8 percent as of the end of the first half of 2009 (Diagram 2.2.2.1).

Excess of the liquidity actual value over the specified standard value indicates mobilization of the liquid assets in order to stand against the potential risks as a result of the world crisis influence.

Insufficient stability of deposits was proved by the data on change in the maturity of deposits and credits as well as by the stability coefficient for the sources of funds³.

Diagram 2.2.2.2. Dynamic of Change in the Duration of Banking System Credits and Deposits



During the reporting period (Diagram 2.2.2.2) the gap between the average terms for attracting deposits and for placing credits decreased, though it remained great; this suggests the latent disintermediation⁴ risks that can occur in some banks in the process of liquidity management. Nevertheless, it’s necessary to take into account that a certain part of credits is financed by banks from other long-term sources different from the deposits (capital, long-term borrowings from the financial institutions, etc). This fact decreases the potentiality of the above mentioned risk exposures.

Diagram 2.2.2.3 demonstrates the change in stability coefficient for the sources of funds compared to the dynamic of the deposit

² Economic standard of current liquidity is one of the regulations specified by the NBKR, which is obligatory for meeting by banks; according to it, the liquid assets should be of at least 30 percent level of the short-term liabilities.

³ Stability coefficient for the sources of funds is defined by a share (as a percentage) of fixed deposits in the total amount of deposits of the banking system

⁴ Disintermediation is a process of mass withdrawal of deposits by population prior to the specified time-limits due to the panic caused by escalation of inflationary expectations and/or other negative expectations.

base ratio to the 'net' credit portfolio. Rather small share of time deposits (22.5 percent for the second half of 2009) in the deposit base, undoubtedly, influences the volumes and terms of issued credits and complicates the process of liquidity management.

A considerable excess of deposits volume over the 'net' credits indicates some decrease in efficiency of the attracted funds use as compared with the 2008 level.

As a whole it should be noted that there was no grounds for occurring the lack of funds in the banking system to discharge liabilities during the reporting period. Yet, the prevailing volume of the short-term resources had a negative effect on the liquidity management process.

In the second half of 2009 the stability coefficient for financial assets increased (Diagram 2.2.2.3.).

Table 2.2.2.4 shows the data on the maturity of the financial assets and liabilities of banks as of the end of the second half of 2009. As a whole, the financial liabilities of banks were covered by the financial assets; the gap (excess of assets over liabilities) amounted to Soms 16.4 billion, including Soms 12.9 billion for credits and deposits. Therefore, the banks held enough assets to discharge their financial liabilities. Meanwhile, a negative gap is observed in the period of up to 90 days; this will require the banks to pay a special attention to assets and liabilities management for discharging their financial liabilities in the marked period.

Table 2.2.2.4. Maturity of Financial Assets and Liabilities
(Million soms)

Name	Maturity					Total
	up to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	more than 365 days	
1. Total financial assets	32 727,6	3 369,5	5 162,4	7 633,0	20 584,4	69 476,9
<i>including credits and financial lease to clients</i>	912,3	1 508,3	2 428,7	4 912,4	15 359,2	25 120,8
2. Total financial liabilities	25 725,0	12 268,8	2 813,2	5 951,3	6 307,5	53 065,9
<i>including deposits of individuals and time deposits of legal entities</i>	3 126,2	3 137,2	1 743,2	2 342,1	1 916,9	12 265,6
3. Total gap	7 002,5	-8 899,3	2 349,3	1 681,7	14 276,9	16 411,1
<i>including gap for credits and deposits</i>	-2 213,9	-1 628,9	685,4	2 570,3	13 442,3	12 855,2

Diagram 2.2.2.3. Assessment of Liquidity Factors of Banking System

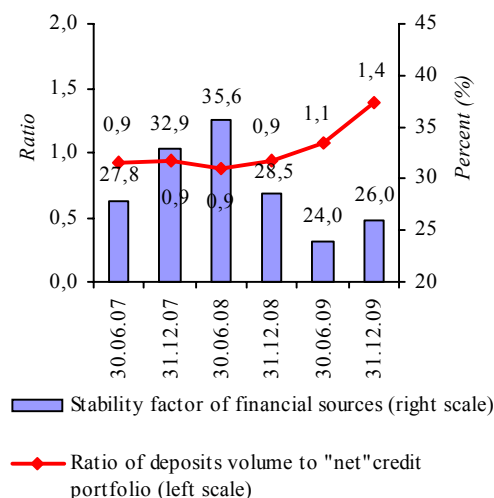


Diagram 2.2.3.1. Deposit concentration variation

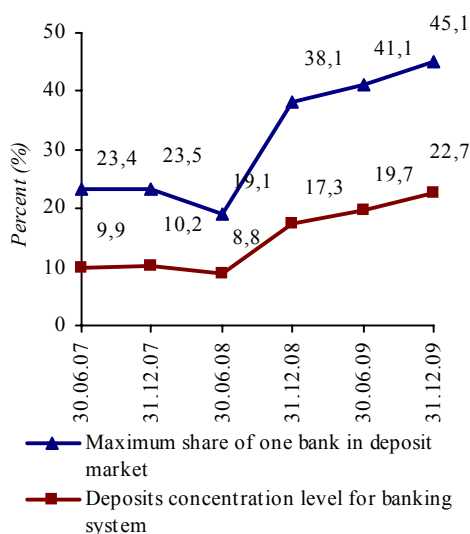


Diagram 2.2.3.2. Concentration of Deposits by Types of Currencies

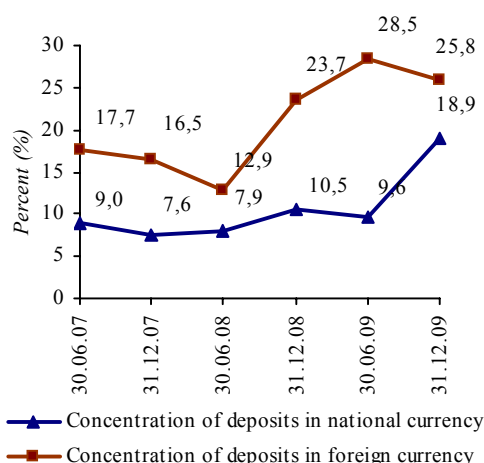
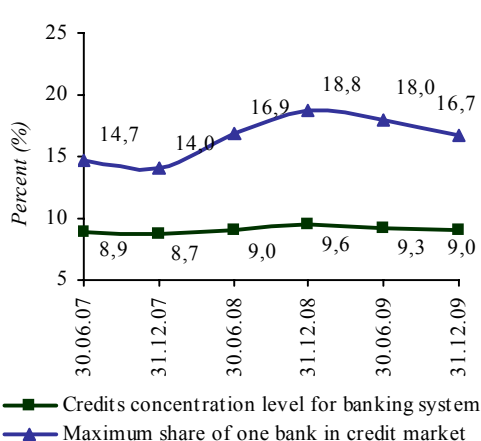


Diagram 2.2.3.3. Change in Credits Concentration



2.2.3. Concentration Risk

Special Features of Deposits Concentration. Diagram 2.2.3.1 demonstrates that in the second half of 2009 the level of deposits concentration in the banking system and maximum share per bank in the deposit market continued their growth. However, deposit concentration in foreign currency decreased from 28.5 percent to 25.8 percent. Deposit concentration in the national currency increased from 9.6 percent to 18.9 percent. (Diagram 2.2.3.2).

Deposit market concentration among the participants⁵ was high (more than 18 percent) and tended to growth.

Assessment of the concentration level in the banking system using another indicator – ‘The share of four large banks’ – also indicated the increase in deposit concentration from 63.0 percent to 65.2 percent.

Special Features of Credits Concentration. In the second half of 2009 a decrease in the credit portfolio of the banking system was accompanied by a decrease in the credits concentration assessed both in accordance with maximum share of any individual bank in the credit market and with credits concentration level compared to the end of the first half of 2009 (Diagram 2.2.3.3).

As to the indicator of the ‘Share of Four Large Banks’, in terms of credits concentration it can be noted that in the reporting period it increased from 49.7 percent to 50.9 percent.

In the second half of 2009 the value of credits concentration in foreign currency increased from 11.6 percent to 12.0 percent; as to the national currency it decreased from 12.5 percent to 12.0 percent (Diagram 2.2.3.4).

Complying with the results of analysis for credits concentration risk in sectors of economy, there was a fluctuation from ‘average’ to ‘high’ risks depending on a sector.

Based on the data of Table 2.2.3.6, a considerable increase in mortgage and construction credits in the structure of total credit portfolio can be marked. This caused the decrease in trade credits by 13.2 percent.

⁵ Assessment of concentration risk as ‘high’, ‘average’ or ‘low’ is based on generally accepted gradation of the concentration level. Thus, concentration risk is deemed to be ‘low’ where the concentration level makes up to 10percent; ‘moderate’ risk makes from 10percent to 18percent, and ‘high’ risk makes more than 18percent. For example, the concentration index equal to 50percent is equivalent to the market presence of 2 participants with equal shares; where it amounts to 33percent, the concentration index is equivalent to 3 participants, etc.

High concentration of credits issued for the needs of mortgage, construction, “other” credits and industry testified to the high crediting risk exposures in these sectors.

Therefore, as a whole for the Kyrgyz Republic banking system, the high concentration was marked for deposits both in the national and foreign currencies. As to the credits both in the national and foreign currencies, the concentration level was average. Credits concentration level by the sectors of economy, as a whole for the banking system, varied from “average” to “high” depending on a sector. A considerable growth of indicators of deposits concentration in terms of participants of this market resulted from an increase in the share of the largest commercial bank.

This activity was not attended by any considerable changes in interest rates due to (i) insufficient level of competition in the credit market, (ii) high demand for credit funds, and (iii) remaining high level of risks.

