

NATIONAL BANK OF THE KYRGYZ REPUBLIC

ANNUAL REPORT

2 0 1 0

Bishkek 2011

Annual Report of the National Bank of the Kyrgyz Republic for 2010

Annual Report of the National Bank of the Kyrgyz Republic for 2010 was made pursuant to Articles 8 and 10 of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”.

The Report of the National Bank of the Kyrgyz Republic for 2010 was approved with the Resolutions of the Board of the National Bank of the Kyrgyz Republic No 17/1 of March 22, 2011 and No 18/1 of March 25, 2011.

Financial statements for the year ended 31 December 2010 were approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 20/13 of March 30, 2010.

EDITORIAL BOARD:

Chairman:	L.N. Tsypalakova
Board Members:	S. K. Alybaeva
	N. O. Sadykova.
	S. A. Urustemov
	M. R. Usupova
	R. D. Han
Executive Editor:	A. K. Aidarova

On issues related to contents of this publication, please, contact:

Bishkek, 101 Umetaliyev Str.
National Bank of the Kyrgyz Republic
Macroeconomic and Financial Market Analysis Division
Phone: (996 312) 669 157
Fax: (996 312) 610 730
E-mail: aaidarova@nbkr.kg

On issues related to dissemination of this publication, please, contact:

Bishkek, 101 Umetaliyev Str.
National Bank of the Kyrgyz Republic
External and Public Relations Division
Phone: (996 312) 669 009
Fax: (996 312) 610 730
E-mail: pr@nbkr.kg
Web site: <http://www.nbkr.kg>

CONTENTS

Opening Speech of the Governor of the National Bank.....	5
---	---

I. ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC

CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2010.....

1.1. Real Sector of Economy.....	8
1.2. Public Finance Sector.....	10
1.3. Balance of Payments of the Kyrgyz Republic.....	12
1.4. Banking Sector.....	14
1.5. Sector of Nonbank Finance and Credit Institutions.....	19
1.6. Financial Markets.....	23
1.6.1. Foreign Exchange Market.....	23
1.6.2. Interbank Credit Market.....	26
1.6.3. Securities Market.....	27
1.6.4. Deposit and Credit Market.....	33

II. ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC IN 2010

CHAPTER 2. MONETARY POLICY.....

2.1. Monetary Policy Development.....	40
2.2. Monetary Policy Implementation.....	43
2.2.1. Domestic Foreign Exchange Market Operations.....	44
2.2.2. Operations with NBKR Notes and NBKR Discount Rate.....	46
2.2.3. REPO Operations.....	47
2.2.4. Refinancing of Banks.....	48
2.2.5. Reserve Requirements.....	49
2.3. International Reserves Management.....	50
2.4. Monetary Policy Results.....	52

CHAPTER 3. OVERVIEW AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT

INSTITUTIONS.....

3.1. Banking Supervision.....	56
3.2. Supervision of Nonbank Finance and Credit Institutions.....	62
3.3. Supervision and Regulation Methodology.....	64

CHAPTER 4. PAYMENT SYSTEM.....

4.1. Payment System Development.....	67
4.1.1. Non-cash Settlements.....	67
4.1.2. The Oversight of the Payment System of the Kyrgyz Republic.....	69

4.1.3. Implementation of Activities under the State Program of Measures to Increase the Share of Non-cash Payments.....	70
4.2. Cash Turnover.....	71

CHAPTER 5. FOREIGN ECONOMIC RELATIONS.....

5.1. Cooperation with International Organizations.....	74
5.2. Cooperation with Central (National) Banks.....	78

CHAPTER 6. GENERAL DATA ON ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ

REPUBLIC.....

6.1. Structure of the National Bank of the Kyrgyz Republic.....	81
6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2010.....	87
6.3. Improvement of Banking Legislation.....	91
6.4. Fulfillment of Financial Adviser Functions.....	95
6.5. International Audit and Internal Control System.....	96
6.6. Public Information.....	97

III. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR 2010

CHAPTER 7. CONSOLIDATED FINANCIAL STATE- MENTS FOR THE YEAR ENDED

31 DECEMBER 2010.....

7.1. Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements.....	103
7.2. Independent Auditor's Report.....	104
7.3. Consolidated Statement of Financial Position.....	105
7.4. Consolidated Income Statement.....	106
7.5. Consolidated Statement of Comprehensive Income.....	107
7.6. Consolidated Statement of Changes in Equity.....	108
7.7. Consolidated Statement of Cash Flows.....	109
7.8. Notes to the Consolidated Financial Statements.....	111

IV. ATTACHMENTS

Appendix 1. Chronology of Major Events in the Monetary Sphere in 2010.....	160
Appendix 2. Statistical Information (tables and charts)...	169
Appendix 3. NBKR Periodical Publications and Other Information Tools.....	193
Appendix 4. List of Abbreviations.....	197



In 2010, the economy of the Kyrgyz Republic developed in a complex social and political situation. In these circumstances, the priority area in the National Bank activities was to ensure financial stability, continuous functioning of the payment system and assistance in the economic growth recovery.

The monetary policy conducted by the National Bank was an important factor in maintaining macroeconomic stability. The development and implementation of the monetary policy was considerably complicated by the consequences of internal political shocks combined with the external price shocks. The monetary policy measures aimed to ensure the banking system liquidity with a view of preventing a deep economic slowdown allowed to decrease the reduction in the GDP rates against expected. The price shocks at food markets in the second half of the year enhanced inflationary processes. In these conditions, the National Bank took measures to tighten the monetary policy in order to restrict a monetary component of the inflation.

The National Bank actions allowed to maintain public confidence in the financial system, localize risks of certain banks and prevent systemic financial crisis. The banking system of the Kyrgyz Republic, as a whole, demonstrated certain stability enabling to maintain inflow of deposits from the population and continue lending of the economy. The NBKR activities were aimed to enhance banking supervision, internal controls in banks and develop systems for managing banking risks and consolidated supervision.

The system of nonbank finance and credit institutions continued to develop in 2010. All performance indicators of microfinance institutions grew as a result of implementing the Medium-term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010.

A reliable and effective functioning of the national payment system in the accounting year was also conducive to maintenance of financial stability. In this regard, the National Bank continued working on development of the payment system and its infrastructure targeted to expand the range of retail financial services and public access to the payment services.

The Annual Report of the National Bank of the Kyrgyz Republic for 2010 was prepared according to the Law “On the National Bank of the Kyrgyz Republic” and includes financial statements, drawn up in accordance with international standards and confirmed by an independent audit.

The National Bank traditionally adhered to principles of transparency and completeness of information in preparing this publication.

Acting Governor

A handwritten signature in black ink, appearing to read 'B.J. Jeenbaeva'.

B.J. Jeenbaeva



ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC

ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2010

In 2010, against the background of negative consequences of political instability, the reduction was observed in economic activity in the country. The slowdown in all major sectors of economy, except for the industry, predetermined the decrease in growth rates of state budget revenues. Overcoming implications of 2010 events demanded a significant increase of state expenditures that led to the growth of budget deficit. Temporary closure of borders and tightening of border crossing regime resulted in a deterioration of external economic activity indicators: there was a decrease of a positive balance of payments and deterioration in the current account status.

The situation in the financial sector remained complex in 2010. On the one hand, there was some deterioration in the loan portfolio quality and an increase in the liquidity fluctuations and foreign exchange risks. On the other hand, there was growth in the loan portfolio, in particular, of long-term lending, a decrease in the interest rates of loans, an increase in the duration of the deposit base and a decrease in dollarization of economy. As a whole, banks operating normally demonstrated positive developments and profitable operations.

The development trends remained positive in the sector of non bank finance and credit institutions. In the accounting period the growth was observed in the number of NFCIs, their borrowers, assets and loan portfolio.

1.1. Real Sector of Economy

As a whole, the economy of Kyrgyzstan was in extremely complex conditions in 2010. The beginning of the year was characterized by high economic growth rates against the background of recovery of business activity with the principal trading partner countries after the global financial crisis. However, later on, the economic activity significantly reduced in the country.

According to preliminary data of the National Statistics Committee of the Kyrgyz Republic (NSC KR), the volume of GDP at current prices amounted to KGS 212.2 billion, having thus decreased by 1.4 percent in real terms, compared to the growth by 2.9 percent of a similar indicator in 2009. In 2010, the volume of GDP reduced by 2.1 percent, excluding gold mining enterprises of Kumtor company (in 2009, the growth was 3.4 percent).

According to preliminary data of 2010, the GDP deflator was 6.9 percent against 4.0 percent in January-December 2009.

*Trade and
sphere of
services*

Political instability, restrictions related to the border passing regime and partial closure of borders with the Republic of Kazakhstan and the Republic of Uzbekistan caused the slowdown in the sphere of services, and had a significant impact on the reduction of the overall economic activity in the trading area. Thus, the volume of trading operations decreased by 6.4 percent according to 2010 year end results. In the structure of trading operations, the reduction of the wholesale trade turnover was 8.6 percent, while the retail trade turnover decreased by 5.5 percent.

Agriculture

In 2010, the gross agricultural output amounted to KGS 116.0 billion, having thus decreased in real terms by 2.8 percent. At the same time, the share of agriculture in the GDP structure continued to reduce in 2010, thus, the share of agriculture in the GDP structure was 18.5 percent against 18.8 percent in 2009. The reduction of agricultural output became an additional factor for acceleration of inflation in the country.

Table 1.1.1.**Gross Domestic Product Structure**

	2009			2010		
	Share, in percent	Growth Rate, in percent	Contribution to Growth Rate, in percentage points	Share, in percent	Growth Rate, in percent	Contribution to Growth Rate, in percentage points
GDP	100.0	2.9	2.9	100.0	-1.4	-1.4
Agriculture	18.8	6.7	1.6	18.5	-2.8	-0.5
Mining	0.5	7.7	0.0	0.7	-0.4	0.0
Manufacturing	14.2	-9.3	-1.2	15.9	10.1	1.4
Generation and distribution of electricity, gas and water	2.2	-2.6	0.0	2.7	11.0	0.2
Construction	6.7	22.1	1.2	5.7	-22.8	-1.5
Trade; repairs of motor vehicles	16.8	2.3	0.4	16.1	-6.4	-1.1
Hotels and restaurants	1.3	4.2	0.1	1.2	-9.6	-0.1
Transport and communications	8.8	5.1	0.4	9.1	2.5	0.2
Financing	0.7	6.0	0.1	0.6	0.9	0.0
Real estate activities	4.6	1.1	0.0	4.4	-0.1	0.0
Public administration	5.3	2.5	0.1	5.6	2.2	0.1
Education	4.4	1.4	0.1	4.4	0.6	0.0
Health	2.6	-0.3	0.0	2.3	0.8	0.0
Public utilities	2.1	-6.3	-0.1	2.1	-0.4	0.0
Net taxes on products (net of subsidies)	11.0	2.9	0.4	10.5	-1.4	-0.2

Source: NSC

Industrial output amounted to KGS 124.4 billion and its physical volume increased by 9.8 percent. Excluding the Kumtor gold mining enterprises, the increase of industrial output was 11.7 percent. The growth of industrial production was, largely, caused by the low base effect in 2009, when the slowdown in industry was 8.1 percent. The share of industry in the GDP structure increased from 16.9 percent in 2009 to 19.4 percent in 2010; as a result, this sector had the largest share in the structure of economy of Kyrgyzstan.

A considerable contribution to the industrial growth was made by the manufacturing branch with its increase of 10.1 percent. In the structure of manufacturing, the strongest growth was observed in export oriented sectors: textile and garment manufacture (143.3 percent), production of other non-metal mineral products (139.8 percent), metallurgical production and production of finished metal products (106.7 percent).

Industrial production

Production and distribution of electricity, gas and water significantly contributed to the industry growth. According to preliminary data, the output of this branch increased by 11.0 percent in 2010 against its reduction by 2.6 percent in 2009.

In 2010, total gross construction output amounted to KGS 36.0 billion, having thus decreased in real terms by 22.8 percent against the growth of a similar indicator in 2009 by 22.1 percent. The reduction in the volume of construction works in 2010 was caused by the decrease in the volume of investments in fixed capital.

Construction

According to preliminary data, the volume of investments in fixed capital amounted to KGS 44.1 billion, having thus decreased in real terms by 9.8 percent, while a similar indicator increased by 30.8 percent in 2009. The decrease in outstanding disbursements at objects of manufacturing, production and distribution of electricity, gas and water, and in the sphere of building hotels and restaurants was the main reason for the reduction in the volume of investments in fixed capital. In

Investment activity

the structure of financing sources of investments in fixed capital the reduction by 2.3 percent was noted in using internal sources and by 27.9 percent in using external sources. Investments made using public funds decreased by 26.5 percent that was, mainly, caused by the reduction of individual construction volumes and investments in individual entrepreneurial activity. Investments made using funds of enterprises and organizations increased by 70.0 percent (mainly, due to the Kumtor gold mining enterprises).

In 2010, the growth rate of the monthly average salary in real terms slowed down and was 5.8 percent against 8.0 percent in 2009.

1.2. Public Finance Sector

*Conditions of
fiscal policy
implementation*

Consequences resulting from political instability led to the growth reduction in state budget revenues, in particular, there was a significant decrease in receipts of official transfers, on the other hand, there was an expansion of budget expenditures in spheres of social protection, economic issues, defense, public order and security that resulted in substantial increase of the state budget imbalance.

*Growth of
budget deficit*

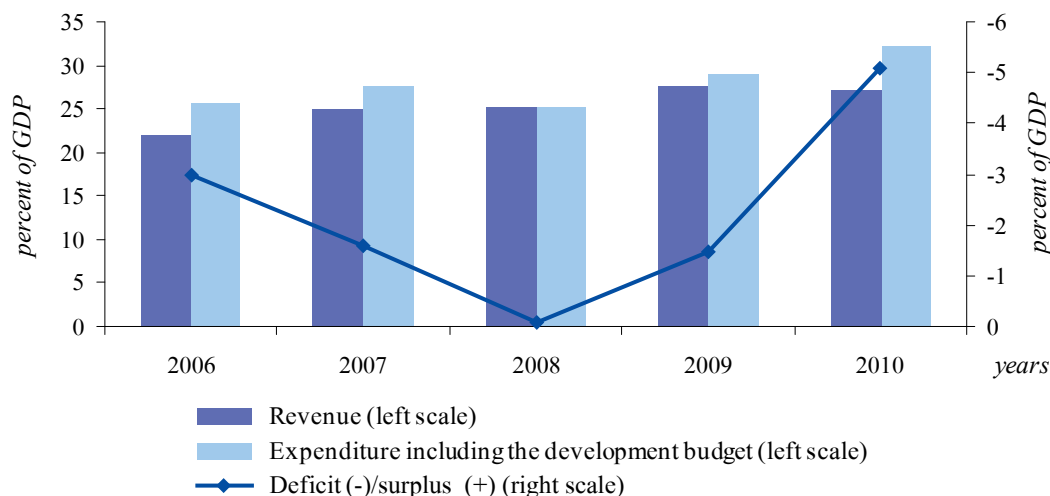
According to preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit was 5.1 percent of GDP in 2010 against 1.5 percent in 2009.

State budget revenues, including the sale of non-financial assets, increased by 3.7 percent and amounted to KGS 57.4 billion, or 27.0 percent of GDP.

Total state budget expenditures, including the purchase of non-financial assets, amounted to KGS 68.2 billion, being by 17.0 percent more than the value of the corresponding indicator in 2009. Expenditures to GDP ratio increased from 28.9 to 32.1 percent.

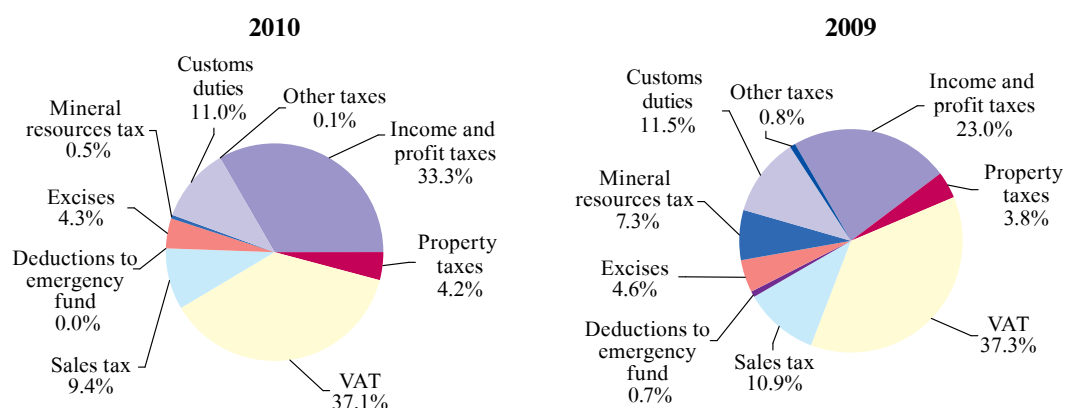
Chart 1.2.1.

Key State Budget Parameters



*Growth of tax
revenue*

In 2010, tax revenue amounted to KGS 39.4 billion, having thus increased by 9.0 percent as compared to a similar indicator in 2009. The share of tax revenue in total budget revenue was 68.6 percent that was by 3.3 percentage points higher than the level of 2009. Customs and tax agencies provided for collection by 40.4 percent and 59.6 percent of total tax revenue, accordingly.