Diagram 2.2.3.4. Credits Concentration by Types of Currencies

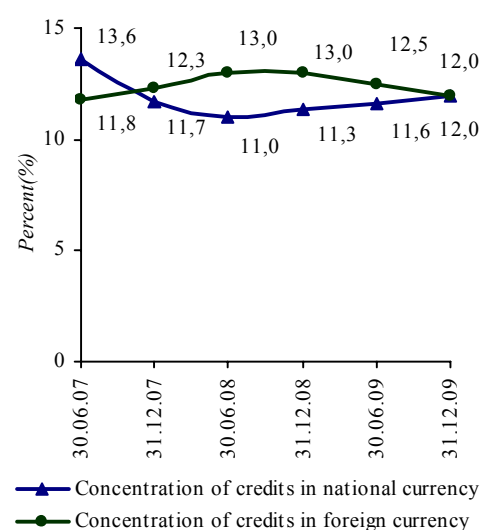


Table 2.2.3.5. Concentration of Banks Activities by Crediting Economy Sectors
(in percentage points)*

	30.06.07	31.12.07	30.06.08	31.12.08	30.06.09	31.12.09	Deviation to previous period (in percentage points)
Industry	20,1	22,0	20,6	18,6	15,7	14,0	-1,7
Agriculture	60,7	56,3	49,1	50,3	50,0	49,3	-0,7
Transport	27,0	22,1	25,5	24,3	23,3	20,9	-2,4
Communication	81,7	88,5	74,7	72,6	67,2	94,4	27,2
Trade	8,4	8,5	10,2	11,5	10,9	11,9	1,0
Procurement and Processing	45,9	37,5	32,2	32,7	34,8	38,0	3,2
Construction	17,0	16,7	14,6	13,5	12,0	12,2	0,2
Mortgage	20,4	18,2	16,8	17,9	17,8	18,6	0,8
Household	15,7	13,9	13,1	11,7	12,2	11,8	-0,4
Social Services	24,7	44,1	58,9	65,5	40,1	41,5	1,4
Other	13,8	14,6	15,5	15,5	16,6	17,2	0,6

* Concentration should be defined in accordance with the Herfindal index, which is calculated by adding index share squares in total volume of crediting in a sector. The concentration index of 100 percent means full monopolization of a specific market segment; 50 percent means the presence of 2 participants with equal shares; 33 percent implies 3 participants, etc.

Table 2.2.3.6. Banks Credit Portfolio Structure by Economic Sectors
(in percentage points)

	30.06.07	31.12.07	30.06.08	31.12.08	30.06.09	31.12.09	Deviation to previous period (in percentage points)
Industry	7,7	6,8	6,2	5,7	6,1	5,5	-0,6
Agriculture	13,1	12,2	11,9	11,5	12,1	12,2	0,1
Transport	0,7	0,7	1,0	1,0	1,0	1,0	0,0
Communication	0,9	0,6	0,3	0,5	0,4	0,1	-0,3
Trade	36,8	37,9	36,7	36,1	38,2	41,5	3,3
Procurement and Processing	0,8	0,6	0,5	0,5	0,4	0,4	0,0
Construction	6,1	6,8	7,8	9,5	8,5	7,7	-0,8
Mortgage	14,9	15,8	13,9	14,0	13,2	12,3	-0,9
Household	7,6	6,6	8,4	8,3	7,8	8,0	0,2
Social Services	0,1	0,1	0,4	0,4	0,2	0,1	0,0
Other	11,3	11,9	13,0	12,4	12,2	11,2	-0,9
Total:	100,0	100,0	100,0	100,0	100,0	100,0	x

2.3. Capital Adequacy Level

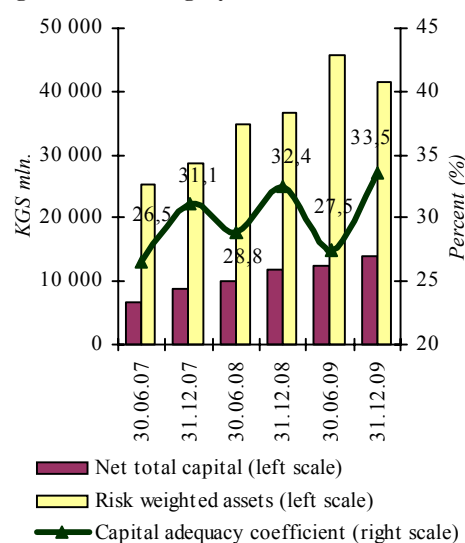
All the risks inherent in the banking activity eventually impact on the financial outcome of this activity (both already occurred as direct damages and those of high likelihood ratio for future losses through the costs incurred due to creating relevant provisions) and influence the equity amount of a bank – its capital. That's why capital amount defines bank's stability in the case of any potential negative changes.

Under the specified minimum capital adequacy of 12.0 percent, this value, on the average for the banking system, amounted to 33.5 percent for the second half of 2009 (Diagram 2.3.1). The increase in capital adequacy level occurred due to the higher increment rates for the net total capital (10.7 percent) compared to the decrease in the risk weighted assets of the banking system (by 9.3 percent).

Actual level of capital adequacy allows to supplementary increase the volume of risky and earning assets by more than 2 times and without excess of the acceptable level of risk in the banking system activity as a whole

The above mentioned data indicate relative stability of the banking system against the negative shocks and availability of some capacity for increasing the level of financial intermediation and efficiency of the banking system operation in future.

Diagram 2.3.1. Change in Capital Adequacy Figures of Banking System



2.4. Financial Results

A main indicator of the banking activity profitability is the coefficient of the return on assets (ROA), which is defined as the ratio of the made profit to the average level of assets as well as the coefficient of the return on equity (ROE) defined as the ratio of the made profit to the average amount of the Tier 1 Capital

In the second half of 2009, in the banking system of the Kyrgyz Republic, ROA amounted to 2.5 percent year-on-year (2.5 percent for the first half of 2009); ROE amounted to 13.6 percent year-on-year (13.2 percent for the first half of 2009).

As to the key indicators of the banking system yield against the average value of assets, there was the decrease in the after-tax interest (from 6.4 percent to 6.8 percent) that occurred due to a greater decrease in the interest income compared to a greater increase in the interest expenses (Table 2.4.1).

Table 2.4.1. Key Indicators of Banking System Yield

(in percentage points against average value of assets for the period (the half-year))

	30.06.08	31.12.08	30.06.09	31.12.09
Total interest income	11,2	11,6	10,0	9,6
Total interest costs	4,0	4,0	3,6	3,3
Net interest income	7,2	7,5	6,4	6,3
Deductions in PI (for credits)	0,8	0,8	0,9	0,6
Net interest income after deductions in PL	6,4	6,7	5,5	5,7
Total non-interest income	9,0	23,3	17,8	16,8
Total non-interest costs	4,1	17,8	13,8	12,5
Total other operat. and administ. costs	7,6	8,0	6,4	6,8
Deductions in PI (for other assets)	0,0	0,0	0,3	0,3
Net income (loss) prior to taxation	3,7	4,2	2,8	2,8
Profit tax	0,4	0,4	0,3	0,3
Net profit (loss)	3,4	3,8	2,5	2,5
Period average value of assets (bln. soms)	44,6	48,5	61,6	64,1

When considering the non-interest incomes and expenses of the commercial banks, the decrease in the non-interest incomes (from 17.8 percent to 16.8 percent against the average level of assets) and in the non-interest expenses (from 13.8 percent to 12.5 percent) was marked. The level of the operational and administrative expenses of banks increased by 0.4 percentage points.

The level of profit taxes remained the same and, thus, the net profit amounted to 2.5 percent against the average value of assets for the second half of 2009

Absolute amount of the net profit of the banking system amounted to Soms 1.59 billion in the second half of 2009, while in the first half of 2009 it amounted to Soms 0.76 billion (Diagram 2.4.2).

Credit portfolio yield defined as the ratio of interest income on credits to the average value of the balances of principle receivable increased by 0.1 percentage points and amounted to 20.2 percent as of the end of the second half of 2009 (Diagram 2.4.3).

As of the end of the second half of 2009, the ratio of assets to the number of the commercial banks' employees amounted to Soms 7.4 million (Soms 7.5 million as of the end of the first half of 2009). It was connected with comparatively small increment of assets, which made 4.4 percent, whereas the number of the commercial banks' employees increased by 5.8 percent.

Therefore, the indicators of the banking activity yield, on the whole, testified to the stable and positive dynamic. At the same time, the level of the mean value of capital adequacy requirement suggests the opportunity of additional outreach of the banks' active transactions. The efficiency of assets application can be significantly enhanced by decreasing a share of the low-profit assets

Diagram 2.4.2. Change in Assets Yield

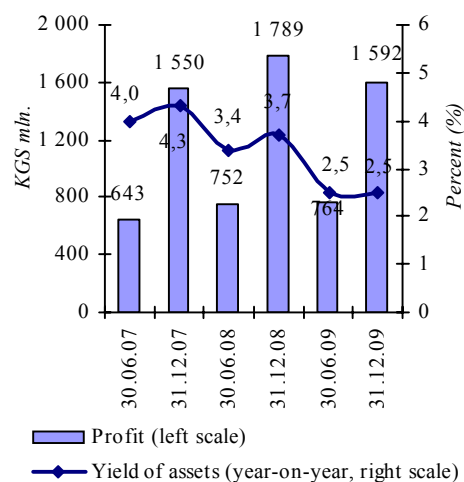
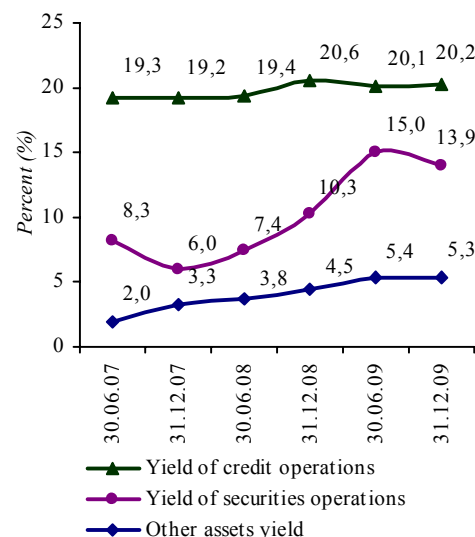