Chart 1.2.2.**State Budget Tax Revenue Structure**

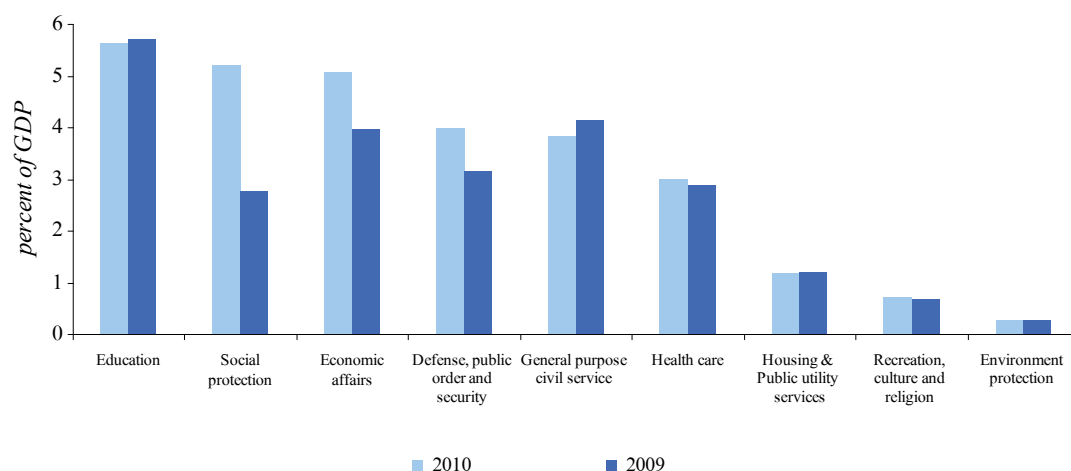
The growth of tax revenue was caused, first of all, by the increase of revenue from the tax on gross income of Closed Joint Stock Company (CJSC) “Kumtor Operating Company” by 2.2 times or by KGS 2.4 billion, and also by the increase of revenue from imports (according to preliminary data of NSC KR, imports increased by 6.5 percent in 2010). For example, revenue from VAT on imported goods increased by 16.8 percent. Revenue from VAT on goods and services produced in the country reduced by 7.8 percent and their share in total tax revenue remained low (10.8 percent). As a whole, revenue from VAT increased by 8.4 percent or by KGS 1.1 billion as compared with a similar indicator of 2009.

In 2010, state budget expenditures for conducting operational activity amounted to KGS 61.5 billion or 29.0 percent of GDP (24.9 percent of GDP in 2009).

In the public expenditure policy special attention was paid to the issue of rendering targeted social support to the needy categories of the population. The social protection expenditures increased as compared to the similar indicator of 2009 (by 2.0 times) that was related to the payment of compensation to the most vulnerable categories of the population for utilities and electricity, by the increase of pensions (the basic component was increased by 25.0 percent and the insured part increased from KGS 100 to 500 depending on the pension size) and allowances for veterans of the Great Patriotic War.

*Socially oriented
public expenditure
policy*

In the accounting period, in accordance with the functional classification the growth of expenditures was observed in the following groups: for social protection by 2.0 times, for economic issues by 34.9 percent, for defense, public order and security by 32.6 percent, for recreation, culture and religion by 12.9 percent, for health care by 10.4 percent, for education by 4.3 percent and for housing and public utility services by 2.6 percent. State budget expenditures reduced on “Environment Protection” items by 2.4 percent and on “General Purpose Public Service” by 1.7 percent.

Chart 1.2.3.**Functional Classification of State Budget Expenditures***Public debt service expenditures*

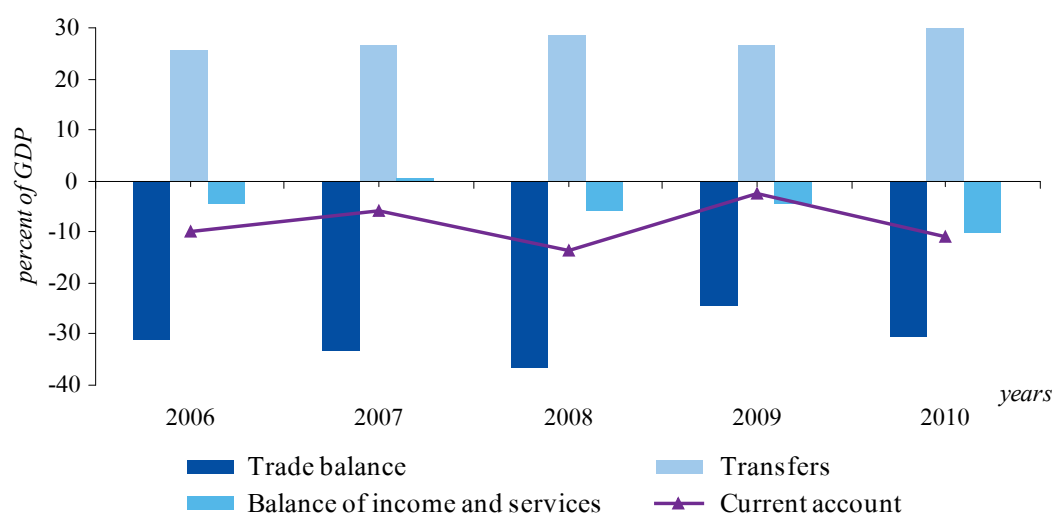
The public debt service expenditures amounted to KGS 7.9 billion or 3.7 percent of GDP, having thus increased by 0.2 percentage point in comparison with the similar parameter of 2009, of which interest payments were 0.9 percent of GDP.

An excess of stage budget expenditures for a purchase of non-financial assets over their sale were KGS 6.6 billion or 3.1 percent of GDP in 2010 (in 2009 - 4.1 percent of GDP).

1.3. Balance of Payments of the Kyrgyz Republic¹*Current account status*

According to performance in 2010, the positive balance of payments reduced by 74.6 percent and amounted to US\$ 56.3 million.

Despite the growth of monetary receipts on current transfers, a considerable increase of the negative balance on the goods and services account as well as the outflow on the item "Revenues" led to the deterioration of the current account status. The current account deficit totaled US\$ 497.5 million corresponding to 10.8 percent of GDP, while the similar indicator of 2009 was 2.4 percent.

Chart 1.3.1.**Current Account**¹ Preliminary data

Movements in international prices at raw commodity markets together with closing of borders with neighboring countries were key factors determining the volumes of foreign trade transactions of the Kyrgyz Republic.

Considering a specific nature of country's foreign trade, both imports and export supplies, including re-exports, were significantly affected. The total volume of foreign trade turnover increased up to US\$ 4.8 billion that, to a great extent, was caused by the growth of imports by 11.1 percent, while the export growth was insignificant – 1.6 percent.

*Foreign trade
status*

Revenue from oil products, the cost of which increased by 31.8 percent as a result of oil price increase in the world markets, mainly contributed to the growth of imports. The increase in imports of consumer goods was moderate, at the level of 7.8 percent.

A positive export trend, in the first place, was caused by the increase in the cost of gold supplies by 22.0 percent, which in its turn was due to the price increase by 19.9 percent and the growth of physical volume of supplies by 1.7 percent. Exports, excluding gold, reduced by 7.7 percent and totaled US\$ 1.1 billion. The two times reduction was noted in volumes of re-exported goods.

The balance of international services was formed negative and totaled US\$ 325.2 million against its negative value at the rate of US \$9.1 million according to performance in 2009. A considerable growth of deficit in the balance of foreign trade of services was due to the substantial reduction in services rendered by non-residents given the growth of received services from non-residents. A significant reduction of rendered services was observed in the travel area given the growth of received business services.

Gradual post-crisis recovery of economies in countries with concentration of the bulk of labor migrants from the Kyrgyz Republic caused the growth in volumes of currency receipts received from labor migrants. As a result, the net inflow of money transfers from those working abroad increased by 25.5 percent against 2009 and totaled US\$ 1.2 billion.

The negative balance of revenues reduced by 21.0 percent, which was mainly caused, by the decrease in income of foreign direct investors from investment activity in Kyrgyzstan.

According to performance in 2010, the capital and financial transactions account was formed positive and totaled US\$ 168.7 million (in 2009 - US\$ 572.7 million). A more significant increase in the volume of assets exported by migrants as compared with the increase of transfers in the form of capital goods resulted in the negative balance of the capital account at the rate of US\$ 27.6 million.

In 2010, currency receipts in the financial account were noted in direct and portfolio investments. The inflow of foreign direct investments totaled US\$ 174.5 million that is less by 8.0 percent than the value of this indicator in 2009. The net inflow of portfolio investments amounted to US\$ 103.1 million, which was caused by the reduction of debt securities of non-residents held by residents of our country.

Under the item “other investments”, there was an outflow at the rate of US \$81.3 million as a result of the decrease in liabilities of residents to the “external world” than the reduction of their assets abroad. With regard to the decrease of foreign liabilities, it is necessary to note that this indicator was influenced by the capital outflow from the banking system on the basis of banking statistics that includes indicators of Open Joint Stock Company (OJSC) “AsiaUniversalBank”¹. In addition, the volume

*Capital ac-
count status*

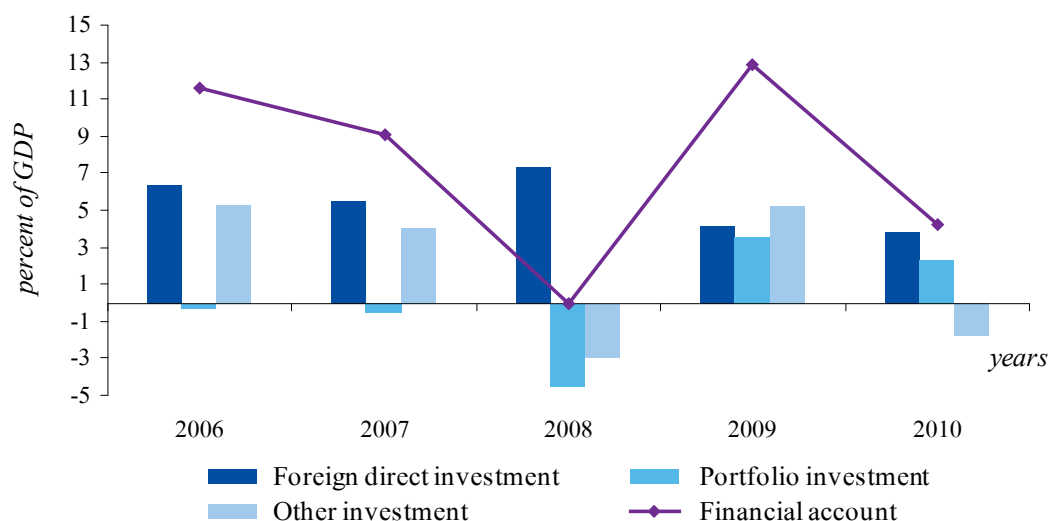
¹ For reference only: according to the results of nine months of 2010, foreign liabilities of the banking system net of OJSC “AUB” transactions reduced by US\$ 28.4 million, while foreign assets increased by US\$8.7 million.

of loans attracted by the public sector reduced and totaled US\$ 157.5 million. This is explained by the high basic period¹.

The decrease was also observed in the foreign assets of residents, which was, mainly, caused by the reduction in overseas assets of commercial banks and an insignificant growth of funds in accounts of enterprises abroad.

Chart 1.3.2.

Financial Account



Errors and omissions

According to preliminary results for 2010, the item “Errors and Omissions” developed with the positive value equivalent to US\$ 385.1 million and this fact testifies to under-accounting of transactions related to the capital inflow to the country or export of goods and services.

International reserves

The volume of total international reserves amounted to US\$ 1.7 billion at the end of 2010. The level of reserve assets of the NBKR corresponded to 4.3 months of cover of the future critical volume of imports of goods and services.

1.4. Banking Sector

Number of commercial banks

In 2010, there were 22 commercial banks operating in the Kyrgyz Republic, including the Bishkek Branch of the National Bank of Pakistan. The banking system overview was prepared on the basis of the annual regulatory reporting provided by banks.

In 2010, starting from April 7, 2010 commercial banks operated in the context of political, and, as a result, economic instability in the country that led to the reduction in the growth rates of key banking sector indicators as compared with 2009. Closing of borders and 2010 June events in the south of the country led to the reduction of creditworthiness of borrowers in banks and deterioration of their loan portfolio quality thus having negative impact on the activities of commercial banks.

In April 2010, under the conditions of social tension, financial panic in the business environment, the National Bank and the Interim Government of the Kyrgyz Republic were tasked to maintain the integrity of the banking system. In order to localize problems in OJSC “AsiaUniversalBank” and related banks, to prevent dissemination of the negative situation in the banking system as a whole, to establish control over assets safety in problem banks in the interests of depositors and other creditors

¹ For reference only: In 2009, the Government of the Russian Federation provided a government loan amounting to US\$300 million.

as well as for purposes of controlling and obtaining timely information about the flow of funds and capital, special regimes of temporary bank management and direct bank supervision were introduced in a number of banks. This resulted in the prevention of a systemic crisis. These measures enabled to reveal numerous facts of violation of legislation of the Kyrgyz Republic, distortion of financial statements to conceal suspicious transactions and real financial standing in problem banks¹. Subsequently, OJSC “AsiaUniversalBank” was recognized to be insolvent in accordance with the court decisions, the bankruptcy proceedings were initiated and the restructuring by way of creating a new bank was defined as a special administration procedure. The temporary management regime was maintained in four banks: OJSC “Akylinvestbank”, OJSC Investbank “Issyk-Kul”, OJSC “Kyrgyz Credit Bank” and CJSC “Manas Bank”.

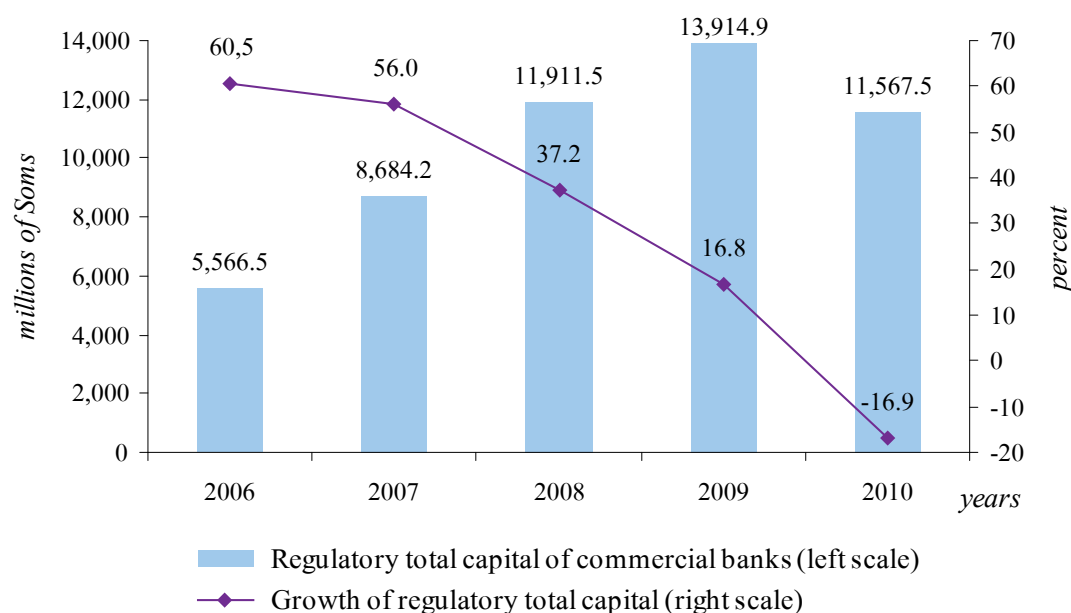
The remaining banks that constitute the greater part of the banking system normally operated, demonstrated profit making activity as of year-end, and provided the main set of banking services and products.

Total regulatory capital² of commercial banks decreased by KGS 2.3 billion, or by 16.9 percent and totaled KGS 11.6 billion as of end of 2010. At the same time, paid authorized capital³ decreased by 13.2 percent. However, total regulatory capital increased by 5.5 percent and amounted to KGS 10.8 billion excluding OJSC “AsiaUniversalBank” and four problem banks.

Capital of commercial banks

Chart 1.4.1.

Trend in Regulatory Total Capital of Commercial Banks



In 2010, total liabilities⁴ of commercial banks decreased by 13.3 percent and totaled KGS 46.0 billion. The share of liabilities in foreign currency in total liabilities was 54.9 percent (at the end of 2009 – 65.9 percent). However, total liabilities increased by 43.0 percent and amounted to KGS 41.5 billion, excluding OJSC “AsiaUniversalBank” and four problem banks.

Liabilities of commercial banks

¹ Problem banks refer to the banks where special administration regimes were introduced in 2010.

² Total regulatory capital of any bank comprises authorized capital, reserves, historical retained earnings (losses), reporting year earnings (losses), and general provisions formed in the bank for the unclassified assets.

³ This category covers ordinary shares and preference shares.

⁴ Total liabilities comprise all of the funds mobilized by the bank.

Table 1.4.1.

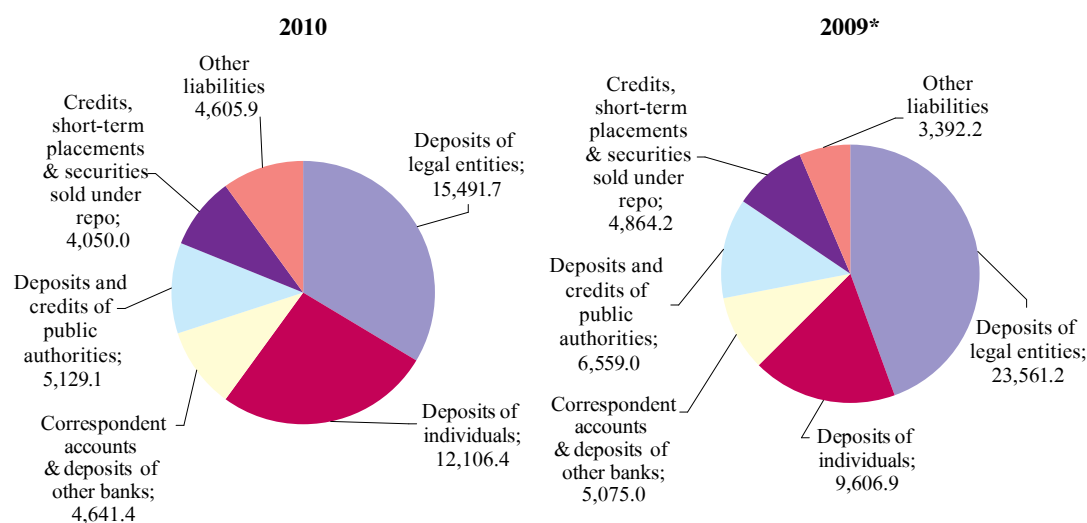
Pattern of Liabilities of Commercial Banks (end of period)

Category of liabilities	2009*		2010	
	<i>in millions of soms</i>	<i>share, percent</i>	<i>in millions of soms</i>	<i>share, percent</i>
Demand deposits of legal entities	21,147.5	39.9	14,048.9	30.5
Deposits of individuals	9,606.9	18.1	12,106.4	26.3
Time deposits of legal entities	2,413.7	4.5	1,442.8	3.1
Liabilities to NBKR	4.0	0.0	0.7	0.0
Correspondent accounts	531.7	1.0	443.2	1.0
Deposits of other banks	4,539.3	8.6	4,197.4	9.1
Short-term placements	62.7	0.1	0.0	0.0
Deposits and credits of public authorities	6,559.0	12.4	5,129.1	11.1
Securities sold under REPO agreements	300.1	0.6	231.0	0.5
Received loans	4,368.8	8.2	3,690.1	8.0
Subordinated debt	132.6	0.2	129.0	0.3
Other liabilities	3,392.2	6.4	4,605.9	10.0
Total	53,058.5	100.0	46,024.5	100.0

* Data is presented without adjustments to the indicators of OJSC "AsiaUniversalBank"

Deposits

At the end of 2010, deposits of commercial banks¹ decreased by 16.8 percent and totaled KGS 27.6 billion. Deposits of legal entities reduced in the accounting period by KGS 8.1 billion or by 34.2 percent. Deposits of individuals increased in the accounting period by KGS 2.5 billion or by 26.0 percent (in 2009, the increase was KGS 2.7 billion or 39.4 percent). The growth of time deposits, both in absolute and relative terms, was observed in the structure of deposits of individuals.