Diagram 2.4.3. Earning Yild of Individual Types of Operations



2.5. Financial Intermediation Indicators

Diagram 2.5.1. Dynamic of Deposits Volumes and Deposits Ratio to GDP

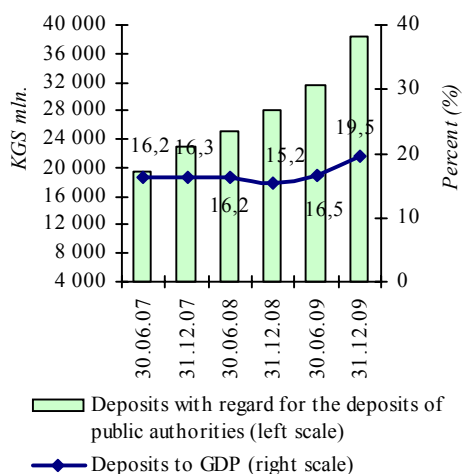
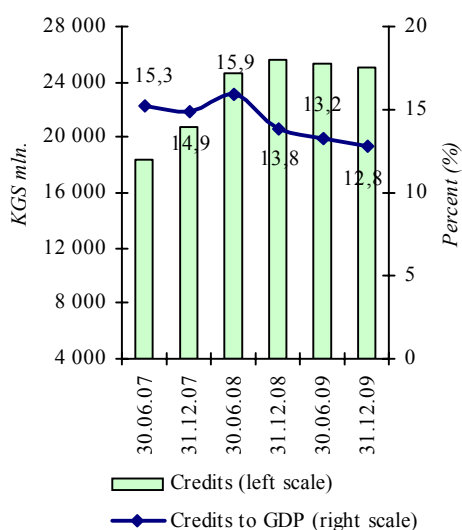


Diagram 2.5.2. Dynamic of Credits Volumes and Credits Ratio to GDP



The role of the banking industry as the financial intermediary that accumulates financial resources for their further transfer between the sectors of economy directly depends on the development level and efficient operation of the banks

The ratio of deposits volume¹ to the GDP² volume made 20.2 percent as of the end of the second half of 2009 (16.5 percent for the first half of 2009, Diagram 2.5.1). The increase in this indicator was caused by the higher growth rates for deposits (25.7 percent) compared to the growth rates for GDP (2.3 percent) for the reporting period. A decrease in the credit portfolio was marked for the reporting period; the drawdown rate for credit volumes made 1.1 percent, whereas the increment rate for deposit volumes amounted to 25.7 percent.

The ratio of the overall volume of credits issued to clients to the GDP volume decreased by 0.4 percentage points compared to the same indicator for the first half of 2009 and amounted to 12.8 percent (Diagram 2.5.2)

As of the end of the second half of 2009, the volume of credits amounted to Soms 25.1 billion that was by 1.1 percent lower than the volume of credits as of the end of the first half of 2009.

In terms of client credits, the most growth was marked for the credits issued to trade (11.3 percent) and agriculture (3.1 percent).

The ratio of credits indebtedness to deposit volumes made 63.2 percent against 80.4 percent for the first half of 2009; this was connected with the increment of deposits, which exceeded the growth of credits (Diagram 2.5.3)

As of the end of the second half of 2009, the weighted average interest rate for newly issued credits in the national currency amounted to 26.5 percent (0.2 percentage points decrease compared to the first half of 2009). The interest rate for newly issued credits in foreign currency decreased by 0.5 percentage points to make 21.3 percent as of the end of the second half of 2009.

The remaining high spread of the interest rates for credits and

¹ For the purposes of this section the term 'deposits' mean the deposits of enterprises and population as well as the deposits and credits of the Kyrgyz Republic state agencies.

² The data on nominal GDP for the last 12 months are used for the calculation.

deposits in the Kyrgyz Republic was conditioned by the impact of the following factors:

- continuing high level of credit risk;
- high demand for credit funds;
- not rather high level of competition in credit market.

In terms of financial intermediation level, it is necessary to mark the increase in the value of the aggregate assets ratio to GDP (Diagram 2.5.4). Thus, for the end of the second half of 2009 this ratio made 34.6 percent (33.9 percent as of the end of the first half of 2009)

Despite the stable growth during the last several years, some indicators of the financial intermediation still have rather low values, and, thus, the possibility for further developing and enhancing the efficiency of the banking system activity still exists.

The commercial banks have some strength reserve, nevertheless general risk exposure of banks shows that the banking system will be able to withstand some financial risks in the short-term period. However, in the case of potential deterioration in general macroeconomic situation and high volatility of currency rates, some deterioration in credit portfolio quality is possible.

Diagram 2.5.3. Dynamic of Credits Ratio to Deposits

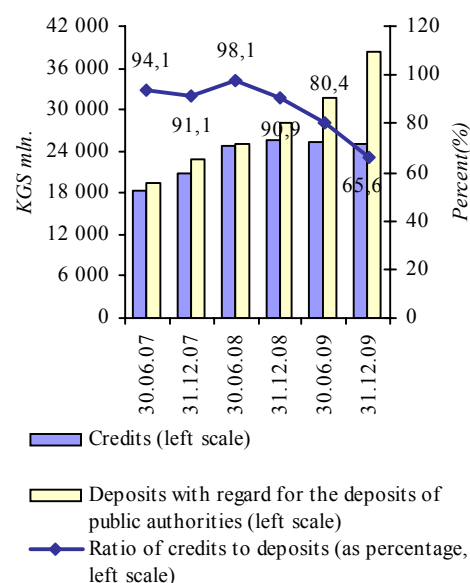
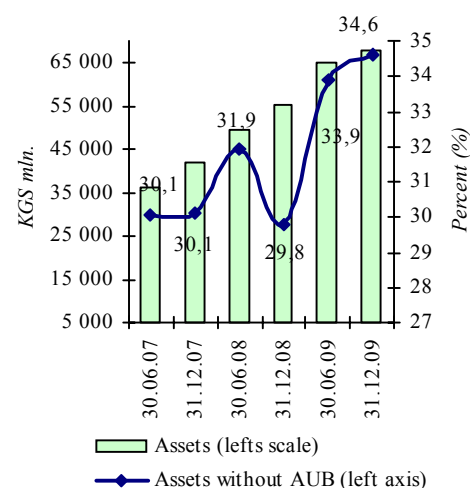


Diagram 2.5.4. Dynamic of Assets Volumes and Ratio of Assets to GDP



III. NON-BANKING FINANCIAL INSTITUTIONS

3.1. State of the Non-Bank Financial Institutions System

The system of non-banking financial institutions (NBFI) includes the following institutions liable to the NBKR supervision (Table 3.1.1)

- LLC Financial Company for Support and Development of Credit Unions (LLC FCSDCU)
- LLC Special Fund for Banks Refinancing¹ (LLC SFBR)
- CJSC Development Fund of the Kyrgyz Republic² (Development Fund);
- credit unions (CU);
- microfinance organizations (MFO) that include microfinance companies (MFC), micro-credit companies (MCC), and micro-credit agencies (MCA);
- pawn offices³;
- exchange bureaus.

Table 3.1.1. Dynamic of the Non-Banking Financial Institutions

Name	2005	2006	2007	2008	2009
FCSDCU	1	1	1	1	1
SFBR	-	-	-	-	1
Development Fund	-	-	-	-	1
MFO	136	168	233	291	359
Credit Unions	320	305	272	248	238
Pawn shops	140	148	181	196	231*
Exchange offices	260	263	318	353	372
Total	858	886	1005	1089	1203

* Data as of September 01, 2009

Increase in the overall amount of the NBFI, in the volumes of assets and credit portfolio indicates the demand for NBFI services as well as was explained by rather liberal legislative requirements to their establishment and operation.

According to the submitted regulatory reports for the second half of 2009, the total NBFI assets increased by 123.6 (Diagram

¹ SFBR obtained the National Bank's license on May 6, 2009.

² Development Fund obtained the National Bank license on September 2, 2009.

³ Licensing of pawn offices was stopped from September 08, 2009.

3.1.1). Since the start of the year of 2008, the growth of aggregate assets made 153.4 percent. As of December 31, 2009, their volume came up to Soms 27,123.5 million⁴.

For the second half of 2009 the growth rates of the NBFI own capital made 88.4 percent, while the NBFI joint liabilities amounted to 133.9 percent. Meanwhile, since the start of 2009, the growth rate for the NBFI own capital made 141.3 percent, while the NBFI joint liabilities grow up amounted to 161.3 percent

For 2009 the NBFI consolidated profit (Diagram 3.1.2) increased by 32.4 percent to make Soms 746.7 million compared to 2008. It was connected with an increase in the volume of the NBFI main capital earning asset – the credit portfolio – with start of operation of the Development Fund and the SFBR as well as due to an increase in the share of large MFO. At the same time, there was some decrease in the figures of return on equity (ROE) and return on assets (ROA).

Diagram 3.1.1. Dynamic of Total Assets of NBFI

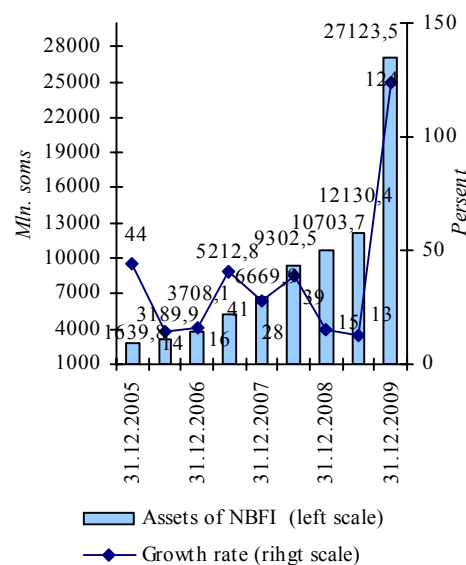
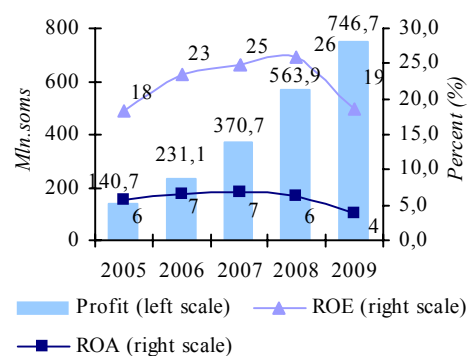


Diagramm 3.1.2. Dynamic of Net Profit as well as ROA and ROE of NBFI



⁴ The NBFI system data were submitted without regard for the FCSDCU and SFBR credit portfolio since the credits were issued to FCI that re-credited them.