Chart 1.4.2.Total Liabilities of Commercial Banks (end of period)
(In millions of soms)

* Data is presented without adjustments to the indicators of OJSC "AsiaUniversalBank"

Assets of Banking system

Total assets of banks decreased by 13.8 percent and totaled KGS 58.6 billion. In this regard, assets in foreign currency reduced by 32.5 percent, while assets in national currency increased by 8.2 percent. However, excluding OJSC "AsiaUniversal-

¹ Excluding the government deposits and credits and the deposits of finance and credit institutions

Bank” and four problem banks, total assets increased by 33.0 percent and amounted to KGS 52.8 billion.

Table 1.4.2.

Pattern of Assets of Commercial Banks (end of period)

Category of assets	2009*		2010	
	<i>in millions of soms</i>	<i>share, percent</i>	<i>in millions of soms</i>	<i>share, percent</i>
Cash	3,738.7	5.5	3,870.5	6.6
Correspondent accounts with the NBKR	5,446.1	8.0	5,513.7	9.4
Correspondent accounts and deposits with other banks	18,612.1	27.4	10,491.9	17.9
Securities portfolio	7,662.8	11.3	4,142.5	7.1
Short-term placements	739.1	1.1	1,004.2	1.7
Securities purchased on REPO operations	300.1	0.4	101.8	0.2
Loans to finance and credit institutions	797.2	1.2	1,064.5	1.8
Lending to clientele	25,117.0	36.9	26,310.8	44.9
Special LLP**	-1,204.9	-1.8	-2,820.6	-4.8
Fixed assets	4,047.5	6.0	4,335.0	7.4
Other assets	2,727.7	4.0	4,594.5	7.8
Total	67,983.3	100.0	58,608.8	100.0

* Data presented without adjusting to the indicators of OJSC "AsiaUniversalBank"

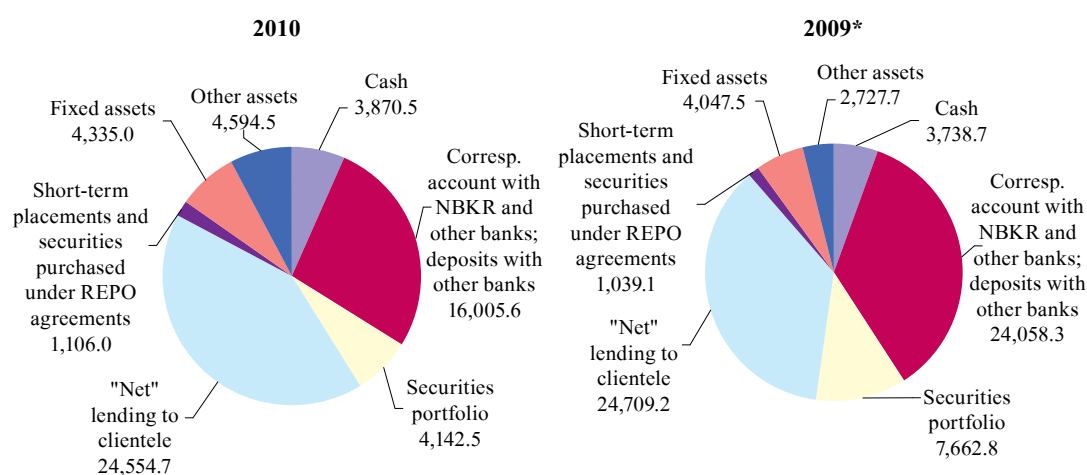
** Special LLP - loan loss provisions on classified credits (substandard, doubtful and losses)

The volume of highly liquid assets placed by the commercial banks as cash assets, short-term placements and on the correspondent accounts with the NBKR increased, in the aggregate, by 4.7 percent during the accounting period and as of the end of 2010 this category of assets totaled KGS 10.4 billion. The growth was also observed in the balances of credits to customers¹ by 4.8 percent compared to the same indicator in 2009, and the growth by 7.1 percent was noted under the item “fixed assets” of the system of commercial banks.

Chart 1.4.3.

Assets of Commercial Banks (end of period)

(In millions of soms)



* Data is presented without adjustments to the indicators of OJSC "AsiaUniversalBank".

¹ Credits to customers are credits and financial lease to customers (this category does not cover credits to finance and credit institutions) net of accrued discount.

«Net» lending

The volume of total net lending¹ decreased by 0.6 percent and amounted to KGS 24.6 billion at the end of 2010. Its share in total assets of banks increased by 5.5 percentage points and was 41.9 percent.

According to the data of regulatory reports of banks, the share of unclassified² assets was 90.5 percent of total assets subject to classification, while the share of classified³ assets was 9.5 percent. Loan portfolio quality of the banking system deteriorated in 2010 – 15.8 percent was the share of classified credits against 8.2 percent at the end of 2009.

Table 1.4.3.

Classification of Assets, Off-Balance Sheet Liabilities and Lending to Clientele
(In percent unless other indicated)

Category	Assets and off-balance sheet liabilities		Lending to clientele	
	2009	2010	2009	2010
Total unclassified	94.7	90.5	91.8	84.2
including:				
Standard	46.7	48.4	3.4	1.5
Satisfactory	42.0	36.0	77.5	70.4
Under watch	6.1	6.1	10.8	12.3
Total classified	5.3	9.5	8.2	15.8
including:				
Substandard	2.4	2.9	3.4	4.3
Doubtful	0.9	2.1	1.8	3.9
Losses	1.9	4.5	3.0	7.7
Total	100.0	100.0	100.0	100.0
Total, in millions of soms	50,231.1	54,771.0	25,117.0	26,310.8

Income and expenses

Non-interest income and expenses of commercial banks increased in 2010 (by 5.3 percent and 13.5 percent, accordingly), while interest income and expenses decreased (by 18.2 and 34.7 percent, accordingly). The indicator of “net operational income” in the system of commercial banks totaled KGS 1.2 billion in 2010, having thus decreased by 39.1 percent as compared with the value of this indicator in 2009. However, the banking system, as a whole, closed the year of 2010 with the net profit of KGS 741.8 million, while the financial result was KGS 1.6 billion som at the end of 2009 (the decrease by 53.5 percent).

Table 1.4.4.

Composition of Income and Expenses
(In millions of soms)

Category	2009	2010
Total interest income	6,155.0	5,032.6
Total interest expenses	2,145.2	1,399.9
Net interest income	4,009.8	3,632.8
Loan loss provisions (on credits)	374.6	678.7
Net interest income after LLP	3,635.3	2,954.1
Total non-interest income	10,968.8	11,553.8
Total non-interest expenses	8,258.1	9,372.2
Net operating income (loss)	1,989.2	1,211.0
Loan loss provisions (on other assets)	192.0	325.8
Net income (loss) before taxes	1,797.2	885.3
Profit tax	200.7	143.4
Net profit (loss)	1,596.5	741.8

¹ Net lending to customers are credits and financial lease to customers and finance and credit institutions net of loan loss provisions, as well as accrued discount.

² The unclassified assets (credits) comprise assets (credits) referred to standard assets, satisfactory assets and assets under watch.

³ The classified assets (credits) comprise assets (credits) referred to substandard assets, doubtful assets and losses.

Thus, during the accounting period the following changes were observed in commercial banking:

- Growth of the volume of deposits of individuals (the growth by 26.0 percent) that shows maintained public confidence in commercial banks;
- Reduction of the indicator, characterizing the level of financial intermediation of the commercial banking system, as the ratio of total assets to the annual nominal GDP. This ratio was 27.6 percent at the end of the accounting year (34.6 percent in 2009)
- Growth of the volume and the share of classified credits in the total loan portfolio (from KGS 2.1 billion and 8.2 percent, accordingly, based on the outcome for 2009, to KGS 4.2 billion and 15.8 percent, accordingly, based on the outcome for 2010;
- Based on the outcome for 2010, return on assets (ROA) decreased by 1.3 percentage point and was 1.2 percent, while return on equity (ROE) decreased by 6.6 percentage points making 7.1 percent.

1.5. Sector of Nonbank Finance and Credit Institutions

In 2010, the NFCIs continued to grow in their number, thereby promoting the growth of microfinance services. The system of nonbank institutions subject to licensing and regulation by the NBKR comprised: two specialized finance and credit institutions – Limited Liability Company (LLC) “FCSDCU” and Limited Liability Company (LLC) “SFBR”; 217 credit unions; 397 microfinance organizations (including four microfinance companies, 266 microcredit companies and 127 microcredit agencies); and 290 exchange bureaus.

NFCI structure

In 2010, the growth was observed in the total number of NFCIs, in the volume of their assets and loan portfolio.

Table 1.5.1.

Number of NFCIs and Exchange Bureaus for 2006-2010

Title	2006	2007	2008	2009	2010
FCSDCU	1	1	1	1	1
Special Fund for Banks Refinancing	-	-	-	1	1
Kyrgyz Republic Development Fund*	-	-	-	1	-
Microfinance organizations (MFC, MCC & MCA)	168	233	291	359	397
Credit unions	305	272	248	238	217
Lombards**	148	181	196	231	410
Exchnage bureaus	263	318	353	372	290

* The license of CJSC "Kyrgyz Republic Development Fund" N4 of September 2, 2009 was revoked on May 7, 2010 according to the NBKR Board resolution N29/1 of May 7, 2010 on the basis of the Decree of the IGKR N31 of April 30, 2010.

** Licensing suspended on September 8, 2009. 2010 data is obtained from NSC KR.

In 2010, the NBKR issued two licenses to new credit unions, 309 licenses to the exchange bureaus (out of which 11 were cancelled and 8 were revoked) and 82 certificates to the MCCs/MCAs. For failure to comply with the requirements of regulatory and legal acts, the NBKR withdrew 15 licenses and 17 certificates, and cancelled certificates and licenses of 65 nonbank institutions due to the termination of their activity.

According to the regulatory reports, total assets of NFCIs¹ for the year of account increased by 22.2 percent and amounted to KGS 16.9 billion as of December 31, 2010.

¹ The NFCI sector data are given excluding the loan portfolio of the FCSDCU and the SFBR, because the loans were given to the FCI, which on-lent them further.

The size of the NFCI loan portfolio increased by 24.7 percent and totaled KGS 11.1 billion compared to 2009.

Chart 1.5.1.

Changes in NFCI Total Assets and Loan Portfolio Excluding CJSC “Kyrgyz Republic Development Fund”

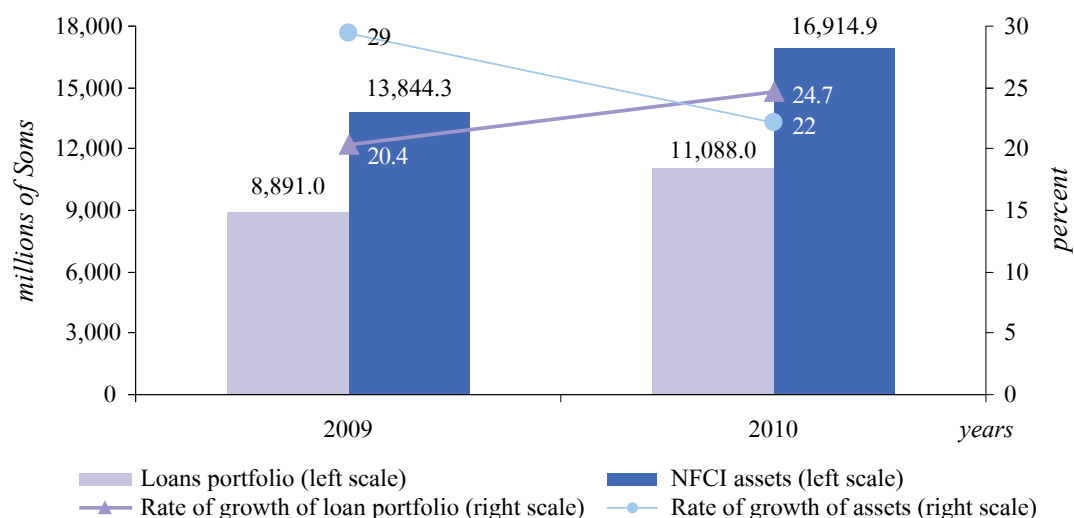
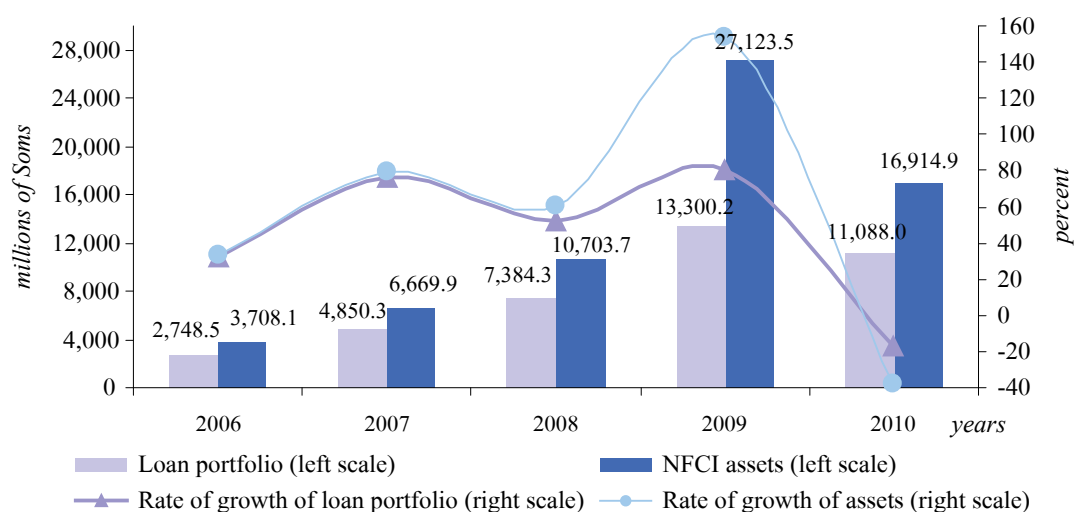


Chart 1.5.2.

Changes in NFCI Total Assets and Loan Portfolio Including CJSC “Kyrgyz Republic Development Fund”



NFCI loan portfolio by regions

In the accounting year, the largest volume of NFCI loan portfolio was placed in Osh, Jalal-Abad Oblasts and Bishkek city

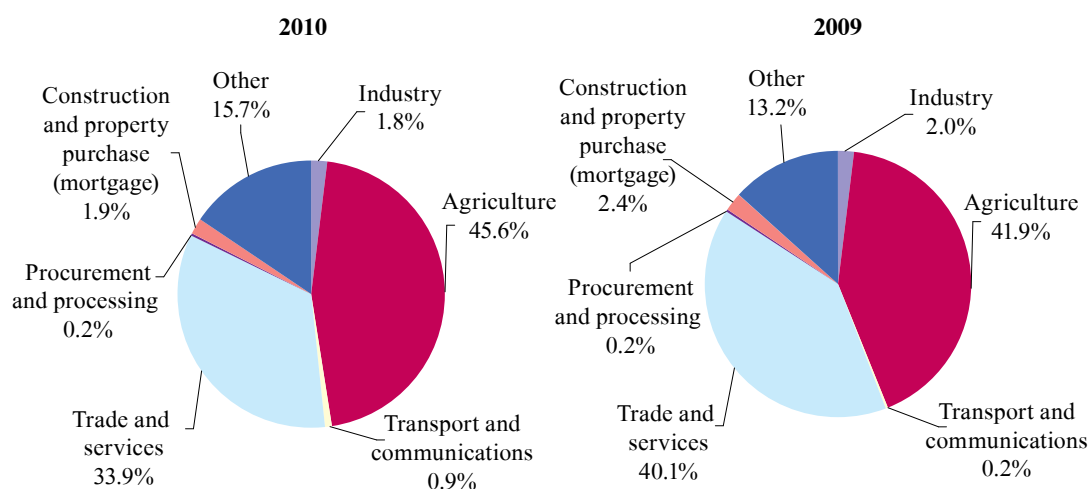
Table 1.5.2.

Change in NFCI Loan Portfolio by Regions (end of period)
(in millions of soms)

	2009	2010
Bishkek	1,497.1	1,940.8
Batken oblast	888.6	828.8
Jalalabat oblast	1,462.4	1,951.6
Issyk-Kul oblast	1,080.7	1,118.3
Naryn oblast	385.6	769.2
Osh oblast	1,904.7	2,104.3
Talas oblast	739.4	948.6
Chui oblast	932.5	1,320.3
Outside of the Kyrgyz Republic	-	106.1
Total	8,891.0	11,088.0

Chart 1.5.3.

Loan Portfolio by Sectors of Economy (end of period)
(in percent)



The basic direction of NFCI activity is microlending. In the accounting year, in comparison with 2009, the size of the NFCI loan portfolio increased by 24.7 percent and totaled KGS 11.1 billion. The number of borrowers increased by 20.5 percent and amounted to about 391 thousand people.

The share of microfinance organizations increased in the NFCI cumulative loan portfolio from 89.0 percent (KGS 7.9 billion) to 90.0 percent (KGS 9.9 billion), and the share of credit unions decreased from 11.0 percent (KGS 958.8 million) to 10.0 percent (KGS 1.1 billion).