3.2. Credit Portfolio Structure and Dynamic

Diagram 3.2.1. Dynamic of NBFI Credit Portfolio

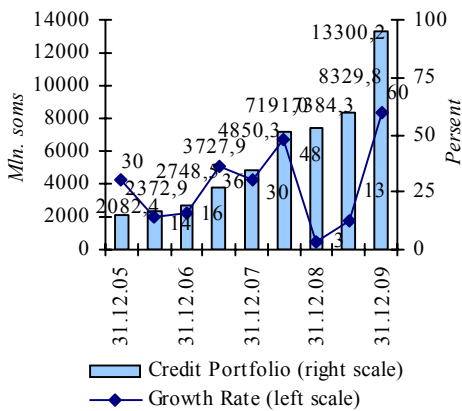


Diagram 3.2.2. Total Credit Portfolio by NBFI Types (mln. somms)

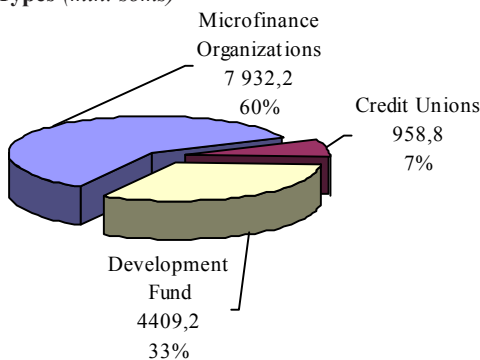


Diagram 3.2.3. Total Credit Portfolio of NBFI in terms of Oblasts (mln. somms)

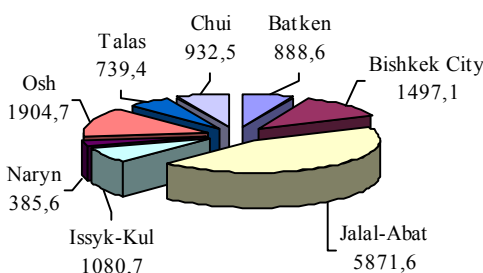
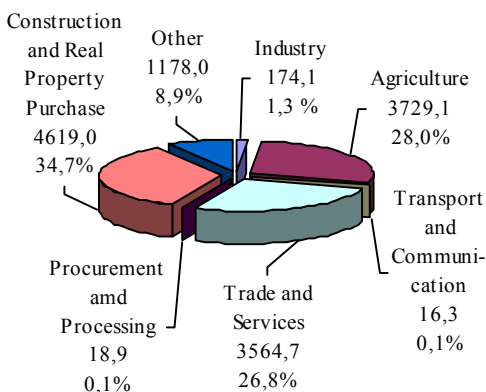


Diagram 3.2.4. Total Credit Portfolio of NBFI by Sectors of Economy (mln. somms)



Credit financing is a principal area of the non-banking financial institutions' activity

For the recent years, the NBFI credit portfolio had a stable growth trend (Diagram 3.2.1).

For the second half of 2009 the total NBFI credit portfolio increased only by Soms 4,970.4 million, or 59.7 percent, and since the start of 2009 the increase made 80.1 percent. As of December 31, 2009, the NBFI total credit portfolio reached Soms 13,300.2 million.

In the reporting period, the share of the credit portfolio in the NBFI aggregate assets decreased from 68.7 percent as of June 30, 2008 to 49.0 percent as of December 31, 2009.

The growth of NBFI credit portfolio volume was attended by the increase in the number of borrowers by 11,170 people, or by 3.6 percent, in the second half of 2009; whereas from the start of 2009 it made 27.0 percent. As of December 31, 2009, the number of NBFI borrowers amounted to 324,665 people (313,495 people as of June 30, 2009).

In the structure of the NBFI total credit loan portfolio (Diagram 3.2.2), amounted to 59.6 percent were related to the credits of MFO; 33.2 percent was within the credits of the Development Fund, and credits 7.2 percent were within the credits of CU.

In the context of the oblasts (Diagram 3.2.3) the major share of the credit portfolio concentrated in the Jalal-Abad, Osh Oblasts and Bishkek. As a whole, the highest activity was observed in the country's south and in the capital due to the higher population density and its economic activity in the sectors of agriculture and trade

In the second half of 2009 the highest volume of NBFI loans were granted to construction (34.7 percent) and agriculture (28.0 percent) (Diagram 3.2.4). This was connected with the fact that the credits in the amount of Soms 4,409.2 million were issued for the Kambarata HES-2 construction.

3.3. Major Risks

NBFI credit portfolio was concentrated mainly in construction and agriculture as well as in the business related to agriculture and located in rural area. Agriculture credit financing was attended by high risks due to the dependence from weather and climatic conditions and to rather low income of rural population.

Another risk factor consisted in concentration. 7 large MFOs, which were established and performed their activity due to the funds of foreign donors, held a principal share of the credit portfolio. The credit portfolio share of these MFOs accounted for 50.2 percent of the NBFI total credit portfolio. The NBFI growth trend was conditioned by the increasing volume of outward investments

Interest rates on the credits of non-banking financial institutions remained at a rather high level due to the remaining high demand for these types of credits on the part of the population as well as due to the NBFI endeavor to cover the existing high risks.

Table 3.3.1. Weighted Average Rates for Credits of the Non-Banking Financial Institutions (as percentage)

Name	31.12.2008	30.06.2009	31.12.2009
FCSDCU	13,5	14,4	14,6
SFBR			11,0
Development Fund			3,5
Microfinance Organizations	32,4	33,2	34,5
Credit Unions	28,0	29,0	29,5
Pawn shops	132,3	122,8	*

* data is absent so far as Pawn shops are not licenced any more

IV. PAYMENT SYSTEM

4.1. Payment System Structure

Payment system constitutes an interrelated system of technologies, procedures, rules, payment tools, and money transfer systems that provide money circulation. Subject to the types of the payments effected, the systems are divided into the large payments systems and retail payments systems.

The payment systems of the Kyrgyz Republic (national payment system) constitute the complex of payment systems performing money transfer in the Kyrgyz Republic in compliance with the Kyrgyz Republic legislation; their operators can be both residents and non-residents of the Kyrgyz Republic.

The following payment system components operated in the Kyrgyz Republic as of the end of 2009:

1. Large payments system of the National Bank - Real Time Gross Settlement System (RTGS).
2. Clearing Payment System - The System of Package Clearing for Small Retail and Regular Payments (CPS).
3. Plastic Cards Settlement System.
4. Money Transfer System.
5. Trans-Boundary Payment System

Table 4.1.1. List of the Banks Providing Service of Money Transfer Systems

Money Transfer System	Names of the Commercial Banks
Western Union	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, CJSC Demir Kyrgyz International Bank, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, CJSC KIKB, OJSC Kazkommertsbank Kyrgyzstan, OJSC Kyrgyzcredit Bank, OJSC CB Kyrgyzstan, OJSC RSK Bank, CJSC JSCB Tolubai, OJSC Ecobank, OJSC ATFBank – Kyrgyzstan, BB NB Pakistan, OJSC, FCB KAB, CJSC Manas Bank.
Money Gram	OJSC AsiaUniversalBank, OJSC RK Amanbank, OJSC Bank Bakai, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC RSK Bank, OJSC FinanceCreditBank KAB
Contact	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, OJSC Doscredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, OJSC Kyrgyzcredit Bank, OJSC CB Kyrgyzstan, CJSC JSCB Tolubai, OJSC Ekobank, OJSC ATF Bank-Kyrgyzstan, OJSC FCB KAB, CJSC Manas Bank, OJSC Aiyl Bank
Anelik	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, CJSC Demir Kyrgyz International Bank, OJSC Dos-Credobank, OJSC IB Issyk-Kul, CJSC BTA Bank, CJSC Kyrgyz Investment and Credit Bank, OJSC KyrgyzCreditBank, OJSC Commercial Bank of Kyrgyzstan, OJSC Ekobank, OJSC FinanceCredit Bank KAB, OJSC Aiyl Bank
Lider	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, OJSC Dos-Credobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, CJSC KIKB, OJSC KyrgyzCreditBank, OJSC CB Kyrgyzstan, OJSC RSK Bank, CJSC JSCB Tolubai, OJSC Ecobank, OJSC ATF Bank-Kyrgyzstan, OJSC FCB KAB, CJSC Manas Bank, OJSC Aiyl Bank

4.2. Banking Products, Rates and Services

The competitive activity for attracting clients promote expansion of the range of banking products both due to enhancing the service quality and to reduction of own expenses.

Rate policy of the commercial banks is aimed at gradual provision of a wide range of banking and payment services to population, facilitation of the access to any rendered services, improvement of the mechanisms for liquidity management in the process of effecting payments and settlements.

Banks apply different approaches to charging payment for the same services:

- fixed rates for any single transaction;
- rates prescribed with regard to an amount of operation or a balance on account;
- charge for a period regardless the number or an amount of the operations performed;
- other mechanisms complied to the conditions of any agreements concluded.

The most popular services are as follows: settlement and cash services, documentary transactions, non-cash transfers, securities transactions, credit issue operations and payment cards service.

On the instruction from clients, the commercial banks perform the following transactions:

- collection, documentary credit and transfer operations;
- providing bank acceptance and aval for debt liabilities;
- purchase and sale of securities, currency and precious metals;
- intermediation in floating shares and bonds;
- encashment services;
- services for the accounting purposes, providing consulting services and credit cards services.

In the reporting period, the value of the service for issuing (opening) a letter of credit made from 0.1% to 0.25% on average, subject to the amount of the letter of credit.