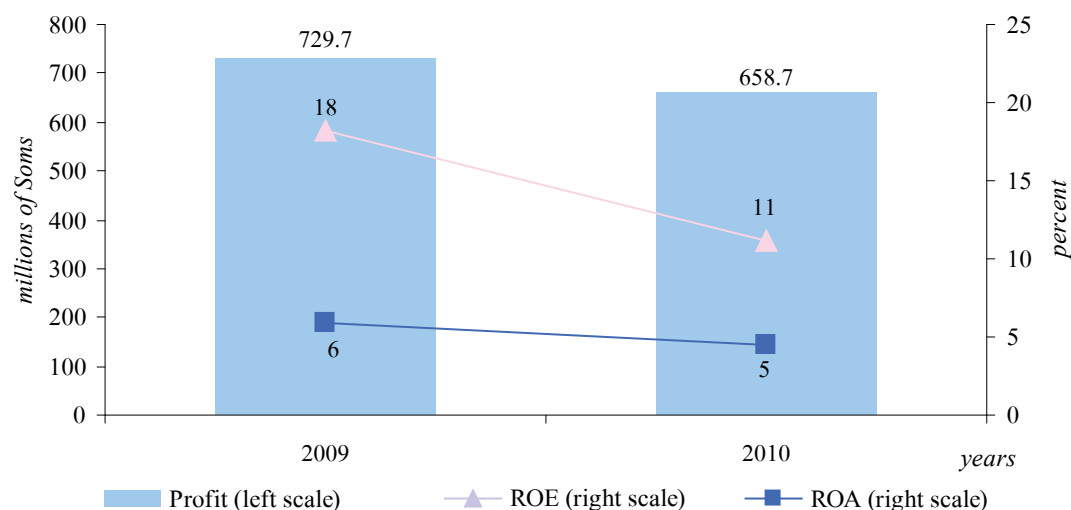
In 2010, the NFCI cumulative net profit amounted to KGS 658.7 million that is less by 9.7 percent or by KGS 71.0 million of the NFCI cumulative profit for 2009 (excluding CJSC “Kyrgyz Republic Development Fund” profit amounting to KGS 729.7 million).

*Loan portfolio by
NFCI types*

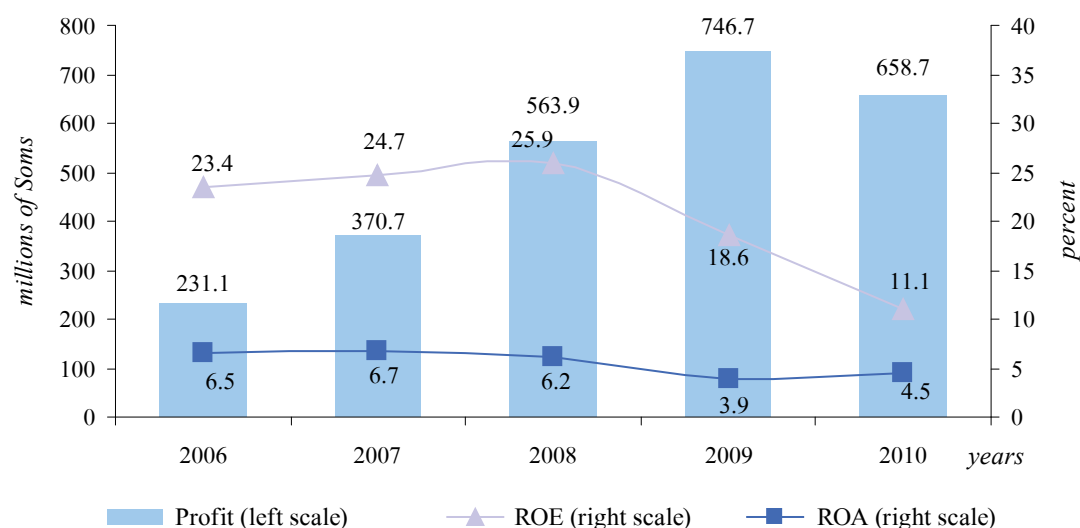
NFCI profit

Chart 1.5.4.

NFCI Net Profit & ROA & ROE Excluding CJSC “Kyrgyz Republic Development Fund”

**Chart 1.5.5.**

NFCI Net Profit & ROA & ROE Including CJSC “Kyrgyz Republic Development Fund”



The interest rates of credits extended by microfinance organizations were observed to decrease, while there was an insignificant growth of interest rates of credit unions in the accounting period.

Table 1.5.3.

Average Weighted Interests Rates of Credits
(in percent)

	2006	2007	2008	2009	2010
FCSDCU	15.1	14.3	13.5	14.6	15.5
Special Fund for Banks Refinancing	-	-	-	11.0	7.2
Kyrgyz Republic Development Fund	-	-	-	3.5	-
Microfinance organizations	33.5	32.9	32.4	34.5	31.7
Credit unions	25.9	25.8	28.0	29.5	30.7
Lombards*	149.5	167.9	132.3

* Licensing suspended on September 8, 2009

"..." - no data is available

The most significant growth of the NFCI loan portfolio was ensured by activities of microfinance organizations.

According to the regulatory reports, total assets of LLC “SFBR” were KGS 2.0 billion and the loan portfolio was KGS 1.0 billion as of December 31, 2010. Total amount of newly extended loans for 2010 was KGS 805.0 million, the operations under the direct REPO agreements totaled KGS 800.0 million, and the volume of investments in the GT-Bonds in the secondary market amounted to KGS 500.0 million. *SFBR*

The growth was observed in the MFO loan portfolio. For instance, in the accounting year, the MFO cumulative loan portfolio increased by 25.4 percent and amounted to KGS 9.9 billion at the end of 2010. The number of MFO borrowers increased by 21.3 percent and totaled 372 thousand people. By maturity, the MFO loan portfolio consisted of basically medium- and short-term credits, with maturities of up to 3 years. *MFO*

Agriculture was the basic branch of MFO lending, with its share being 45.2 percent (at the end of 2009 - 40.9 percent) of the cumulative loan portfolio, and trade had the share of 28.6 percent (as of December 31, 2009 - 27.8 percent). The basic sources of growth of the MFO loan portfolio were those of the funds attracted from the international financial institutions, as well as the increase in MFO capital.

The cumulative loan portfolio of credit unions increased by 18.9 percent in 2010 and amounted to KGS 1.1 billion at the end of the year. In the composition of the loan portfolio of credit unions, the basic share of credits fell on agriculture – 49.0 percent and trade – 32.3 percent (in 2009 – 50.3 and 33.1 percent, accordingly). The number of borrowers of credit unions increased in 2010 by 5.6 percent and totaled 19.3 thousand people as of December 31, 2010. The increase in the number of borrowers in credit unions was due to the qualitative growth of the credit union system, which in its turn was caused by the demand on the part of the population of their services. Due to completion of the Asian Development Bank Project titled “Rural Financial Institutions”, credit unions need other funding sources, in particular, by way of mobilizing deposits from their participants. As of end of 2010, 11 credit unions had their deposit license. The volume of mobilized deposits from participants of credit unions increased by 2.0 percent and amounted to KGS 35.0 million, while the liabilities to other FCIs increased by 29.0 percent and totaled KGS 542.8 million. *Credit unions*

1.6. Financial Markets

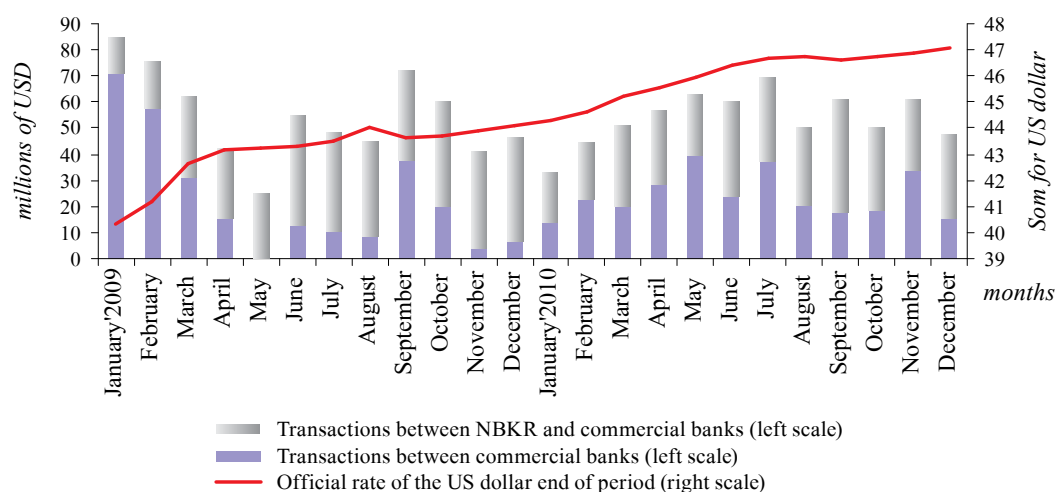
1.6.1. Foreign Exchange Market

The depreciation tendency of national currency against the US dollar lasted in 2010. A high demand for the foreign currency was driven by the increase in the negative balance of the current account. Devaluation expectations growth of economic agents in consequence of the political events and their implications also caused demand increase for the foreign currency and put additional pressure on the exchange rate. At the same time, the increase in the volume of received transfers could not compensate the growth of the negative value of the trade balance and balance of services. *Exchange rate developments*

At year-end the official US dollar exchange rate grew by 6.8 percent to KGS 47.0992 /USD 1.

Chart 1.6.1.1.

Exchange Rate Movement and Total Interbank Foreign Exchange Auction Transaction



Basic foreign exchange market developments

During the first six months of 2010, the US dollar exchange rate steadily grew, on average, by 0.9 percent monthly. The growth trend was caused by the demand and supply misbalance in the market due to the reduced inflow of foreign currency as a result of closed borders with the key trade partner countries given the increased demand for it partly on account of the appreciation of import contracts on food commodities and fuel. At the same time, uncertainty about the development of the situation in the economy and problems in the banking system affected expectations of economic agents that created additional demand for the foreign currency during that period. Starting from August till October, the US dollar exchange rate fluctuated in the range of KGS 46.25-46.94/USD 1. The national currency strengthened by 0.2 percent at the end of September. This was connected with a relative reduction in the demand for the foreign currency and with the increase of remittances inflow by means of the money transfer systems. Subsequently, the foreign currency continued to fluctuate, having both an upward and downward trend, although, in general, the growth tendency of the exchange rate remained in the domestic market.

NBKR foreign currency interventions

In order to smoothen the sharp fluctuations of the exchange rate the National Bank conducted the US dollar sale and purchase operations in the interbank foreign exchange market. As a whole, the volume of the NBKR foreign currency interventions totaled US\$ 292.6 million for the year, having slightly exceeded the corresponding indicator of 2009 (by 1.4 percent). The main part of operations (91.3 percent of total NBKR operations on the sale and purchase of US dollars) fell on the sales of foreign currency, the volume of which increased by 18.8 percent and amounted to US\$ 263.7 million (US\$ 0.5 million out of which was in cash). The purchases of foreign currency totaled US\$ 28.9 million, having thus reduced by 56.7 percent. The NBKR also conducted the operations of purchase the Russian rubles in the amount of Ruble 245.0 million.

Table 1.6.1.1.

Foreign Exchange Purchase/Sale Transactions
(in millions of soms)

	2009	2010	Rate of Growth, percent
Total volume	155,732.8	160,520.7	3.1
including			
<i>Spot operations with foreign currency in non-cash at foreign exchange auctions</i>	29,888.3	31,472.9	5.3
operations with the NBKR	11,575.5	13,822.7	19.4
interbank operations	18,312.8	17,650.3	-3.6
<i>Spot operations with foreign currency in non-cash outside foreign exchange auctions</i>	1,464.7	1,554.4	6.1
<i>Spot operations with foreign currency in cash</i>	117,201.4	126,125.1	7.6
operations with the NBKR	594.5	23.6	-96.0
interbank operations	83,413.7	96,317.8	15.5
exchange bureaus	33,193.2	29,783.8	-10.3
<i>SWAP operations</i>	7,178.5	1,368.3	-80.9
operations with the NBKR	0.0	683.5	0.0
interbank operations	7,178.5	684.8	-90.5

In 2010, there was some activity increase noted in the foreign exchange market. It was caused by the growth of export and import transactions and the inflow of the foreign currency through the remittances transfer systems. The operations on sale and purchase of foreign currency in the domestic foreign exchange market increased by 3.1 percent and amounted in national currency equivalent to KGS 160.5 billion. The increase in the volume of operations was achieved by the growth of operations with the Russian rubles and with other¹ currencies. The operations with US dollars decreased by 3.3 percent, and their share were 66.3 percent, having thus contracted by 3.7 percentage points. The operations with rubles grew by 44.2 percent with their share increase by 6.0 percentage points, to 20.7 percent. The volume of operations with the Kazakh tenge decreased by 10.7 percent, and the share of these operations reduced from 9.1 percent to 8.0 percent. The operations with the Euro also decreased by 15.1 percent, share of which contracted by 1.0 percentage points, to 4.9 percent. The volume of operations with other currencies decreased by 52.3 percent, and their share reduced from 0.3 percent to 0.1 percent.

Traditionally, the basic volume of operations was conducted in a cash segment of the foreign exchange market, and in 2010, its share was 79.7 percent in the total volume of operations. The significant volume of transactions on purchases and sales of foreign exchange in cash was closed in the commercial banks (60.8 percent), and their growth rates were notably higher than in the exchange bureaus. In the non-cash segment of the foreign exchange market, the essential part of operations in US dollars was concluded in the interbank foreign exchange market². The volume of these operations in national currency equivalent amounted to KGS 29.8 billion, having thus increased by 6.2 percent in comparison with the similar indicator in 2009. The growth was achieved by the increase of the NBKR operations on purchase/sale of the US dollars by 6.2 percent.

In the reporting year, swap operations in national currency equivalent amounted to KGS 1.4 billion, having thus decreased by 80.9 percent in comparison with the similar indicator in 2009. Direct National Bank swap operations in national currency equivalent amounted to KGS 683.5 million.

The cash US dollar exchange rate dynamics in exchange bureaus was similar to its developments in the interbank foreign exchange market. According to perfor-

Foreign exchange market organization by currencies

SWAP operations

Exchange rate dynamics of basic currencies in exchange bureaus

¹ British pound, Swiss franc, Turkish lira, Uzbek sum and Chinese yuan.

² The foreign exchange auctions are held at the National Bank through the Trade Information Electronic System (TIES).

mance in 2010, the average weighted dollar exchange rate in the exchange bureaus grew by 6.7 percent to KGS 47.2161/USD 1.00 at the end of December. National currency depreciated also against the Russian ruble and tenge: the average weighted rate of sale of the ruble in the exchange bureaus for the year grew by 5.9 percent and was KGS 1.5242/RUB 1.00, the rate of the Kazakh Ruble - by 7.3 percent, to KGS 0.3170/KZT 1.00. As against the euro, the Kyrgyz som appreciated by 2.5 percent, and its rate was KGS 62.3694/EUR 1.00.

1.6.2. Interbank Credit Market

Operations in national currency

In 2010, the situation in the interbank credit market was determined by the liquidity level and its concentration in the banking system. Also, the reduction was noted in the average rate and maturity of transactions.

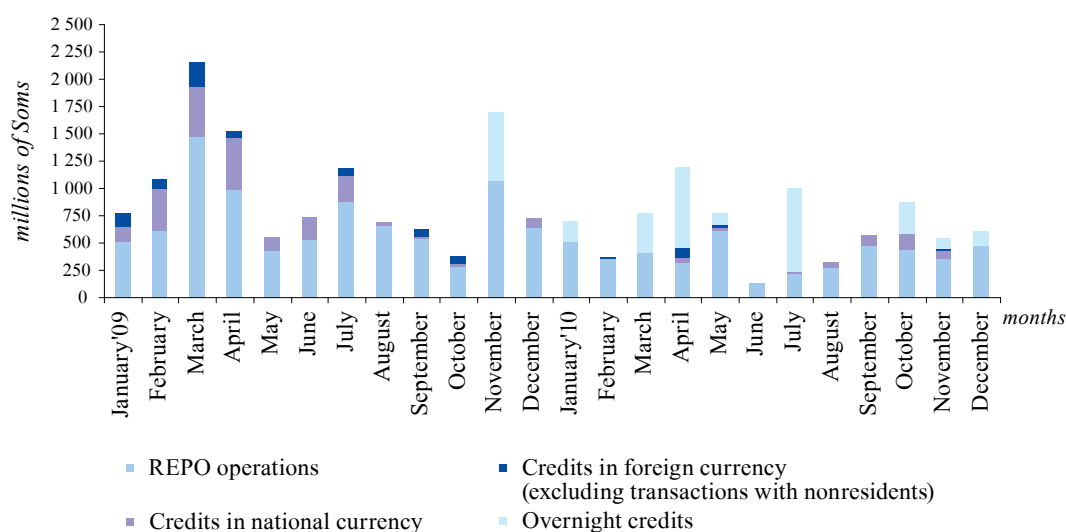
Against a background of high liquidity level in the banking system, there was reduction in the volume of interbank credit operations in the domestic market. The total volume of operations in national currency in this market amounted to KGS 7.7 billion, having thus decreased by 32.7 percent in comparison with this indicator in 2009. As before, the basic part of operations in national currency was conducted in the REPO transactions segment. In the accounting year, their share decreased by 15.6 percentage points, to 59.7 percent due to the increase by four times of the volume of overnight credits, extended by the NBKR, to KGS 2.7 billion.

During the first quarter of 2010, the interest rates of credits in national currency were decreasing due to the low demand for borrowed resources and the reduction of the rates in other financial market segments. As of April the cost of interbank credits in national currency started to grow against the background of the yield increase in the NBKR notes. Subsequently, the growth rates and the volatility of interest rates in the market increased under the influence of acceleration of inflation rates and growth of rates in other segments of the domestic financial market. As a whole, the average rate on REPO operations was 3.7 percent in 2010, having thus decreased by 4.6 percentage points in comparison with this rate in 2009. The annual average rate on traditional interbank credits in national currency reduced by 3.3 percentage points and was 4.5 percent.

Average REPO maturity reduced from seven to five days, that of credits in national currency - from 16 to 7 days.

Chart 1.6.2.1.

Total Domestic Interbank Credit Market Transactions



In 2010, the volume of operations in foreign exchange segment of the domestic interbank credit market reduced by 81.5 percent and amounted in national currency equivalent to KGS 131.3 million. The rates in this segment were formed under the influence of rates development in other segments of the money market. As a whole, for the year, the average rate of credits in foreign currency, extended in the domestic interbank market, reduced by 3.1 percentage points in comparison with 2009, up to 2.9 percent, and the average weighted maturity decreased from 63 to 5 days.