In the second half of 2009, 17 banks provided services for issuing

Table 1. *Continue*

Migom	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, CJSC BTA Bank, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, OJSC Halyk Bank Kyrgyzstan, CJSC KIKB, OJSC KyrgyzCreditBank, OJSC CB Kyrgyzstan, OJSC RSK Bank, CJSC JSCB Tolubai, OJSC Ecobank, OJSC ATF Bank-Kyrgyzstan, OJSC FCB KAB, CJSC Manas Bank, OJSC Aiyl Bank
Strana Express, Kyrgyz Transfer	OJSC RSK Bank
Bystraya Pochta	OJSC Bank Bakai, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC KAzcommercebanc Kyrgyzstan, OJSC KyrgyzCreditBank, OJSC CB Kyrgyzstan, OJSC RSK Bank, OJSC ATF Bank-Kyrgyzstan
Unistream	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, CJSC Demir Kyrgyz International Bank, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, CJSC KIKB, OJSC Kyrgyzcredit Bank, OJSC CB Kyrgyzstan, OJSC RSK Bank, CJSB JSCB Tolubai, OJSC Ecobank, OJSC ATFBank – Kyrgyzstan, OJSC FCB KAB, CJSC Manas Bank, OJSC Aiyl Bank
Xpress Money	OJSC RK Amanbank, OJSC AsiaUniversalBank
Inter Express	OJSC RK Amanbank, OJSC AsiaUniversalBank, OJSC Dos-Kredobank, OJSC Commercial Bank of Kyrgyzstan, CJSC BTA Bank, OJSC Aiyl Bank
Blizko	OJSC RK Amanbank, CJSC Bank of Asia, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Kyrgyzcredit Bank, CJSB JSCB Tolubai
Allyur	OJSC AsiaUniversalBank, OJSC RK Amanbank, OJSC Bank Bakai, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, OJSC Kyrgyzcredit Bank, OJSC Ecobank
Private Money	OJSC AsiaUniversalBank, OJSC RK Amanbank, OJSC IB Issyk-Kul
Faster	JSC BTA Bank, OJSC FCB KAB
Coinstar (Travellex)	OJSC Ecobank, OJSC FinanceCreditBank KAB
Zolotaya Korona	OJSC AsiaUniversalBank, OJSC RK Amanbank, CJSC Bank of Asia, OJSC Bank Bakai, CJSC BTA Bank, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, OJSC Kyrgyzcredit Bank, OJSC CB Kyrgyzstan, CJSB JSCB Tolubai, OJSC ATF Bank – Kyrgyzstan, CJSC Manas Bank, OJSC Aiyl Bank
Caspian	CJSC BTA Bank

bank guarantee. The value of this service depends on the amount and type of a pledge; the highest commission fee for issuing bank guarantee amounted to 8.0%.

Commercial banks as the participants of money transfer systems provided more than 19 kinds of international money transfer services (Table 4.1.1).

The price of connecting to the Internet banking system depends on the way of accessing. 11 commercial banks provide the services of Internet banking in the Kyrgyz Republic: *the OJSC AsiaUniversalBank, the OJSC RK Amanbank, the OJSC Bank Bakai, the OJSC Dos-Credobank, the CJSC Demir Kyrgyz International Bank, the CJSC ACB Tolubai, the OJSC FinansCreditBank CAB, the OJSC Kyrgyzcreditbank, the OJSC Kazkommertsbank Kyrgyzstan, the OJSC ATF – Bank Kyrgyzstan, and the CJSC Manas Bank.*

4.3. Cash Flows and Non-Cash Transactions

4.3.1. Cash Flows

The total amount of money in circulation increased by 4,935.4 millions of soms (or by 16.0%) against the comparable period of 2008 and amounted to 35,738.7 millions of soms as of the end of 2009.

1,818.3 millions of soms was contained in the cash departments of the commercial banks that amounted to 5.1% of the total amount of money in circulation.

Increase in the welfare transfers by government and a stable demand of economy for cash money facilitated the growth of money in circulation.

Return of cash assets to cash departments of the commercial banks amounted to 132,574.1 millions of soms in the second half of 2009 that was by 2,931.3 millions of soms lower than for the second half of 2008.

In the second half of 2009, 136,339.9 millions of soms were issued by the commercial banks' cash departments; it was by 550.7 millions of soms less than in the second half of 2008.

The change in the figures of cash receipt, issue and return to cash departments of the commercial banks is shown in Diagram 4.3.1.2.

In the second half of 2009 the highest value of cash assets return amounted to 108.5% (for Osh City); the lowest value made 57.6% (for the Naryn Oblast) (Diagram 4.3.1.3). Cash assets return amounted to 106.3% for Bishkek and 107.8% for the Chui Oblast. The high values of cash assets return in Bishkek and the Chui Oblast were connected with concentration of the banking and financial institutions as well as the trade and industrial enterprises in the capital of the republic and in the Chui Oblast. The high value of cash assets return in the Osh Oblast was associated with more saturated consumer market; although, the percent of cash assets return for the Osh Oblast was low on the whole. As a whole for the republic, the cash assets return in the context of oblasts changed inconsiderably compared to the second half of 2008.

Therefore, the increase in money in circulation in the second half of 2009 corresponded to actual demands of economy in money in circulation.

Diagram 4.3.1.1. Dynamic of Money in Circulation

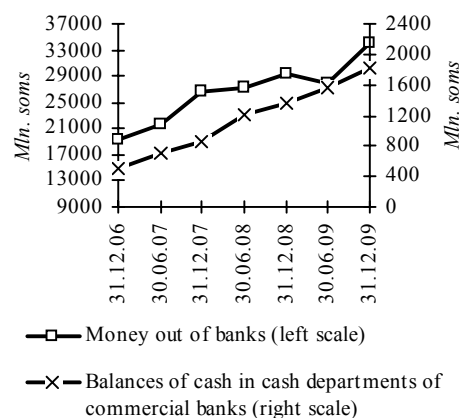


Diagram 4.3.1.2. Receipt and Issue of Cash and their Return to Cash Departments of Commercial Banks

Diagram 4.3.1.3. Return Rate of Cash by Oblasts

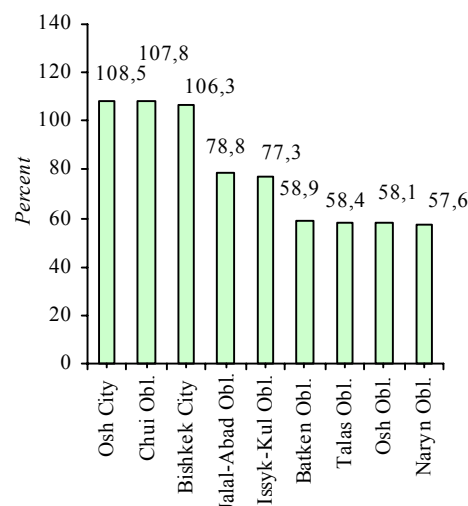


Diagram 4.3.2.1. Dynamic of the Volume and Number of Interbank Payments

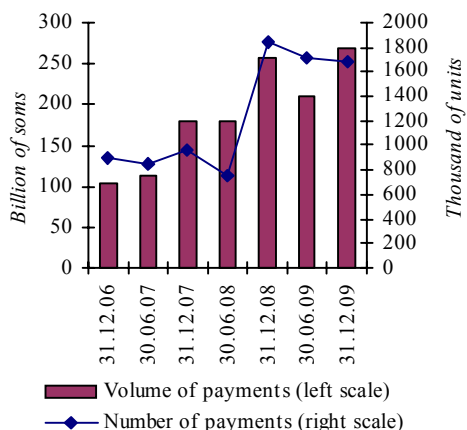


Diagram 4.3.2.2. Dynamic of the Volume and Number of Payments in the Gross System

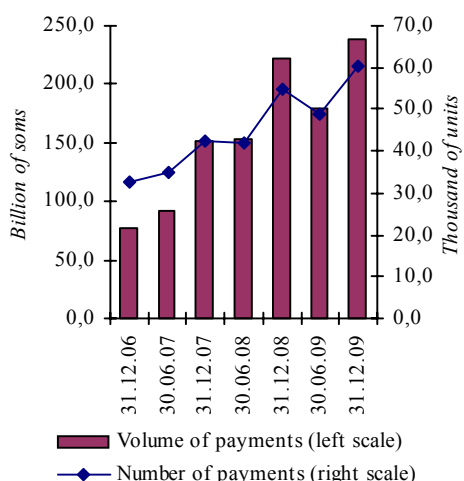
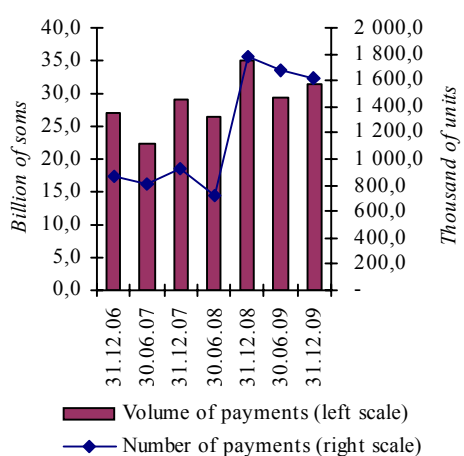


Diagram 4.3.2.3. Dynamic of the Volume and Number of Payments in the Clearing System



4.3.2. Non-Cash Transactions

In the second half of 2009 there were effected 1, 682.995 payments for the total amount of 269,199.8 millions of som through the payment systems of the Kyrgyz Republic. The volume of payments increased by 4.7%, while the number of payments decreased by 8.4% compared to the values of the second half of 2008 (Diagram 4.3.2.1.).

In the second half of 2009, 60,482 payments for the amount of 237,701.2 millions of som were effected through the gross settlement system of the National Bank. The volume of payments increased by 6.9%, and the amount of payments increased by 10.7% against the comparable period of the previous year (Diagram 4.3.2.2.).

The volume of payments affected through the clearing payment system decreased by 9.7% against the comparable period of the previous year and amounted to 31,498.6 millions of som. The overall number of payments made 1,622.513 payments; it was by 8.9% less than for the comparable period of 2008 (Diagram 4.3.2.3.).