Operations in the domestic market in foreign currency

Table 1.6.2.1.

Average Weighted Interest Rates in Domestic Interbank Credit Market
(percents)

	2009	2010
Rate of credits in national currency	7.8	4.5
Rate of credits in foreign currency	6.0	2.9
Rate of REPO operations	8.3	3.7
Rate of overnight credits	8.8	3.2

Apart from extending interbank credits in the domestic market, some banks conducted operations with non-resident banks acting as creditors. Total credits, issued by non-resident banks in 2010, reduced by 27.0 percent and amounted in national currency equivalent to KGS 217.2 billion. The annual average level of interest rates of these credits insignificantly reduced (by 0.05 percentage point) to 0.2 percent as compared with this indicator of 2009.

Operations with non-resident banks

1.6.3. Securities Market

1.6.3.1. Government Securities Market

In 2010, the government securities market was represented by the following types of securities:

- Government Treasury Bills (GT-Bills);
- National Bank Notes;
- Government Treasury Bonds (GT-Bonds);
- Government Treasury Obligations (GT-Obligations)
- Government Securities for Settlement –Treasury Bills (GT-Bills(s)) and Treasury Obligations (GT-Bonds (s));
- Promissory Notes and Bills of Exchange;
- Municipal Bonds.

The total amount of outstanding government securities was KGS 8.6 billion, having thus decreased by 0.6 percent for the year. Reduction in the volume of outstanding government securities was determined by the decrease in issues of practically all types of government securities, except for treasury obligations, GT-Bonds and municipal bonds. This reflected correspondingly in the structure of government securities (Chart 1.6.3.1.1.).

Outstanding government securities

The government treasury obligations were, mainly, issued earlier by the Ministry of Finance when restructuring the Government debt to the National Bank, commercial banks and nonbank institutions. In 2010, treasury obligations were emitted amounting to KGS 619.0 million to restructure the debt of the Government of the Kyrgyz Republic to the National Bank, that were directed to increase the NBKR authorized capital. Total redeemable debt on previously issued treasury obligations amounted to KGS 165.2 million. As a result, the volume of outstanding treasury obligations increased by 39.1 percent and totaled KGS 1.6 billion for the year. Practically,

the entire volume of these securities (99.9 percent) is in the National Bank portfolio. The share of government treasury obligations in the securities structure increased up to 18.8 percent (+6.1 percentage points).

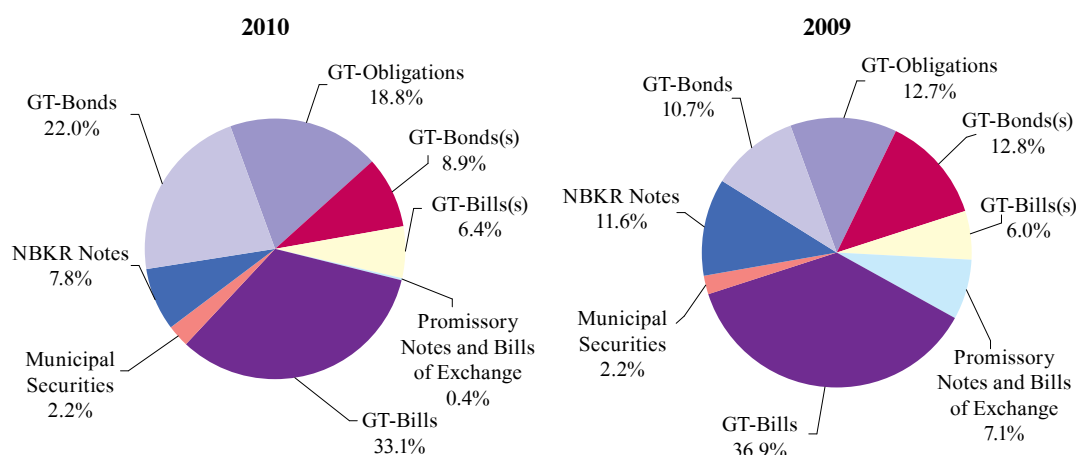
The volume of GT-Bills(s), emitted during prior years when settling the debt of the Government to the NBKR, did not change in the accounting year, and their share in the government securities structure increased from 6.0 to 6.4 percent. At the same time, part of GT-Obligations was redeemed in the accounting year resulting in the decrease of the debt of the Ministry of Finance on government securities for settlement by 23.3 percent and amounted to KGS 1.3 billion at the end of the accounting year.

The volume of outstanding promissory notes and notes of exchange emitted by the Ministry of Finance when restructuring debts of banks and other financial institutions to depositors was KGS 35.2 million, having thus decreased by two times, whereas their share reduced down to 0.4 percent.

In 2010, once again the Bishkek city administration placed municipal securities to redeem debts on securities issued in 2009 and to finance construction works and road reconstruction. The volume of placed securities amounted to KGS 225.0 million and their yield was 7.0 percent. At the same time, the share of these obligations in the structure of government securities did not change and was 2.2 percent.

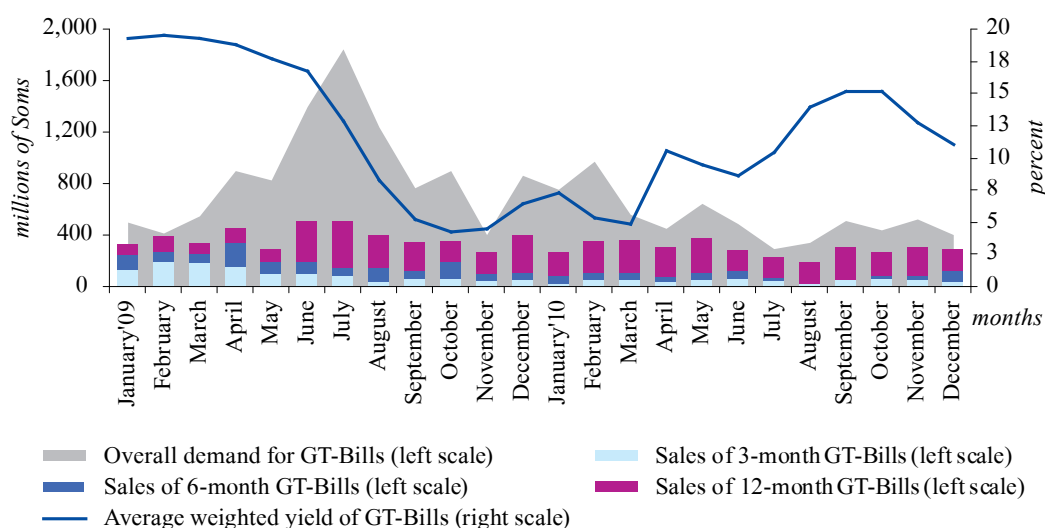
Chart 1.6.3.1.1.

Structure of Outstanding Government Securities



1.6.3.1.1. Government Treasury Bills

The Ministry of Finance of the Kyrgyz Republic issues the government treasury bills for the term of 3, 6 and 12 months with the objective to finance current state budget deficit. Auctions on the primary placement of GT-Bills are conducted weekly at the National Bank that acts as a general agent servicing issues of government treasury bills.

Chart 1.6.3.1.1.1.**Demand and Placement of GT-Bills**

During the first quarter of 2010, an increased demand, improved competition and yield reduction were noted in the primary market of GT-Bills under the conditions of high liquidity level in the banking system. During that period the issuer gradually built the supply of its securities. As a result, at the end of March, the average weighted yield of GT-Bills was 4.9 percent, having thus decreased from 6.4 percent in December 2009. Then, in the second quarter, the demand for GT-Bills distinctly reduced that was connected with the decrease of liquidity in banks and changes in their liquidity management policy. On the other hand, the market participants changed their actions under the influence of negative expectations and growth of risks in the market. As a result, the yield of securities grew rapidly. In this connection, the supply of GT-Bills was reduced in April and May. Starting from June, the Ministry of Finance increased the supply of its bills under the conditions of the budget deficit growth, however, the demand remained low. In addition, an increased volatility of yield was noted which resulted in cancelling all auctions on the placement of 6-month GT-Bills and some auctions on the placement of 3-month and 12-month GT-Bills during the period from July till September 2010. The average yield of GT-Bills increased up to 15.2 percent from April till September.

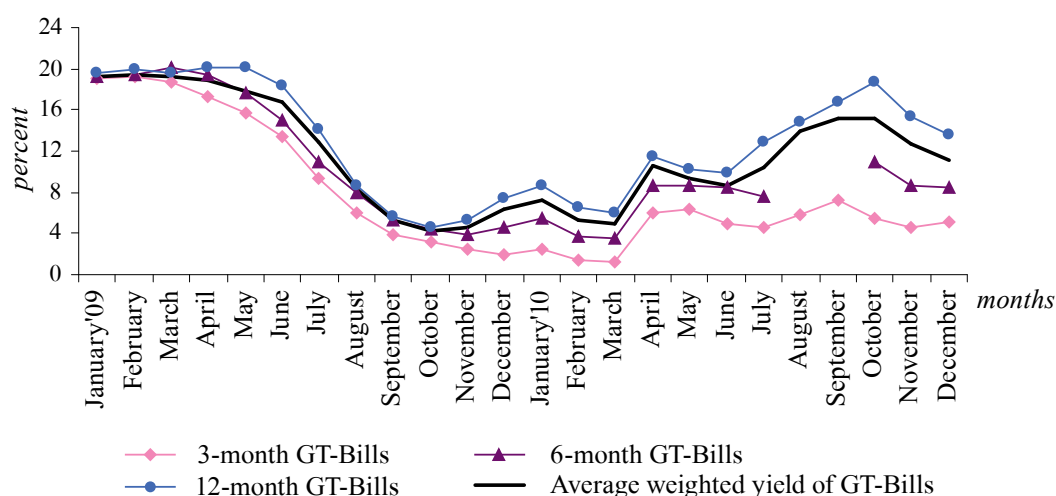
Demand and supply in the GT-Bills market

Starting from October, under the conditions of the liquidity growth in some banks, the market conditions of GT-Bills improved thus reflecting the growth of demand and reduction of yield. Starting from the end of November, the Ministry of Finance of the Kyrgyz Republic in the context of low demand for the 12-month GT-Bills reduced the volume of their supply. Changes in the sales structure towards the short-term GT-Bills positively affected the overall average weighted yield of treasury bills, the level of which reduced to 11.1 percent at the end of the year.

The overall average annual yield of GT-Bills was 10.4 percent in 2010, having thus reduced by 2.3 percentage points compared to the yield in 2009. The yield decrease was noted in all types of GT-Bills: by 6.3 percentage points, to 4.6 percent in 3-month GT-Bills, from 12.3 percentage points, to 7.4 percent in 6-month GT-Bills and by 1.6 percentage points in 12-month GT-Bills and was 12.1 percent.

Chart 1.6.3.1.1.2.

Average Weighted Yield by All Types of GT-Bills



*Volume of
outstanding
GT-Bills*

The total volume of issued government treasury bills in 2010 was KGS 3.5 billion, having thus decreased by 22.8 percent compared to their volume in 2009. In the accounting year, the share of short-term bills increased from 27.1 percent at the beginning of the year to 35.8 percent at the end of the year. As a result, the duration of the overall portfolio of GT-Bills decreased from 175 days to 164 days at the end of the year.

Table 1.6.3.1.1.1.

Issue and Annual Average Yield of GT-Bills

	Sales, in millions of soms	2009 Share, percent	Yield, percent	Sales, in millions of soms	2010 Share, percent	Yield, percent
Total	4,567.8	100.0	12.7	3,527.4	100.0	10.4
<i>including:</i>						
3-month GT-Bills	1,224.1	26.8	10.9	520.3	14.8	4.6
6-month GT-Bills	1,088.2	23.8	12.3	522.8	14.8	7.4
12-month GT-Bills	2,255.4	49.4	13.6	2,484.3	70.4	12.1

*Structure of
GT-Bills market*

As before, commercial banks prevailed in the structure of holders of GT-Bills. However, the volume of bills in their portfolio reduced by 19.4 percent and amounted to KGS 2.5 billion at the end of 2010, or 86.5 percent of the total volume of outstanding GT-Bills (-3.8 percentage points). The number of banks holding GT-Bills decreased from the beginning of the year by two banks and was 17, while the concentration of the total banking portfolio increased from 0.12 to 0.17, which is equivalent of the market division among six banks having equal shares. The reduction in the share of banks was caused by the growth in activities of institutional investors with their portfolio increase by 4.5 percentage points, to 12.2 percent. The volume of GT-Bills held by resident individuals and resident legal entities reduced in the accounting year, as a result, their shares decreased from 0.7 to 0.1 percent and from 1.2 to 1.1 percent, accordingly.

*Operations in the
secondary market of
GT-Bills*

The commercial banks actively used the GT-Bills in the secondary market as collateral when closing the lending operations on REPO terms. In the accounting year, the volume of interbank operations on REPO terms decreased by 46.6 percent, to KGS 4.6 billion. The volume of “outright” operations in the secondary market

practically increased by three times and amounted to KGS 519.6 million. The average weighted term to maturity of GT-Bills in these transactions made 124 days, and the average annual rate was 9.5 percent.

1.6.3.1.2. Government Treasury Bonds

The Ministry of Finance places government treasury bonds since October 2009. These securities were introduced to expand a spectrum of government securities and to increase the terms for financing current budget deficit. The maturity of GT-Bonds is two years.

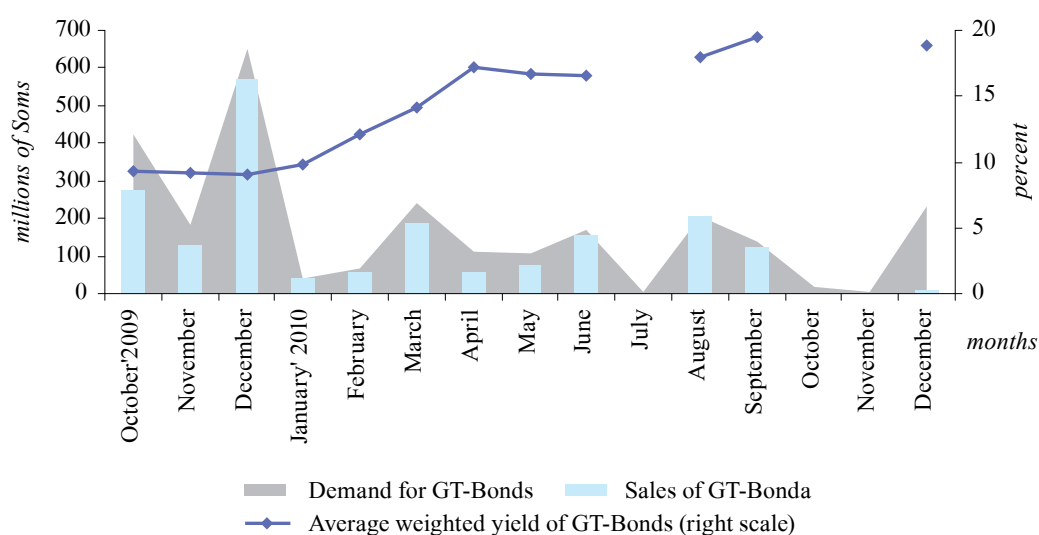
In the accounting year, the demand for these securities was low due to the short-term nature of resources in commercial banks that are principal investors in the primary market of GT-Bonds. The issuer, in his turn, depending on the budget needs and demand level, adjusted his volumes of supply. During some months, the auctions were not held due to the lack or inadequate number of investors. As a result of low demand and competition, the securities yield increased during the year and was 18.9 percent at the end of the year against 9.0 percent at the beginning of the year. The annual average yield of GT-Bonds was 15.9 percent.

Demand and supply in the GT-Bonds market

Annual sales of GT-Bonds totaled KGS 913.6 million, while the volume of outstanding GT-Bonds was KGS 1.9 billion, having thus increased by two times during the year.

Chart 1.6.3.1.2.1.

Demand and Placement of GT-Bonds



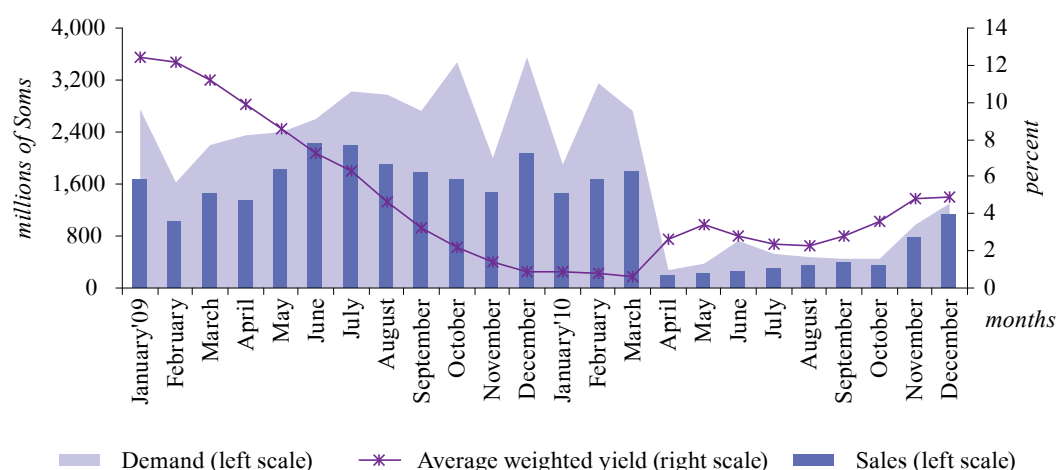
1.6.3.1.3. National Bank Notes

In 2010, the NBKR placed the 7-, 14-, and 28-day notes in the market. The NBKR continued to use notes as a tool of removing excess liquidity by regulating the volume of their supply depending on the monetary policy objectives and liquidity level in the banking system.

As a whole, the NBKR placed notes amounting to KGS 8.9 billion during the year, while this indicator was KGS 20.7 billion in 2009.

Chart 1.6.3.1.3.1.

Demand and Placement of NBKR notes



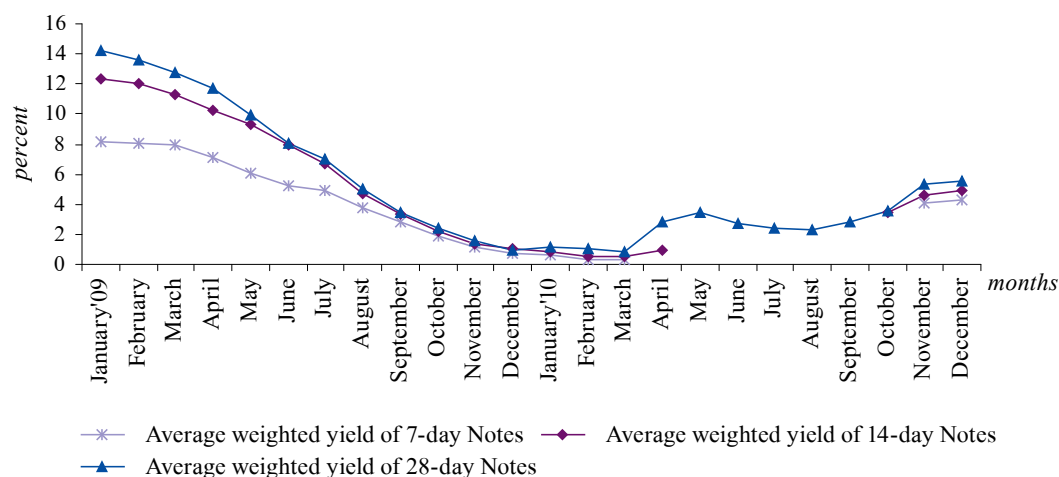
Demand and supply in the NBKR notes market

In the first quarter of 2010, against the background of the high level of excess reserves, the demand for the notes increased in banks and exceeded suggested sales. This resulted in a gradual yield reduction in all market segments during the quarter. An evident reduction in overall demand was noted in the second quarter because of the April events and exiting from the market of some banks that earlier actively participated in the auctions. Simultaneously, the NBKR decided to decrease the volume of issuing notes and emitted only the 28-day notes in order to maintain the banking system liquidity. After the upswing in interest rates that occurred in all segments of outstanding government securities during that period the situation stabilized in the market of NBKR notes. Institutional investors started to act as principal investors in the market. The liquidity started to grow in banks from October, and, the NBKR, within the framework on tightening the monetary policy, began to build supplies of its securities, by offering also the 7- and 14-day notes. Against the background of maintaining the demand at the low level, the yield of securities started to grow.

The average yield of all types of notes decreased by 4.0 percentage points, to 2.6 percent compared to this indicator in 2009. The annual average yield of 7-day notes was 2.4 percent (-2.4 percentage points), 14-day notes – 2.3 percent (-4.6 percentage points), while in the segment of 28-day NBKR notes, the annual average yield increased by 4.6 percentage points and was 2.8 percent.

Chart 1.6.3.1.3.2.

Average Weighted Yield by Types of NBKR notes



The volume of outstanding NBKR notes was KGS 669.2 million at the end of 2010. The share of commercial banks in the structure of holders of notes was 48.1 percent, that of institutional investors – 51.6 percent and that of resident legal entities – 0.3 percent. 12 banks held the NBKR notes in their portfolio.

1.6.3.2. Corporate Securities Market

From January till October 2010, the annual volume of business at three stock exchanges (Closed Joint Stock Company (CJSC) “Kyrgyz Stock Exchange”, CJSC “Stock Exchange of Kyrgyzstan - BTS”, CJSC “Central Asian Stock Exchange”) amounted to KGS 12.4 billion (-69.4 percent). The reduction of the volume of business was observed with regard to all trading posts: the volume of transactions at the trading post of CJSC “Kyrgyz Stock Exchange” was decreased by 83.3 percent, or to KGS 436.1 million, at the CJSC “Central Asian Stock Exchange”¹ - by 58.9 percent, or to KGS 392.6 million and at the trading post of CJSC “Stock Exchange of Kyrgyzstan – BTS” was reduced by 14.9 percent and amounted to KGS 408.8 million.

At the end of 2010, six joint stock investment funds and two share investment funds, the share of which in rendering the financial services was insignificant (at the level of 0.01 percent of GDP), operated in the securities market.

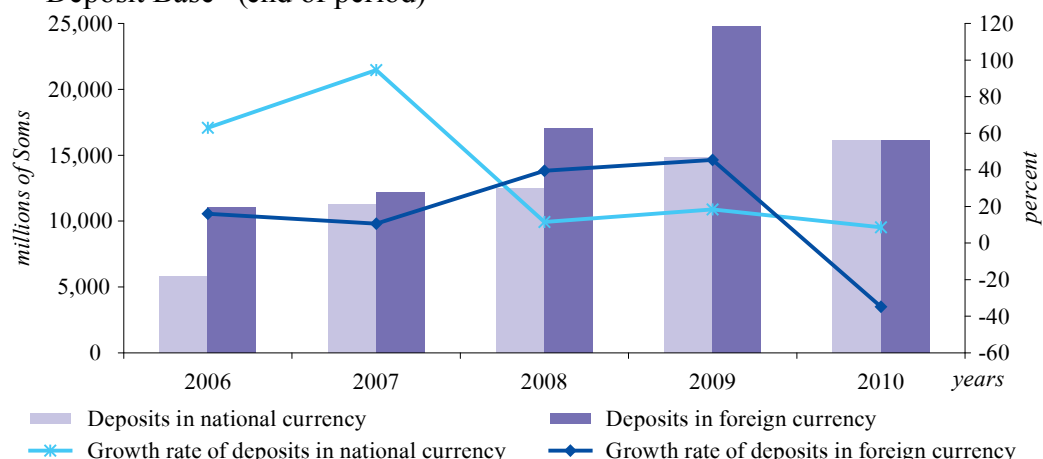
1.6.4. Deposit and Credit Market

As of the end of 2010, the volume of deposits² according to the reports of commercial banks amounted to KGS 34.1 billion, having thus decreased by 14.0 percent from the beginning of the year. Deposits in national currency increased by 10.1 percent, or to KGS 16.3 billion, while the volume of deposits in foreign currency reduced by 28.4 percent and amounted in national currency equivalent to KGS 17.7 billion. Excluding the factor of the change in the US dollar exchange rate, the reduction was noted in foreign currency deposits by 32.5 percent. However, taking into account that the statements of OJSC “AsiaUniversalBank” were distorted (artificially increased), then, excluding this bank, the volume of deposits in the banking system did not reduce; on the contrary, it increased by 35.2 percent.

In 2010³, the reduction of deposits in foreign currency led to the reduction in dollarization of the deposit base by 10.5 percentage points, to 52.1 percent at the end of December. At the same time, the ratio of deposits in national currency to the volume of cash (M0) contracted from 43.8 percent to 39.4 percent.

Chart 1.6.4.1.

Deposit Base* (end of period)

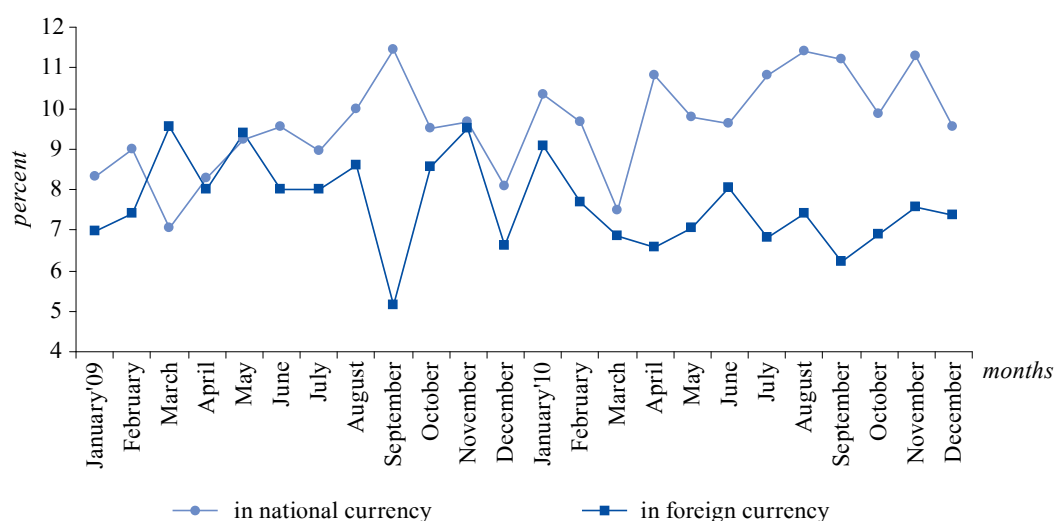


¹ Data as of April 2, 2010. On August 11, 2010, an interdistrict court on economic affairs of Bishkek City in its decision recognized CJSC “Central Asian Stock Exchange” as a bankrupt.

² Including Government deposits and the deposits of other finance institutions. Government loans and loans of local governments of the Kyrgyz Republic are excluded here.

³ Further, the analysis of the deposit and credit market is given including OJSC “AsiaUniversalBank”, unless otherwise set forth herein.

<i>Structure of the deposit base by depositors</i>	<p>The share of deposits of legal entities in the deposit base structure remained substantial – 67.0 percent. Deposits of legal entities in national currency increased by 5.8 percent for the year. The reduction in the deposits of enterprises in foreign currency by 40.7 percent is explained, as stated above, by the distortion of the balance sheet of OJSC “AsiaUniversalBank. The share of deposits of individuals increased from 24.3 to 33.0 percent. In the currency structure of deposits of individuals, a prevailing growth in deposits in national currency was noted – by 21.7 percent, while deposits in foreign currency increased by 13.6 percent.</p>
<i>Time structure of the deposit base</i>	<p>The increase in maturity of mobilized resources was noted in the time structure of the deposit base as a result of reduction of demand deposits of legal entities. Consequently, the share of time deposits grew and was 34.3 percent against 29.9 percent at the beginning of the year. Shares of demand deposits and settlement accounts in the deposit base structure were 18.3 and 47.5 percent, accordingly. As a result, duration of the deposit base grew by 0.9 percent, to 4 months, while that of time deposits by 1.5 months and was 11.8 months.</p>
<i>Interest rates of the deposit base</i>	<p>As of year-end results, the reduction was observed in the concentration of the deposit market from 0.22 to 0.10, indicating a low level of the market concentration.</p> <p>As of the end of 2010, the average weighted interest rate of the deposit base in national currency was 4.6 percent, having thus decreased by 0.7 percentage points. The rate of deposit balance in foreign currency grew by 0.8 percentage points, to 2.9 percent.</p>
<i>Newly attracted deposits</i>	<p>In 2010, the volume of newly attracted deposits of commercial banks amounted to KGS 129.5 billion, having thus increased by 54.9 percent in comparison to the similar indicator in 2009. The growth was observed both in deposits in national currency by 65.6 percent, to KGS 56.0 billion, and in foreign currency – by 47.6 percent, to KGS 73.4 billion. At the same time, the basic inflow of deposits was due to the receipts of funds on demand accounts of legal entities both in national and foreign currency.</p>
<i>Interest rate of the attracted deposits</i>	<p>The decrease in the average interest rates of newly attracted deposits was noted because of the increase in the share of demand deposits of legal entities. The average weighted interest rate in national currency reduced by 0.8 percentage point, to 2.0 percent in comparison with the corresponding indicator in 2009. At the same time, the cost of newly attracted time deposits in national currency grew by 1.1 percentage point, making 10.1 percent. The average rate of deposits in foreign currency decreased by 0.5 percentage point and was 1.1 percent. The average weighted interest rate of time deposits in foreign currency reduced by 0.7 percentage points, to 7.3 percent due to the decrease in interest rates of all types of time deposits, except for the deposits with maturity of up to three years. At the same time, interest rates of deposits of the population increased: the time deposits in national currency grew by 0.1 percentage point, to 11.1 percent, while the interest rate in foreign currency decreased by 1.3 percentage point and was 8.0 percent.</p>

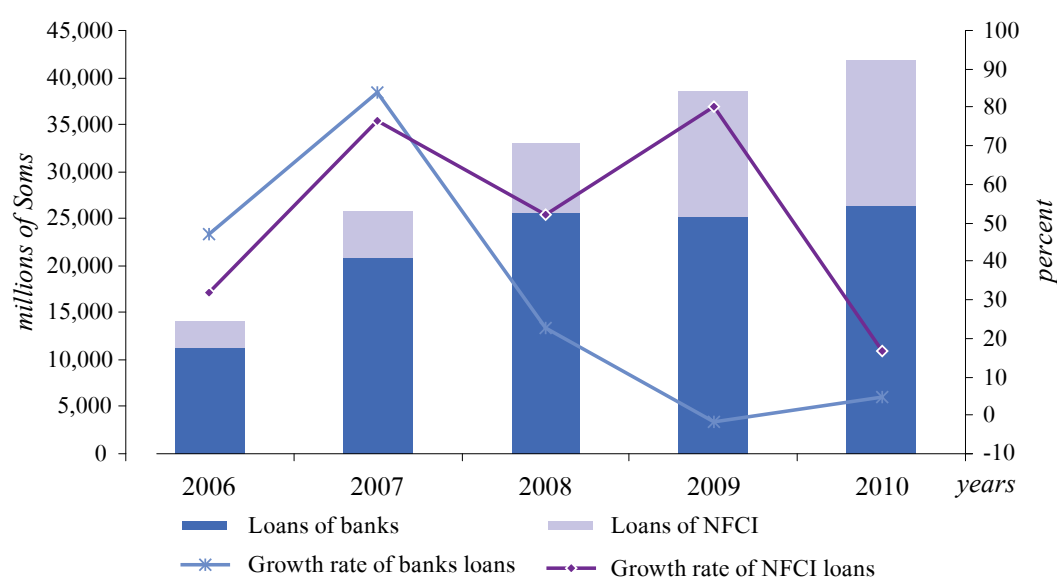
Chart 1.6.4.2.**Interest Rate Developments in Newly Attracted Time Deposits**

The upward tendency in lending to the real sector of economy was observed in the year of account. In the first quarter of 2010, in the context of economic activity recovery in the country, the lending grew at relatively high rates. In April and May, banks substantially decreased their lending volumes, however, the loan portfolio growth in banks restored in the following months, and the interest rates were reduced to support entrepreneurs. A notable deterioration in the loan portfolio quality of banks was observed starting from the second quarter. Nonbank finance and credit institutions, in turn, also continued to build their lending volumes.

Major credit market developments

At the end of 2010, the total volume of credits in banks and NFCIs amounted to KGS 41.9 billion, having thus increased by 8.7 percent (it grew by 16.7 percent in 2009).

Accounts payable

Chart 1.6.4.3.**Volume of Credits in the Economy Including Credits of CJSC “Kyrgyz Republic Development Fund” (end-of-period)**

The aggregate loan portfolio of banks increased by 4.6 percent (in 2009, it decreased by 1.5 percent) and amounted to KGS 26.4 billion at the end of the year. Excluding impact of the exchange rate growth (by 6.8 percent), the growth in the loan

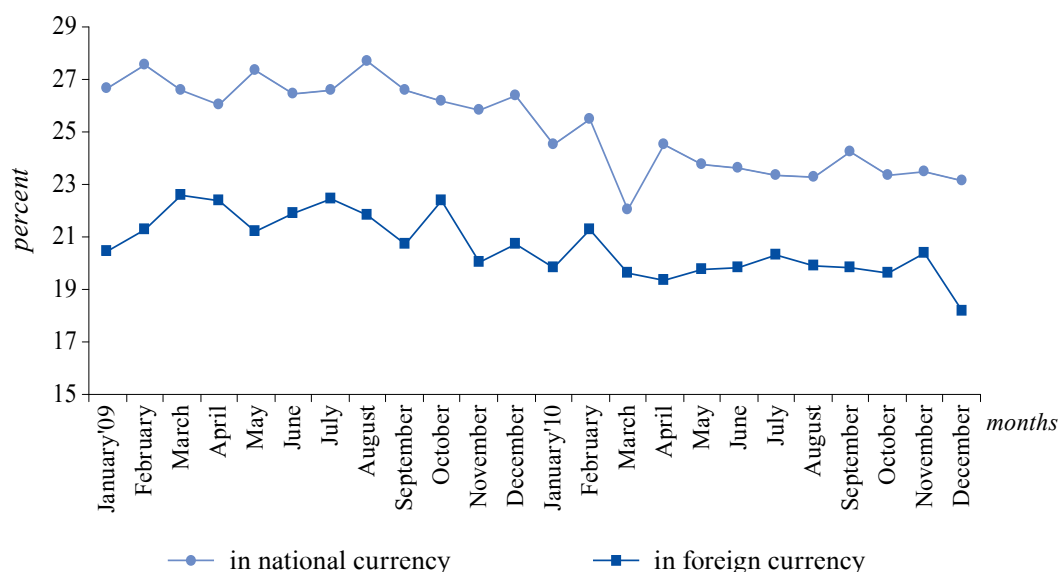
Loan portfolio

portfolio of banks was 1.1 percent. The loan portfolio grew because of the growth of loans in national currency by 22.2 percent, to KGS 11.7 billion, while loans in foreign currency decreased by 6.1 percent and totaled KGS 14.7 billion (without impact of changes in the US dollar exchange rate, the reduction was 11.8 percent). As a result, dollarization of loan portfolio reduced from 62.1 to 55.8 percent.

The loan portfolio of the banking system increased by 9.9 percent, including adjusted data on OJSC “AsiaUniversalBank” for 2009 and 2010. Loans in national currency increased by 24.3 percent and in foreign currency by 0.6 percent.

Chart 1.6.4.4.