In the regional context, the Chui Oblast and Bishkek were the leaders by the number and volume of the clearing payments in the second half of 2009; the volume of clearing payments within them made 70.1%, while their amount made 64.2%.

4.3.3. Bank Cards Payment Systems

As of the end of 2009, 19 out of the 22 commercial banks of the republic provided the emission, acquiring and the settlement and cash services to clients using bank payment cards; 16 of the commercial banks were the emitters that issued the cards of international systems (9 banks), local systems (4 banks) as well as of the integrated national system (18 banks)

For the reporting period the acceptance and service through the integrated national *Elkart* System was performed by 154 cash machines installed throughout Bishkek and 428 terminals, among which 335 terminals have been installed in the branch offices and savings departments of the commercial banks; 93 terminals were installed in the trade-and-service centers and in the public spaces around Bishkek as well as in the district and oblast centers.

As a whole for the end of 2009, the commercial banks issued 65,420 cards of the Unified National Payment System *Elkart*

During the second half of 2009 there was activation in the payment cards market; an increase in the number of emitted cards and transactions with their use was indicative of this. Thus, the overall number of emitted cards made 167,870 as of the end of 2009, that constituted the 54.4% increase against the comparable date of the previous year (Diagram 4.3.3.1.).

The overall number and volume of the transactions performed with cards increased by 82.4% and 42.3%, correspondingly, against the comparable period of 2008 (Diagram 4.3.3.2.).

As before, the principal share of transactions fell within the withdrawal of monetary assets through cash machines and terminals; their volume accounted for 5,549.0 millions of the total volume of transactions, while their turnover in the retail-and-service enterprises amounted to 148.9 million soms. These data indicate that converting money into cash constituted more demanded type of transactions and accounted for 97.4% of the overall volume of transactions with use of cards.

One of the priority areas of banks development strategy was the increase in the number of bank accounts and the implementation of the ‘payroll’ projects on the basis of the international, local and national systems using cards. Due to these very projects, the banks achieved a sound increase in the cards emission and transactions volumes; this allowed to make progress towards strengthening the position of banks in the bank cards market.

In the second half of 2009, 19 commercial banks made arrangements to implement and expand the ‘payroll’ projects on the basis of cards of the international, local and national systems.

In total, the banks serviced 83,661 cards within 895 projects, which accounted for 49.8 % of the total number of cards issued.

Commercial banks continued developing the infrastructure for accepting and servicing cards. Thus, as of the end of 2009, in terms of the systems, the overall number of the operating terminals and cash machines amounted to:

- 154 cash machines and 428 terminals for the Elkart Unified National System. As a result of integrating the payment systems using bank cards, all international systems’ cash machines and 44 terminals of the Alai-Card Local System accept for servicing the Elkart Payment Card;
- 132 cash machines and 712 terminals for international

Diagram 4.3.3.1. Dynamic of Emitted Cards Quantity

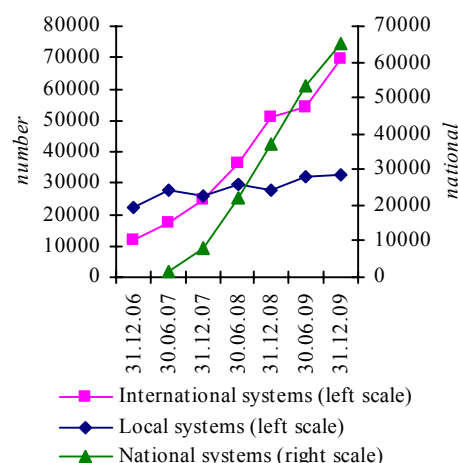
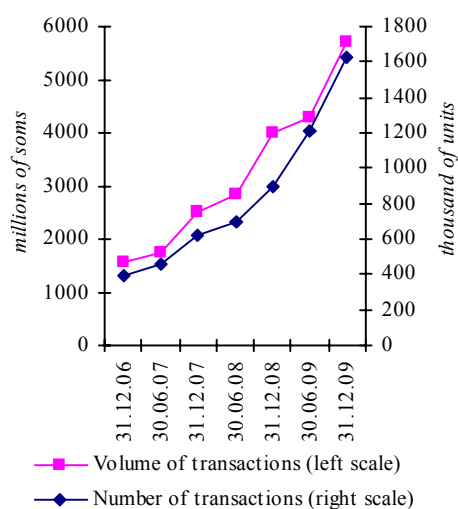


Diagram 4.3.3.2. Dynamic of the Volumes and Number of Transactions using Bank Cards

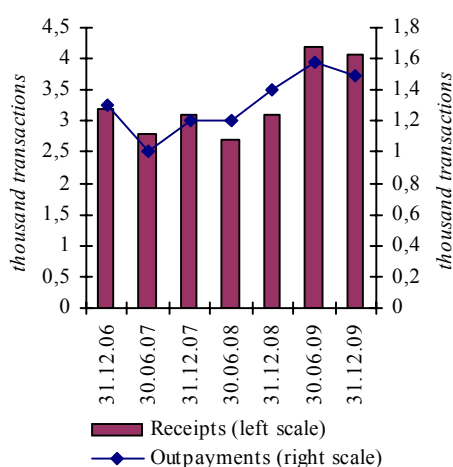


systems; among them, 39 service Demir 24 Local Cards;

- 29 cash machines and 225 terminals for the Alai-Card System; among them, 72 terminals accept and service the cards of the Zolotaya Korona System.
- Therefore, bank payment cards were accepted for servicing by 315 cash machines and 1,388 terminals installed in the public spaces throughout the republic.

4.3.4. Trans-boundary Payments including Travel Check Transactions

Diagram 4.3.4.1. Dynamic of Transactions in the SWIFT System



As of the end of the second half of 2009, 23 banks of the Kyrgyz Republic (including the National Bank) were the SWIFT System members. 17 banks operated through the general-purpose interface of SWIFT NBKR MAU. 5 banks were connected autonomously, and 1 bank operated through the head office in Kazakhstan – OJCS Kazcommercebank Kyrgyzstan.

In the second half of 2009 the number of the outgoing payments amounted to 1,494, and the incoming payments made 4,062, which constituted 6.4% and 31.0% increase, correspondingly, compared to the second half of 2008 (Diagram 4.3.4.1.). At the same time, the analysis of payments volume effected through the SWIFT net showed an increase both in the volume of the incoming payments and in the volume of the outgoing payments in all forms of currencies. The principal share of payments was effected in US dollars and Japanese yens.

During the reporting period, the travel check transactions were performed via the following kinds of travel checks: American Express, Master Card, Visa Card, City Card and the checks payable to different banks.

V. STATE OF REAL SECTOR

5.1. Households

In 2009 the monthly average nominal wage amounted to 6,253 soms (or 145.8 USD by the official monthly average US dollar exchange rate for the reporting period) as a whole for the Republic (excluding small businesses) and increased by 8.0 percent against 9.2 percent in the comparable period of the previous year¹. A rise in remuneration of labor was marked in all the types of economic activity, but the most considerable rise was marked for agriculture, for the sector of ‘trade and repair of vehicles and consumer goods’ as well as for construction. The wage of the workers of financial sphere, the sectors of transport and communication, production and distribution of electric power, gas and water considerably exceeded the republican average level. Its lowest level was marked for agriculture, healthcare agencies, educational institutions, public utilities and social services enterprises.

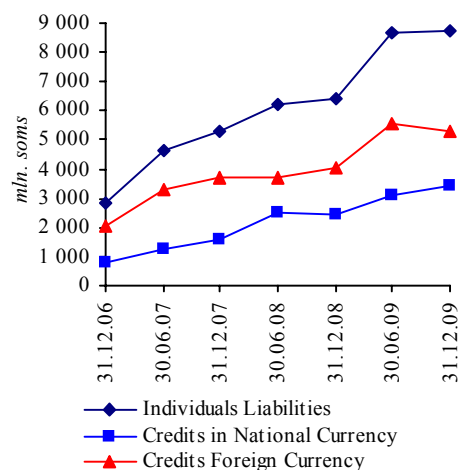
The monthly average minimum consumer budget increased by 1.9 percent as compared with 2008 and amounted to 3,263.2 in 2009. Therefore, the monthly average labor remuneration ratio to that indicator increased from 169.3 percent to 191.6 percent.

5.1.1. Liabilities to the Banking System

The amount of the private household sector liabilities to the banking system increased by 0.7 percent for the second half of 2009 to make 8.7 billion soms as of the end of the year. In terms of individuals’ liabilities the specific weight of credits in foreign currency increased by 10.4 percent to make Soms 3.5 billion as of the end of 2009, whereas credit indebtedness in foreign currency decreased by 4.8 percent to make Soms 5.3 billion in equivalent. Thus, in the structure of individuals’ liabilities the specific weight of credits in foreign currency decreased from 63.8 to 60.3 percent.

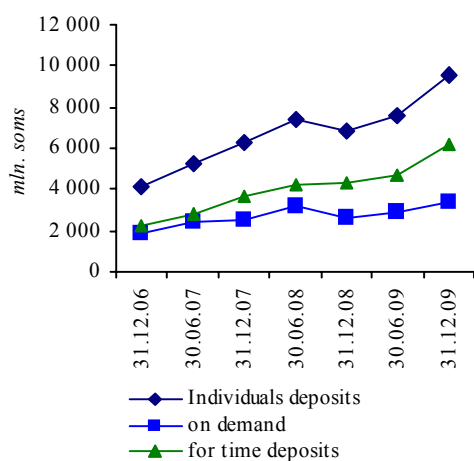
The overall amount of credits issued to the private households for consumer purposes amounted to Soms 1.2 billion in the reporting half-year and against the comparable volume of the second half-year of the previous year did not change and their share in the total volume of the credits issued decreased from 9.9 to 9.4 percent.