Volume of Loans in Banks (end-of-period)



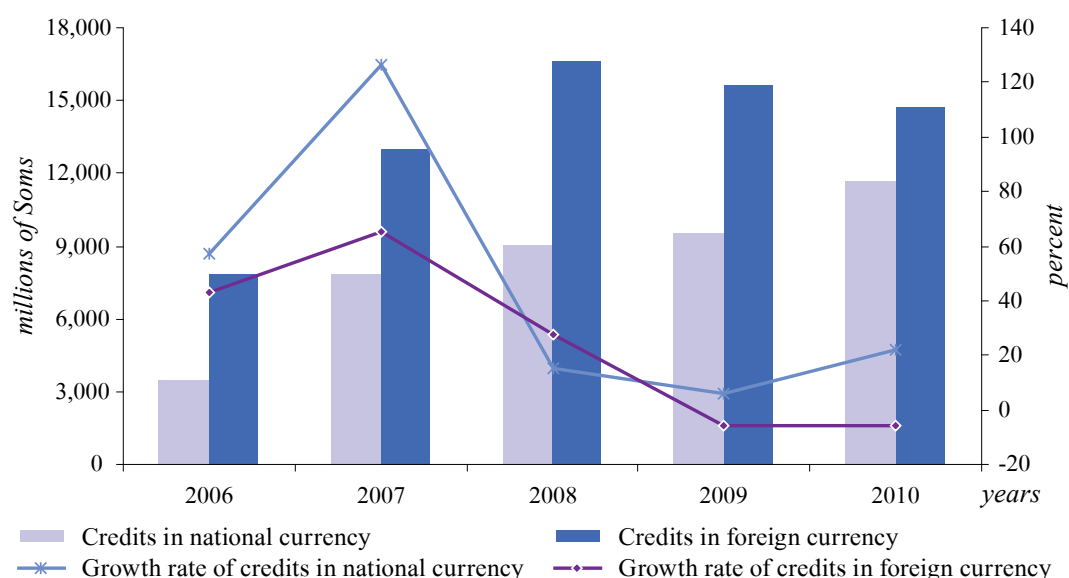
Time structure of the loan portfolio

A positive upward trend in long-term lending was observed in 2010, which led to the increase in the loan portfolio duration from 24.9 to 26.5 months. The share of loans with maturity from six months up to the year and over three years grew in the loan portfolio structure of banks.

Concentration of the lending market remained low, being 0.09, without any changes since the beginning of the year. At the same time, the index, showing concentration of the loan portfolio of banks in sectors, remained high, being 0.46, that tells about the distribution of loans approximately between two sectors in majority of banks. If we consider concentration of loans separately in each sector, then we may note that concentration remained high, being 0.18 in majority of them (in 7 out of 11 sectors), that tells about presence of small number of banks in these sectors.

Interest rates of the loan portfolio

The annual average level of interest rates of credits, forming the portfolio of active commercial banks in national currency was 22.9 percent (-2.4 percentage points), while the rates of credits in foreign currency decreased by 1.3 percentage points, to 19.3 percent.

Chart 1.6.4.5.**Interest Rate Developments in Newly Extended Credits**

The volume of credits, newly extended by the commercial banks, compared to the corresponding indicator in 2009, increased by 3.7 percent and amounted to KGS 22.8 billion. The growth resulted from the increase in lending in national currency by 19.6 percent, amounting to KGS 11.9 billion. The currency part of credits continued to reduce (-9.4 percent) and amounted in national currency equivalent to KGS 10.9 billion for the year.

Newly extended credits

Excluding the credits of OJSC “AsiaUniversalBank”, the volume of newly extended credits increased by 15.4 percent, to KGS 21.3 billion, out of which credits in national currency grew by 27.3 percent, and those in foreign currency by 4.6 percent.

The growth of newly extended credits was observed in most sectors of economy. At the year end, the share of credits to agriculture increased by 1.4 percentage point, to 12.6 percent, to construction by 4.4 percent (+0.5 percentage point) and to mortgage by 4.0 percent (+1.5 percentage point). At the same time, the share of loans to trade reduced by 0.4 percentage points, to 54.4 percent, credits to industry from 6.1 to 5.4 percent, and credits for consumer needs decreased from 9.6 to 8.3 percent. The share of credits for procurement and processing, transport, communication and social services was 2.2 percent. The share of credits classified as “other” decreased by 1.6 percentage point and was 8.7 percent.

Sectoral structure of extended credits

As a whole, the average weighted rate of newly extended credits in national currency was 23.7 percent for the year, having thus decreased by 2.9 percentage points in comparison with the corresponding indicator in 2009. Reduction of interest rates was observed with regard to virtually all of the branches of the real sector of economy, except for the mortgage loans, construction, communication and “other” credits. The average weighted interest rate of newly extended credits in foreign currency for the period was 19.8 percent, having thus decreased by 1.7 percentage point. The highest interest rates of credits in national currency were rates of credits for communication, and those in foreign currency for consumer credits.

Interest rates of newly extended credits

In 2010, NFCIs also continued to grow their lending. The NFCI sector increased its lending of economy by 18.8 percent, including credits of CJSC “Kyrgyz Republic Development Fund”.

Lending by NFCI

II

**ACTIVITY
OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

MONETARY POLICY

During 2010, the National Bank had to resolve a complex task of balancing between the objective of restraining the monetary component of inflation, on the one hand, and the need to provide money supply for the economy to support it, on the other hand. The development and conduct of the monetary policy was considerably complicated by the consequences of internal political shocks combined with the external environment price shocks. If, at the beginning of the year, the monetary policy was aimed to reduce inflationary risks, after April events in the country, the monetary policy focus shifted towards the need to maintain stability and integrity of the banking system, ensure its liquidity, and, finally, to prevent a deep slowdown of economy. The regional shocks in the food markets accelerated the inflationary processes in the second half of the year, and the National Bank responded by taking measures on tightening the monetary policy with a view of keeping prices down. The rate of inflation in 2010 was 19.2 percent, which was, mainly, caused by the reasons of non-monetary nature.

The volume of total international reserves grew to the level of US\$1.7 billion. The international reserves included the currency portfolio, SDR and the assets in gold that were placed in highly reliable and liquid instruments in central banks of developed countries, international financial institutions and foreign commercial banks with a high credit rating. The international reserves were used, mainly, with the view of the monetary policy, and to serve the foreign liabilities of the Government and the National Bank.

2.1. Monetary Policy Development

Monetary policy targets

The National Bank of the Kyrgyz Republic develops the monetary policy strategy, as a rule, for a medium-term period in accordance with the main goal of activity that is to maintain stability of the general price level in order to assist in the long-term economic growth by means of conducting an appropriate monetary policy. The Board of the National Bank approves the Main Monetary Policy Guidelines, determining the monetary policy strategy and macroeconomic indicators for the period.

The monetary policy decisions are taken by the Board of the NBKR and the Monetary Regulation Committee. In 2010, the Board of the NBKR considered the monetary policy reports and the monetary programs for the forthcoming period on the quarterly basis. The Monetary Regulation Committee made prompt decisions about the monetary policy tools and their parameters on the regular weekly basis. The Monetary Regulation Committee defined benchmarks for achieving parameters set forth in the monetary program on a monthly basis, and also, the base rate for purposes of activities of the Special Fund for Banks Refinancing. In 2010, special meetings of the NBKR Board and Monetary Regulation Committee were held to resolve issues of strategic and operational nature concerning the liquidity and recovery of the banking system stability and integrity.

The monetary and fiscal policy measures were agreed at the operational level within the framework of the Interagency Coordination Council comprising of the representatives from the National Bank and the Ministry of Finance of the Kyrgyz Republic.

The timeframes of the Main Monetary Policy Guidelines were changed from three years to one year, which was due to the uncertainty about the medium-term state budget and the uncertainty about external macroeconomic factors in the region at the time of elaborating the document.

The valuation of inflation, as defined in the Main Monetary Policy Guidelines for 2010, was based on the assumptions that the inflationary pressure would increase against the background of major budget stimulation measures to support economic growth and enhance social protection of the population as well as to increase tariffs for electricity and heating. The priority task in 2010 was to retain the moderate inflation rates.

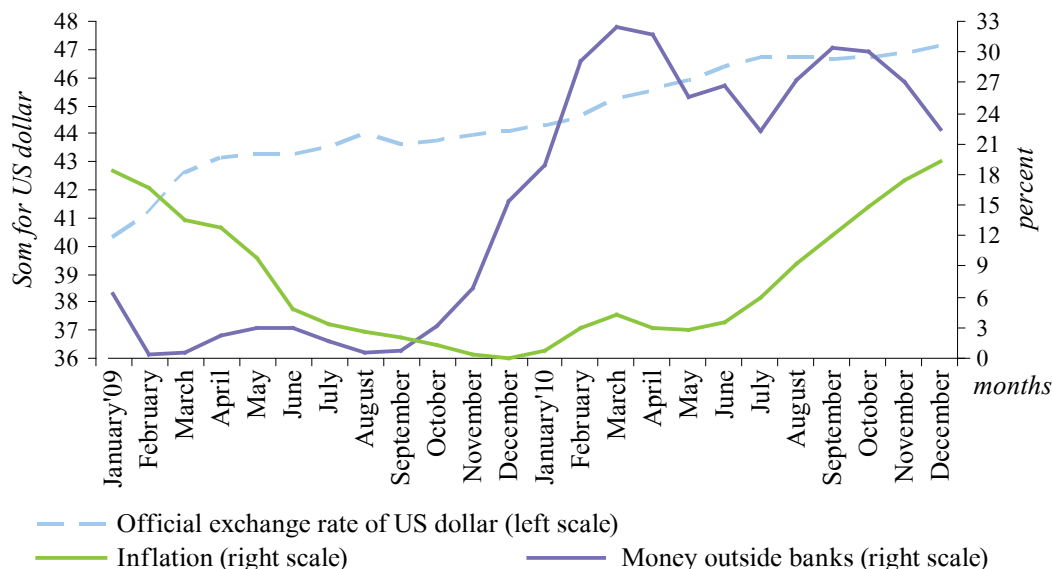
During the first quarter of 2010, the monetary policy conducted by the National Bank conformed to the forecast macroeconomic indicators and a short-term monetary policy program. All monetary aggregates grew and the increase in the exchange rate was commensurate with the value provided in the short-term program, the inflation dynamics was stable that offered hope for achieving the target in view of the seasonal summer deflation.

Political events, which occurred in the country, had a significant impact on changing the conditions and the nature of conducting the monetary policy. The National Bank actions were focused to ensure stability of the banking and financial systems, and to stimulate the economic growth under the conditions of emergence of the systemic crisis risks in the banking system and the threat of a deeper stagnation against the background of moderate inflation rates during the first months after April events. Taking into account the reduction in the resources for lending to the economy by commercial banks, during the second quarter, the NBKR substantially decreased the volumes of removing excess liquidity through the open market operations: the volume of outstanding notes at the end of June amounted to KGS 200 million against KGS 1.0 billion at the end of March. At the same time, the volume of operations on refinancing banks was increased, while the reserve requirements for the commercial banks were reduced from 9.5 to 8 percent. Simultaneously, in the context of the increased demand for foreign currency in the domestic foreign exchange market, the National Bank increased the sales of US dollars in order to prevent sharp fluctuations of the US dollar exchange rate.

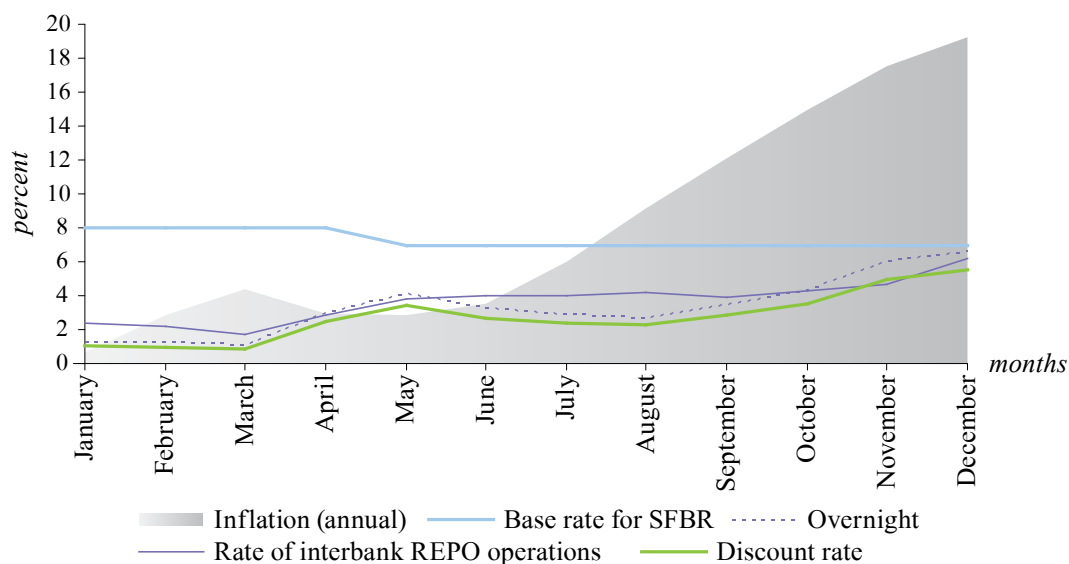
From August, the National Bank started performing swap operations with commercial banks on providing national currency liquidity to microfinance organizations in order to support them under the circumstances of liquidity problems in the banking sector. Activity of the Special Fund for Banks Refinancing was promoted. For purposes of stimulating economic growth, in May, the National Bank reduced the base rate for the SFBR activities from 8 to 7 percent, and also reduced the adjustment sectoral coefficients to the base rate for determining interest rate of the SFBR credit funds to 1. They remained at this level until the end of 2010.

Chart 2.1.1.

Developments in the Official US Dollar Exchange Rate, Annual Rates of Change in Inflation and Money Outside Banks

**Chart 2.1.2.**

Developments in Inflation, Rates of NBKR & Interbank REPO operations in 2010 (end of period)



These measures were conducive of increasing lending and preventing a deeper slowdown of the country's economy. If, in August, the Ministry of Economic Regulation assessed the economic slowdown at the rate of 5.4 percent, at the end of 2010, the GDP in real terms reduced only by 1.4 percent. The loan portfolio of commercial banks grew by 4.6 percent for the year. The volume of loans of nonbank finance and credit institutions¹ increased by 18.8 percent, including, those of microfinance organizations by 25.4 percent.

Inflationary pressure

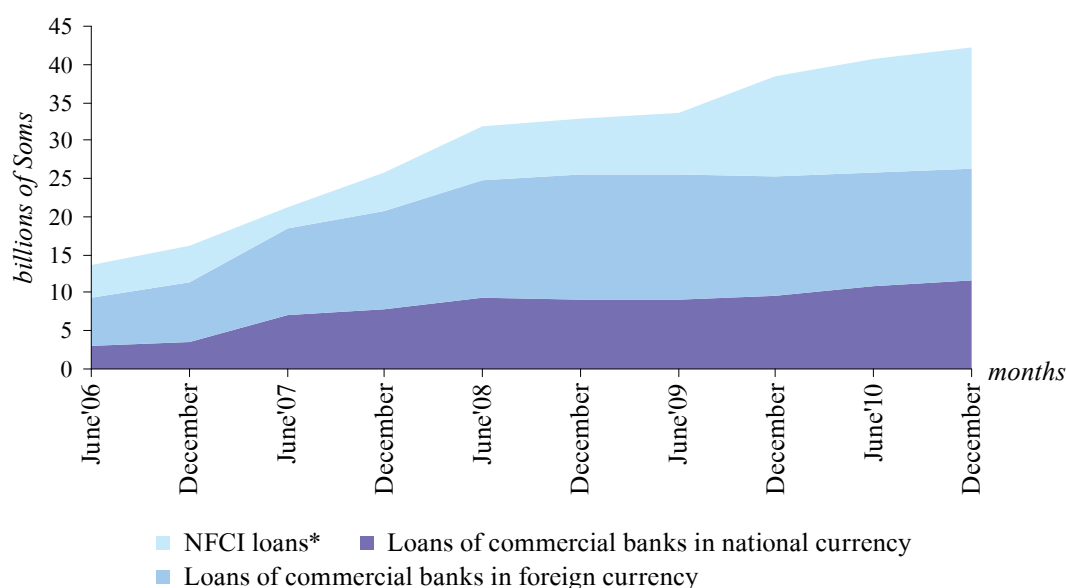
In the third quarter, against the background of the electricity price growth, the external price shocks triggered by climatic catastrophes in the large grain producing countries added to the internal shocks. Considerable acceleration of the inflationary

¹ Including the loan portfolio of the KR Development Fund and excluding SFBR and FCSDCU.

processes commenced, thus increasing the domestic prices for food products and enhancing inflationary expectations of the population. In view of the annual inflation rate of 19.2 percent, the consumer price growth was only 4.1 percent for the first half of the year.

Chart 2.1.3.

Developments in Loan Portfolio of Commercial Banks and NFCIs* (end of period)



Taking into account the growth of the inflationary pressure and potential substantial increase of budget expenditures, in August, the National Bank made adjustments to the monetary program with a view of gradual tightening of the monetary policy that suggested active operations on sterilizing excess liquidity. One of the National Bank measures in this area was to build up the volume of outstanding notes. As a result, in the second half of the year, the volume of outstanding notes increased from KGS 200 million at the end of June to KGS 669.2 million at the end of December 2010. The NBKR discount rate, linked to the average yield of the NBKR 28-day notes for the last four auctions, increased up to 5.5 percent in 2010 (+4.6 percentage points). Under the conditions of a considerable growth of net Government expenditures, at the end of 2010, the National Bank conducted repo operations on the sale of government securities for purposes of additional withdrawal of excess reserves of commercial banks.

Monetary policy measures

2.2. Monetary Policy Implementation

In 2010, for purposes of regulating liquidity, the National Bank used both standard monetary policy tools and non-standard monetary mechanisms in the form of activities of the Special Fund for Banks Refinancing. Taking into account the increased imbalance in the domestic foreign exchange market, the National Bank increased the volumes of the foreign exchange sales in order to prevent acute fluctuations of the exchange rate. As a result, the share of foreign currency interventions in the structure of the NBKR operations was 49.8 percent.

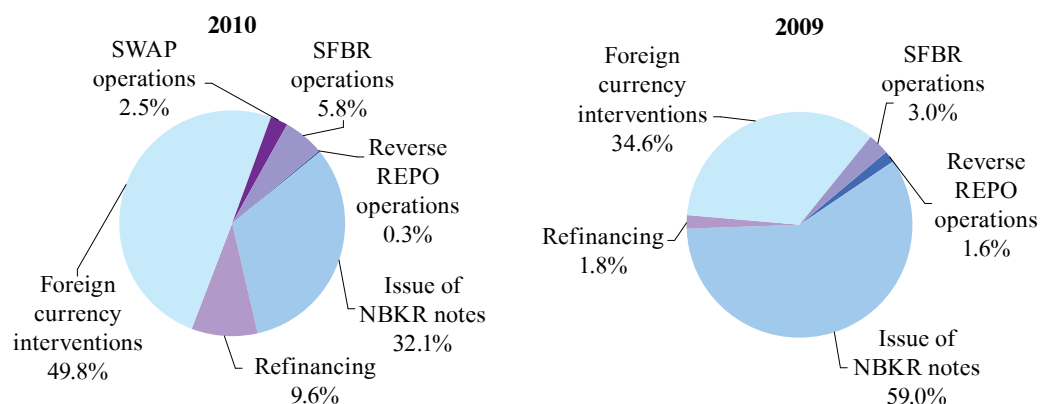
Liquidity regulation tools

As before, the NBKR Notes were the basic tool of regulating liquidity in the banking system. The total volume of issued NBKR notes in 2010 was by two times lower than the volume of weekly issues for purposes of preventing liquidity crisis in

the banking system and stimulating economic growth under the conditions of macro-economic and political instability.