Diagram 5.1.1.1. Individuals Liabilities to Banks



¹ NSC KR on monthly average wage is published on an accrual basis

Diagram 5.1.2.1. Deposits of individuals



5.1.2. Personal Savings

There was a resumption of growth trend for the individuals' deposits in the commercial banks during the reporting period. The total volume of the individuals' deposits amounted to 9.6 billion soms as of the end of the half-year (Diagram 5.1.2.1). As a whole, the growth of the individuals' deposits made 26.8 percent year-to-date (10.1 percent for the first half of 2009); among them the individuals' deposits in the national currency increased by 29.3 percent down to 4.0 billion soms and those in foreign currency increased by 25.1 percent, up to 5.6 billion soms in som equivalent (except for the influence of changes in exchange rate, the deposits in foreign currency increased by 22.8 percent). As a result of a considerable growth of deposits in foreign currency there was a decrease in the specific weight of deposits in the national currency in terms of individuals' deposits that made 58.5 percent as of the end of the reporting half-year against 59.3 percent for the end of the previous year.

¹ Legal entities' indebtedness on the balance sheets of the commercial banks.

5.2. Corporate Sector

5.2.1. Liabilities to the Banking System

As of December 31, 2009, the number of the operating economic entities made 438.3 thousand units that constituted the 7.1 thousand, or 1.6 percent, decrease against June 30, 2009. As before, there was a prevalence of peasant (farm) households (61.0 percent) and individual entrepreneurs (33.0 percent) in the category of economic entities.

A number of newly registered economic entities decreased by 29.6 percent as compared with their volume in the previous year, while the number of the liquidated ones increased by 1.7 percent.

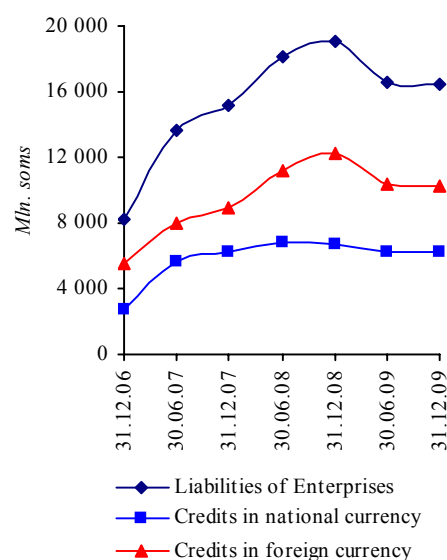
In the second half of 2009 an insignificant decrease in the total debt of enterprises and organizations¹ to the commercial banks was marked. As of the end of the reporting period its volume amounted to Soms 16.5 billion decreasing by 0.3 percent as compared with the volume as of the end of the first half of 2009 (Diagram 5.2.1.1).

The volume of newly issued credits increased by 4.9 percent against the similar indicator of the second half of 2008 to make Soms 12.3 billion; it was caused due to the 26.2 percent increase in credits issued in the national currency which amounted to Soms 5.4 billion. Credits in foreign currency decreased by 7.6 percent, down to Soms 6.8 billion.

By sectors, the increase in the inflow of newly issued credits was caused mainly due to the growth of crediting in the trade sector (by 18.1 percent). The decrease was observed in credits for construction (by 53.5 percent), mortgage (by 25.8 percent), communication sector (by 72.2 percent) and social services (by 88.4 percent).

In the reporting period the average interest rates for credits issued in the national currency increased by 0.4 percentage points and amounted to 26.5 percent. Interest rates growth was marked almost in all real sectors, whereas the most considerable growth was observed for credits in transport and communication, mortgage and procurement and processing as well. The weighted average rate for new credits in foreign currency increased by 1.1 percentage points and made 21.4 percent for the reporting period. Meanwhile, the interest rates on credits were observed to grow in all real economy sectors. Credits in foreign currency were issued for the lowest interest rates to

Diagram 5.2.1.1. Dynamic of Corporate Sector Indebtedness to Commercial Banks



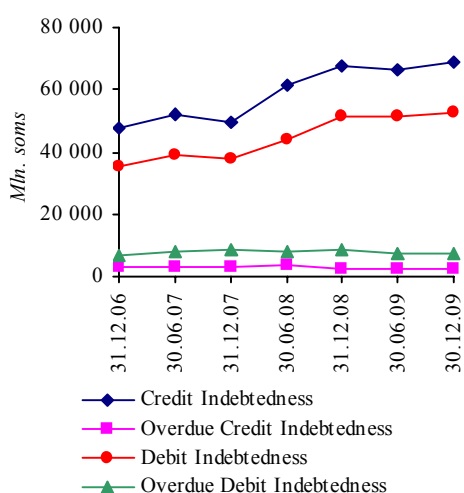
¹ Legal entities' indebtedness on the balance sheets of the commercial banks.

the sector of construction; for 17.8 percent in average for the period.

5.2.2 State of the Accounts Receivable and Accounts Payable²

The volume of the accounts receivable of the enterprises and institutions of the real economy sector increased by 2.5 percent compared to the end of the first half of 2009 and amounted to 52.9 billion soms as of September 30, 2009. (Diagram 5.2.2.1).

Diagram 5.2.2.1 Dynamic of Debit and Credit Indebtedness of Corporate Sector



The most considerable decrease in the volume of accounts receivable was observed in transport and communication (by 18.6 percent) and in the sphere of real estate operations (by 9.7 percent). However, the greatest specific weight in the total volume of accounts receivable was marked for the enterprises occupied with production and distribution of electric power, gas and water (24.1 percent) as well as the agencies dealing with trade and real estate operations (15.8 percent and 18.9 percent, correspondingly).

The volume of the overdue accounts receivable decreased by 3.9 percent as compared with the end of the first half-year to make 7.4 billion soms. The share of the overdue accounts receivable accounted for 14.1 percent in their total volume. Out of the total volume of the overdue accounts receivable, 71.1 percent fell on the debts to the enterprises dealing with production and distribution of electric power.

As of the third quarter of 2009, the accounts payable amounted to 68.8 billion soms that constituted the 3.5 percent increase as compared with the end of the first half-year. The increase occurred mainly due to the increase in debts of the enterprises of trade (by 978.1 million soms) and processing industry (by 902.6 million soms). The debts of the enterprises dealing with production and distribution of electric power decreased (by 707.7 million soms).

The volume of the overdue accounts payable increased by 4.6 percent for the third quarter of 2009, and their share in the total volume of the accounts payable remained the same to make 3.8 percent as of late September, 2009.

5.2.3. Financial Results³

As of September 30, 2009, the operational profit of real sector enterprises increased by more than 4 times as compared with

² According to the NSC KR, excluding the institutions that provide financial services.

³ According to the NSC KR preliminary data.

the end of the first quarter and amounted to 7.1 billion soms.

The main volumes of the operational profit were received by the enterprises of trade, transport and communication. Losses were observed at the enterprises of production and distribution of electric power, gas, and water, enterprises in the sphere of real estate operations and in processing industry.

In geographic distribution the balance profit was received by the enterprises of Bishkek, Osh Cities and Osh and Naryn Oblasts as well in the reporting period; whereas the rest regions were observed to have losses.

VI. FINANCIAL SYSTEM DEVELOPMENT TRENDS

The section covers some specific features of financial system development in the Kyrgyz Republic as well as its impact on the economy of the country as a whole.

Financial sector plays an important role in achieving macroeconomic stability. The sustainable and efficient operation of the financial system, which meets the real economy sector demands in financial resources, provides qualitative services in the competitive environment and provides for the transformation of savings into the investment, will facilitate the achievement of the accelerated economic development.

The tendency in the financial market of the Republic in 2009 was formed under conditions uncertainty of development of situation in the international financial system and its impact on the national economy. Consequences of the crisis which took place as early as in 2007 have caused economic activity slowdown in the country, the balance of payment indexes (trade turnover, transfer of labor migrants) decline, deceleration of the rates for crediting economy and slowdown of investors' activity in the securities market. To minimize the global crisis effect and maintain the economic growth rates the Action Plan of the Kyrgyz Republic (Crisis Management Plan) was introduced by the Government of the Kyrgyz Republic late in 2008. Within the Plan, there was the activity for maintaining stable macroeconomic situation, ensuring safety and stability of the banking system, food and power security, and economic development through support of household demand and creation of favorable business and investment environment as well as through targeted protection of problematic social strata undertaken..

The activity of two specialized FCIs – LLC SFBR under NBKR and CJSC Development Fund of the Kyrgyz Republic and coming into force of the Kyrgyz Republic *Law On Protection of Bank Deposits* taking into account amendments about increase of guaranteed amount of deposits' compensation from Soms 20 thousand to Soms 100 thousand, had positive effect on the indicators of the financial sector in the second half of 2009. Moreover, a growth of assets and capital of the FCI, as well as undertaking measures to provide efficient supervision and management of the financial sector had a positive influence on further development of the Kyrgyz Republic financial system and strengthening against the external shocks.

At the present, the financial sector of the country comprises such financial institutions as banks, non-banking financial institutions (credit unions, microfinance organizations, pawn offices, specialized FCI, etc.), stock exchange, insurance companies, pension and investment funds (Diagram 6.1)¹.

The banking system has continued holding a dominant position in the financial sector of the country. At the same time the dynamic growth of non-banking financial institutions activity indicators has been observed. It has been caused by high demand for credit resources the sources of its coverage include the resources of the non-banking financial sector, in particular, those of the microcredit organizations.

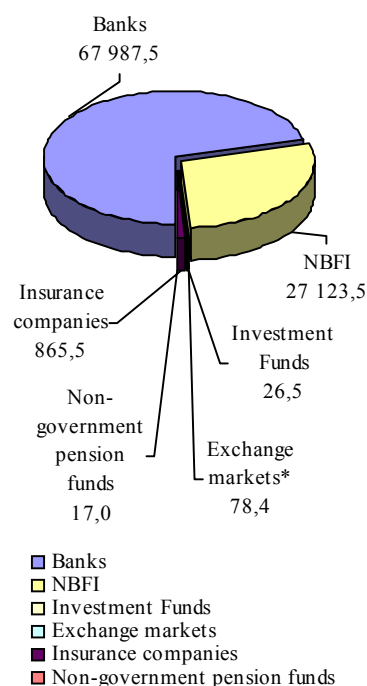
In the second half of 2009 the positive trend of increase in the resource base of the banking system and non-banking financial institutions continued. The increase was due to the growth of the banking and non-banking financial institutions' capital, and the banking system deposits as well as due to the inflow of foreign investment in the financial sector of the economy.

The positive trend of increase in the volumes of economy crediting by the financial institutions has continued (Diagram 6.2), by that a noticeable acceleration of its rates was being observed. It occurred due to the credit activity of NCFI (by 59.7 percent), in particular, of two specialized FCI – Development Fund and SFBR, whereas the volume of credits of the bank system decreased by 0.9 percent for the half year. As a whole for the second half of 2009, the increment of the total credits in the economy, provided by FCI, amounted to 14.0 percent (similar indicator made 3.7 percent for the second half of 2008).

In the context of currency and credit risks growth, the banks kept conducting more moderate credit policy that concerned, first of all crediting in the foreign currency. By crediting in soms increased considerably that led to the growth of total volume of newly issued credits in June to December 2009 by 4.9 percent to make Soms 12.3 billion. The newly issued credits ratio to GDP was 10.0² percent, whereas this indicator in 2008 was 9.9³ percent.

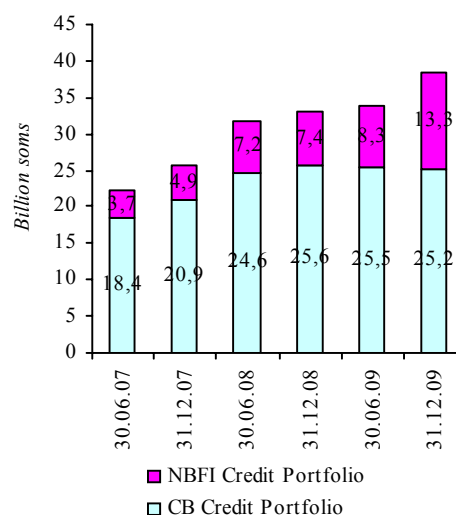
By commercial banks' credits structure by term, the share of the long-term credits increased to account for 67.0 percent in

Diagram 6.1. Financial Systems Assets (as of the end of 2009)
(mln. Soms)



* Preliminary data

Diagram 6.2. Credit Portfolio of Commercial Banks and Non-Bank Financial Institutions



¹ According to the report "On the results of Supervision and Management activity of the Kyrgyz Republic financial market for 9 months of 2009" the data on the pension funds are given for 8 months of 2009.

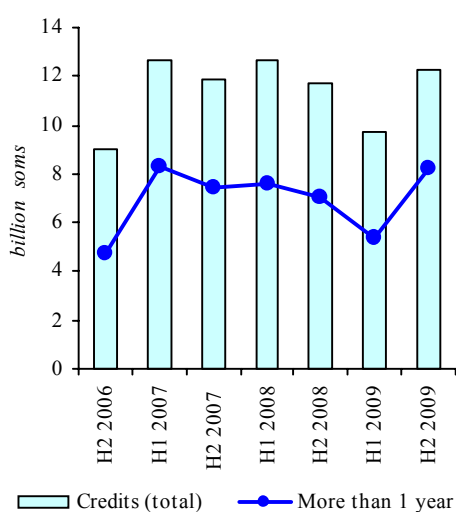
² To GDP as of the second half of 2009.

³ To GDP as of the second half of 2008.

the reporting period (in the similar period of 2008 the share of the long-term credits amounted to 60.1 percent).

The volume of the credits issued by the non-banking financial institutions increased noticeably in the second half of 2009. It was connected, first of all, with issue of the credit for construction of Kambar-Ata HPP-2 by the Development Fund. Thus, credit portfolio of the non-banking financial institutions increased by 59.7 percent in the second half of 2009, whereas in the corresponding period of 2008 its increment amounted to 2.7 percent.

Diagram 6.3 Dynamic of the Total Credit Volumes and the Long-Term Credits issued by Commercial Banks



The global financial crisis impacted the slowdown of investors' activity in the securities market. The overall volume of the auctions on the trading floors of three stock exchanges decreased by 37.2 percent against the similar period of 2008 and amounted to 3,380.6 million soms in July-December 2009. The decrease in the overall amount of auctions was influenced by the 67.6 percent decrease in the volume of transactions performed on the trading floor of the CJSC *Central Asian Stock Exchange* (which performed 63.2 percent of the overall volume of transactions), down to 1,214.7 million soms, and by the 35.5 percent decrease on the trading floor of the CJSC *Stock Exchange of Kyrgyzstan – BTS*, down to 345.2 million soms. The volume of the exchange auctions on the trading floor of the CJSC *Kyrgyz Stock Exchange* increased by 64.9 percent against the comparable period of 2008, up to 1,820.7 million soms in the second half of 2008.

In the securities market, as of the end of 2009, seven incorporated investment funds operated as well, but their share in providing with financial services remained inconsiderable: investment funds' assets was 0.01 percent to GDP.

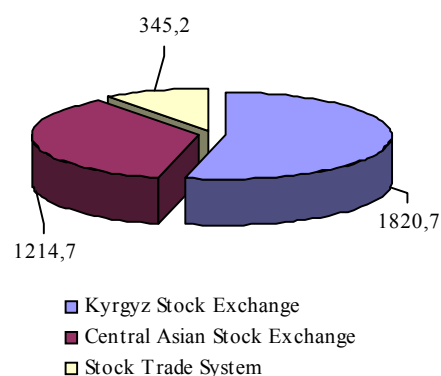
The insurance companies and non-government pension funds indicators also testify to these financial system segments poor development and minor influence on the country's economy.

As of the end of the year, 19 insurance companies performed insurance activity in the republican market, while two of them were the reinsurance companies, and seven operated with non-residents participation. The sizes of insurance market of the Kyrgyz Republic remained small notwithstanding the essential growth of the main indicators of their activity. The volume of aggregate assets of the insurance companies increased by 12.9 and amounted to 865.5 million soms as of late December 2009; their aggregate own capital increased by 12.2 times to make 708.8 million soms. By that the ratio of insurance companies' assets to GDP in 2009 remained at the level of 0.3 percent.

The activity that is currently undertaken within the 2003-2010 Insurance Market Development Concept in the Kyrgyz Republic to develop the compulsory insurance in the Republic, including one to enforce the four laws on compulsory insurance of the civil liability shall facilitate further development of this financial market segment. Besides the provision of insurance services, the republican insurance companies also undertake investment activity investing funds in the public and corporate securities, and deposits of the commercial banks as well as providing loans.

Pension funds constitute another segment of the financial market. At present, the two non-governmental pension funds have been registered in the market of the Republic: the NGPF *Kyrgyzstan* that has been operating since 1994 and the NGPF *Jany Asia* that obtained license on May 26, 2009, and has not operated yet. The amount of the NGPF *Kyrgyzstan* assets increased by 13.8 percent as compared with the corresponding indicator of 2008 and made 17.0 million soms as of 01.09.2009; meanwhile, the number of its participants, who entered into the agreements for voluntary pension provision amounted to 2,333 people (among them 486 people draw pensions), that increased by 437 people or by 23.0 percent against compared period of 2008.

Diagram 6.4. Volume of Trades in Stock Exchange Markets in the second half of 2009
(mln. soms)



VII. SPECIAL ISSUES

Special Fund for Banks Refinancing

The National Bank of the Kyrgyz Republic and the Government of the Kyrgyz Republic were instructed by the Presidential Decree No. 5 dated January 8, 2009 *On Measures Providing Stability of the Banking System* to establish a Special Fund for Banks Refinancing of the Kyrgyz Republic considering lasting global financial crisis and with the purposes of providing stability, efficiency and reliability of the banking system, creation of effective mechanism of commercial banks' support aimed at assistance of their stability and crediting of the real economy sector of the Kyrgyz Republic. The Resolution of the NBKR Board No. 5/1 On Establishing of a Limited Liability Company - Special Fund for Banks Refinancing under the National Bank of the Kyrgyz Republic - was accepted as of January 30, 2009, with the purposes of the given Decree performance. NBKR is the founder of this Fund. The aim of the Fund is the promotion of stability and reliability of the banking system of the Kyrgyz Republic through provision of additional resources of the banking sector refinancing directed to support of credit financing of the Kyrgyz Republic economy within the national programs' implementation for economical development of the country.

As of May 2009, a license was issued to the LLC Special Fund for Banks Refinancing for the right to conduct some banking operations. Fund's assets will be allocated through the system of commercial banks and micro-financial organizations for the development of different economy sectors important for the Kyrgyz Republic.

Regulations for Supervision of the LLC Special Fund for Banking Refinancing Activity were approved by the Resolution of NBKR Board No. 25/8 dated May 27, 2009, with the purposes of preserving stability of the financial system and sustainable development of the Fund.

It's noteworthy that the Policy of Banks' Refinancing was approved by the LLC Special Fund for Banks Refinancing on March 26, 2009.

From the beginning of its activity the LLC Special Fund for Banks Refinancing issued short-term and medium-term credits for commercial banks in order to support their liquidity. Thus, indebtedness of commercial banks as of 01.01.2010, according to the data of regulatory reporting of the LLC Special Fund for Banking Refinancing, made Soms.66,643 thousand

It's noteworthy that the LLC Special Fund for Banks has begun its activity from the second half of 2009 and the first credit was issued for replenishment of commercial bank liquidity and, thus, made Soms 400,000 thousand. Credits of the LLC Special Fund for Banks Refinancing were mainly issued for replenishment of commercial banks' liquidity, for micro-organizations' crediting; turnovers by the issued credits made Soms 767,800 thousand. Free cash was allocated in the correspondent accounts of NBKR and other FCI in the amount of Soms 1,430.993 thousand and Soms 4,146 thousand, correspondingly, and invested in the securities in the total amount of Soms 496,688 thousand. A part of free cash was allocated to other commercial banks as deposits in the amount of Soms 4,000 thousand.

AMMENDMENTS

Banking System Development Trends for the second half of 2008

page	paragraph	printed	to be read																																																
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Banking System Development Trends for the first half of 2009

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