Chart 2.2.1.

Structure of the National Bank Operations



The demand for overnight loans increased under the circumstances of sizable fluctuations of national currency liquidity in some banks. The share of this refinancing tool in the total volume of the NBKR operations increased up to 9.6 percent in 2010.

In 2010, for regulating the liquidity problems in microfinance organizations, the National Bank conducted direct swap operations with commercial banks based on the MFOs requests. The share of these operations of the National Bank in the total volume of operations was 2.5 percent. In 2009, the NBKR did not conduct swap operations.

In 2010, the operations of the SFBR, created by the National Bank in 2009 for providing financial resources to the banking sector for on-lending to the economy and maintaining liquidity, became more active. The volume of funds allocated by the SFBR in 2010 increased up to KGS 1.0 billion from KGS 66.6 million at the beginning of the year. The share of the SFBR in the total volume of monetary operations grew up to 5.8 percent as compared to 3.0 percent in 2009.

For the year, the total volume of the NBKR monetary operations amounted to KGS 27.8 billion, which is less by 20.7 percent in comparison with the similar indicator in 2009 (KGS 35.1 billion).

2.2.1 Domestic Foreign Exchange Market Operations

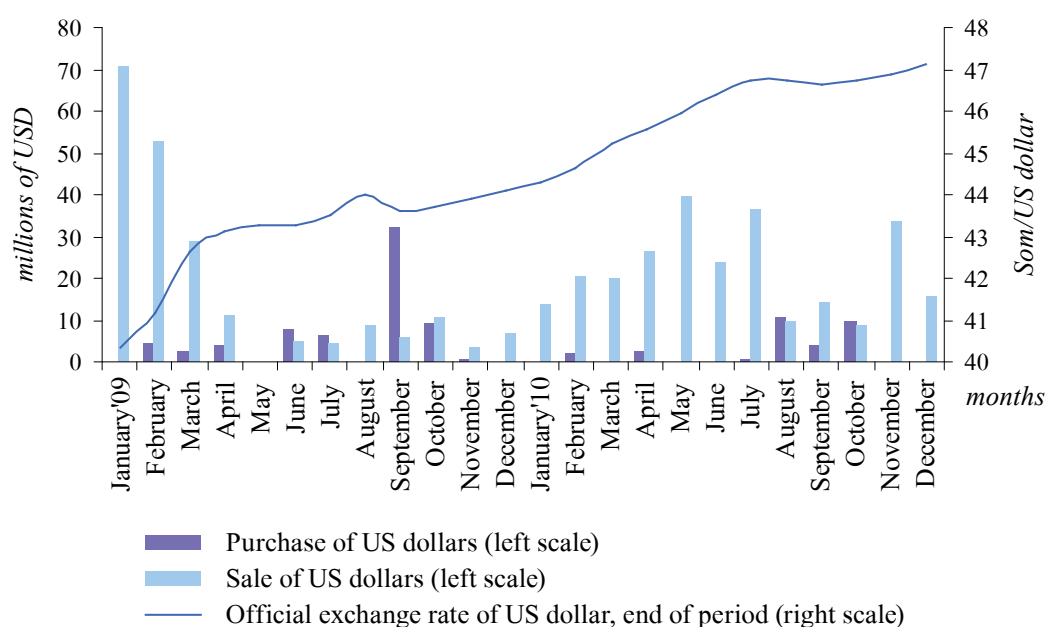
Foreign exchange market situation

In 2010, the National Bank's participation in the interbank foreign exchange market depended on the market conditions and was determined by the need for smoothing the sharp exchange rate fluctuations. The situation in the domestic foreign exchange market was characterized by the growth of the US dollar exchange rate. The main factor influencing the growth of this foreign currency rate was a high demand on the part of commercial banks that was caused by the service of import contracts of clients, including the payments for imported fuel. In addition, the growth of the US dollar rate in the context of a weakening European currency in the world financial markets had an impact on the downward trend of the national currency. Despite the increased inflows of foreign currency through the money remittance systems, the prevailing high demand for foreign currency in view of seasonal fluctuations determined some imbalance between the US dollar demand and supply in the domestic foreign exchange market. In order to prevent sharp fluctuations of the US dollar exchange

rate, the National Bank conducted the operations on the sales and purchases of the US dollars in the interbank foreign exchange market in the first quarter of the accounting year. Based on the first quarter results, the exchange rate reached the value of KGS 45.2203/USD1.00, with the rate of growth having reached the level of 2.6 percent since the beginning of 2010. The net sales of the US dollars amounted to US\$ 52.3 million.

Chart 2.2.1.1.

NBKR Operations at the Interbank Foreign Exchange Auctions



An uncertain situation in the country resulting from internal shocks caused an increased demand for foreign currency in the second quarter of 2010 and put pressure on the national currency exchange rate towards its weakening. The main reasons for the imbalance between the foreign currency demand and supply in the domestic foreign exchange market were the lack of the foreign currency inflow into the country due to closed borders with neighboring countries, problems in the banking system and increased expenses of banks for servicing import contracts of clients, including the servicing of fuel imports in connection with spring field works. Moreover, starting April 1, 2010, the Russian Federation introduced the customs export duties on oil products supplied to the country that directly impacted the increase in the cost of import contracts. In order to prevent any panic and speculative pressure on the exchange rate, the National Bank actively conducted interventions on the sales of the US dollars. Thus, net sales in the second quarter of the accounting year totaled US\$ 87.8 million. At the same time, the national currency devalued by 2.5 percent vis-à-vis the US dollar.

There was a multidirectional trend noted in the movements of the US dollar exchange rate in the third quarter of the year. The remaining high demand for foreign currency and expectations of the market participants resulting from internal shocks had an impact on the foreign exchange rate fluctuations. Based on the third quarter results, the net sales of the National Bank amounted to US\$ 45.8 million, and the official exchange rate of the US dollar vis-à-vis the Som grew by 0.5 percent.

Both the weakening and strengthening of the US dollar position was observed during the fourth quarter of the year. In order to prevent sharp exchange rate fluctuations, the National Bank participated in the interbank foreign exchange auctions by buying and selling US dollars. The net sales for the fourth quarter amounted to US\$

48.9 million, including, US\$ 0.5 million in cash. The official exchange rate of the US dollar grew by 1.2 percent for that period.

*Volume of currency
interventions*

The total volume of US dollars purchased by the National Bank in the domestic market in 2010 amounted to US\$ 28.9 million, and the sales were US\$ 263.7 million, including US\$ 0.5 million in cash. The official exchange rate of the US dollar in the accounting period grew by 6.8 percent, having reached the value of KGS 47.0992/US\$ 1.00.

In 2010, in addition to the operations with US dollars, the National Bank performed currency operations on the purchase of Russian Rubles totaling Ruble 245.0 million for purposes of developing and deepening the domestic foreign exchange market.

In order to support the financial sector and stimulate economic growth, the National Bank conducted direct foreign exchange swap operations without auctions. The essence of such operations was in that the National Bank provided funds in national currency in exchange for funds in US dollars upon availability with the bank of an appropriate request from a microfinance organization. The volume of such operations totaled US\$ 14.7 million for the accounting year.

Table 2.2.1.1.

NBKR Operations in the Domestic Foreign Exchange Market
(In thousand US dollars)

	Q1	Q2	Q3	Q4	Total
2009, total	163,604.6	28,249.3	67,200.0	30,600.0	289,653.8
including:					
purchase of US dollars	6,950.0	11,550.0	38,500.0	9,800.0	66,800.0
sale of US dollars	156,000.0	16,400.0	28,700.0	20,800.0	221,900.0
purchase of foreign currency (excluding US dollars)	654.6	299.3	-	-	953.8
sale of foreign currency (excluding US dollars)	-	-	-	-	-
SWAP operations in foreign currency (sale)	-	-	-	-	-
2010, total	55,950.0	92,970.2	87,080.8	79,378.2	315,379.2
including:					
purchase of US dollars	1,800.0	2,250.0	15,000.0	9,850.0	28,900.0
sale of US dollars	54,150.0	90,050.0	60,800.0	58,700.0	263,700.0
purchase of foreign currency (excluding US dollars)	-	670.2	5,830.8	1,628.2	8,129.2
sale of foreign currency (excluding US dollars)	-	-	-	-	-
SWAP operations in foreign currency (sale)	-	-	5,450.0	9,200.0	14,650.0

2.2.2. Operations with NBKR Notes and NBKR Discount Rate

*Operations with the
NBKR Notes*

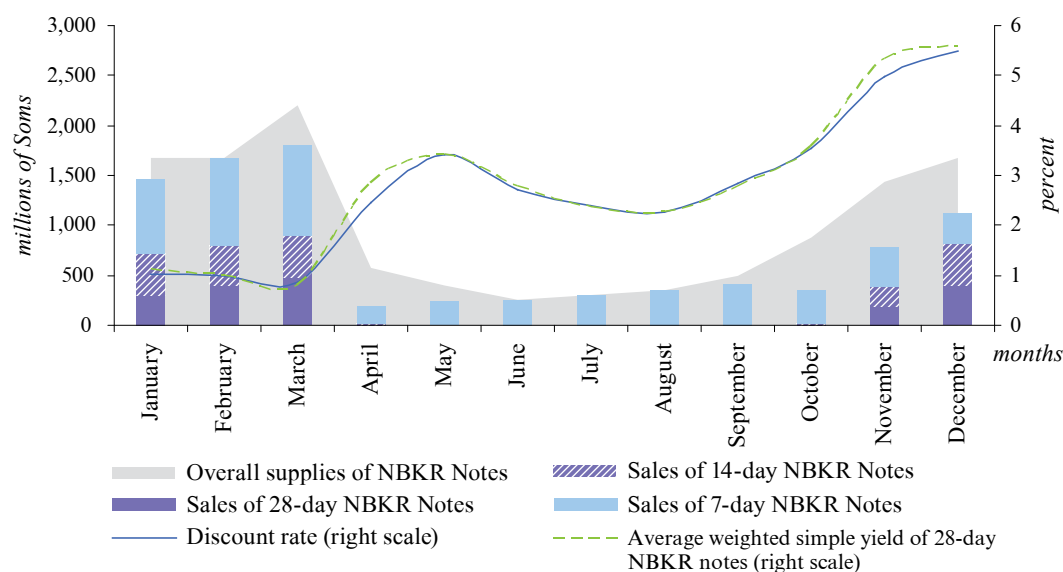
The NBKR Notes are the government securities with maturity of 7, 14 and 28 days, which the National Bank issues on the auction and off-the-auction basis to regulate liquidity in the banking system and determine the discount rate.

Proceeding from the monetary policy objectives, considering the liquidity level in the banking system and problems of the banking sector as a result of internal shocks, in 2010, the National Bank reduced by two times the supply of NBKR Notes in comparison with 2009. Thus, the total supply of the National Bank Notes amounted to KGS 11.9 billion. The sales of NBKR Notes totaled KGS 8.9 billion in 2010, the reduction was by 56.5 percent in comparison with the similar indicator in 2009. At the same time, 55.4 percent of total sales of the NBKR Notes were effected in the first quarter of the accounting year. Due to the political situation in the country and liquidity fluctuations in the banking system in the second and third quarters, the demand

for the NBKR Notes decreased, while their yield increased sharply. In this connection, in the second and third quarters, the National Bank changed the structure and supplies of the NBKR Notes. Thus, only 28-day NBKR Notes were placed starting from May 2010. In the fourth quarter, due to an increased liquidity in the banking sector and growing inflationary pressure, the National Bank started building the supply of the NBKR Notes and expanded its tools by placing 7 and 14-day notes. The basic volume of sales (59.2 percent) fell on the 28-day NBKR Notes.

Chart 2.2.2.1.

Sales of NBKR Notes and NBKR Discount Rate Movement in 2010



The discount rate was determined based on the yield of 28-day NBKR Notes, which is the monetary policy tool, and serves as a value reference point of short-term monetary resources. The National Bank defines the rates of other monetary policy instruments by means of the discount rate. Furthermore, the discount rate is used by all of the economic entities to calculate fines and penalties for delays in various payments.

Discount rate

According to the mechanism applied in the accounting period to define the discount rate, the value of the discount rate was equated to the average weighted yield of 28-day NBKR Notes for the last 4 auctions.

The average level of the discount rate in 2010 was 2.7 percent, which is by 5.2 percentage points less than in 2009. At the end of December 2010, the NBKR discount rate was 5.5 percent, while, at the beginning of the accounting year it was 0.9 percent.

2.2.3 REPO Operations

The REPO operations as the monetary policy instrument of the National Bank are used with a view of regulating the level of liquidity in the banking system depending on the current situation in the market and the monetary policy goals. The essence of REPO operations is that of purchases or sales of Government securities with the obligation of their reverse sale or redemption within the certain period in the future and at the stipulated price.

REPO operations

The excess liquidity increased due to the sharp increase in the government expenditures at the end of 2010. In order to sterilize excess liquidity, in parallel with

the operations on the sale of the NBKR Notes, the REPO operations on the sale of government securities (reverse repo) were additionally used in December 2010. The Government Treasury Bills for Settlement (GT-Bills(s)) held in the NBKR portfolio and issued by the Government of the Kyrgyz Republic to redeem the debt to the NBKR, were a subject of sale.

Volume of REPO operations

The total volume of REPO operations in 2010 amounted to KGS 70.8 million and reduced virtually by eight times in comparison with the volume in 2009. The average weighted term of reverse REPO operations was 42 days, and their average yield was 6.5 percent.

Table 2.2.3.1.

NBKR REPO Operations
(in millions of soms)

	Q1	Q2	Q3	Q4	Total
2009, total	556.8	-	-	-	556.8
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	556.8	-	-	-	556.8
2010, total	-	-	-	70.8	70.8
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	-	-	-	70.8	70.8

2.2.4. Refinancing of Banks

The National Bank has a package of tools of refinancing the commercial banks at its disposal:

- The intraday credits are extended in national currency, without charging an interest rate, during an operational day for several hours, secured by the collateral, with a view of increasing the efficiency of the payment system functioning;
- The overnight credit is provided in national currency for twenty four hours, with an interest rate of 1.2 of the discount rate, secured by the collateral, to maintain the short-term liquidity of the bank;
- The credit of last resort is provided in exceptional cases to commercial banks experiencing serious financial problems for the term of no more than six months at the interest rate set by the Board of the National Bank of the Kyrgyz Republic.

Changes in the legal framework

In 2010, the activities were carried out to further improve the mechanism of re-financing of commercial banks. Starting from the third quarter of 2010, the National Bank accepted as collateral the government securities of the Kyrgyz Republic placed through the National Bank (GT-Bills, GT-Bonds and NBKR Notes), of all maturities without limitation. Earlier, the government securities with the maturity of up to twelve months from the date of the loan disbursement were accepted as collateral.

During 2010, the National Bank issued overnight credits totaling KGS 2.7 billion, that is by 4.2 times more than the volumes in 2009. The demand for this tool of the National Bank on the part of commercial banks in 2010 is explained by the liquidity management problems as a result of the impact of internal shocks on the banking system of the country. The annual average rate of overnight credits was 3.2 percent in 2010. At the same time, there was no demand on the part of commercial banks for intraday credits in the accounting year.

Table 2.2.4.1.
Overnight Credits
(in millions of soms)

	Q1	Q2	Q3	Q4	Total
2009	-	5.3	0.5	630.0	635.8
2010	550.0	843.0	765.0	498.0	2,656.0

2.2.5. Reserve Requirements

The reserve requirements are the requirements established for the commercial banks to hold on the account with the National Bank a certain part of cash funds, i.e., the required reserves. The required reserves are one of the instruments of regulating the volume of monetary aggregates, banking credit and demand for liquidity.

The new edition of the Regulation “On Reserve Requirements” was approved and came into force in May 2010 within the framework of improving the legal framework on reserve requirements. According to the changes made to this Regulation, the official National Bank exchange rates of foreign currencies are applied to calculate the national currency equivalent of foreign exchange liabilities included in the list of required reserves and deposits of banks in foreign currency in the National Bank. Earlier, the fixed exchange rate of the US dollar was used for these purposes, which was revised twice a year.

Changes in the legal framework

In May 2010, the reserve requirement for the commercial banks was lowered from 9.5 to 8.0 percent with a view of stimulating economic growth and credit capacity building of commercial banks under the circumstances of the resource base reduction in commercial banks and the systemic crisis risks in the banking system.

Reduction of reserve requirements

At the end of 2010, the volume of required reserves amounted to KGS 2.2 billion, having thus decreased by 38.4 percent for the accounting period due to the revocation of the license of OJSC “AsiaUniversalBank”. Excluding this bank, the volume of required reserves of commercial banks increased by 18.4 percent due to the deposit growth. During the year, there were registered facts of failure to comply with the required reserves and the penalty equal to KGS 30.3 thousand was collected from the commercial banks.

Table 2.2.5.1.
Reserves of Commercial Banks in National Currency*
(in millions of soms)

	Q1	Q2	Q3	Q4
2009, total	3,727.5	3,888.7	4,329.2	5,041.4
<i>including:</i>				
required reserves	2,581.0	2,682.0	3,039.5	3,317.2
excess reserves	1,146.5	1,206.7	1,289.7	1,724.2
2010, total	6,022.8	4,269.1	3,427.7	4,139.0
<i>including:</i>				
required reserves	3,750.3	2,678.6	2,285.8	2,264.2
excess reserves	2,272.5	1,590.6	1,142.0	1,874.8

* average values for the period

2.3. International Reserves Management

Principles of management

Maintenance of liquidity and safety of reserve assets are the priority tasks of the National Bank in the area of management of international reserves, which are reflected in the Law “On the National Bank of the Kyrgyz Republic”. The principle of maximization of profit when managing the international reserves is realized while strictly observing the principles of maintenance of liquidity and safety of assets.

Regulatory documents

Management of international reserves was regulated by the “Investment Strategy”, the “Risk Management Policy in Management of International Reserves”, the Regulations “On the Benchmark Portfolio of International Reserves of the National Bank of the Kyrgyz Republic for 2010”, and “On Limits in Management of Investment Asset of International Reserves”.

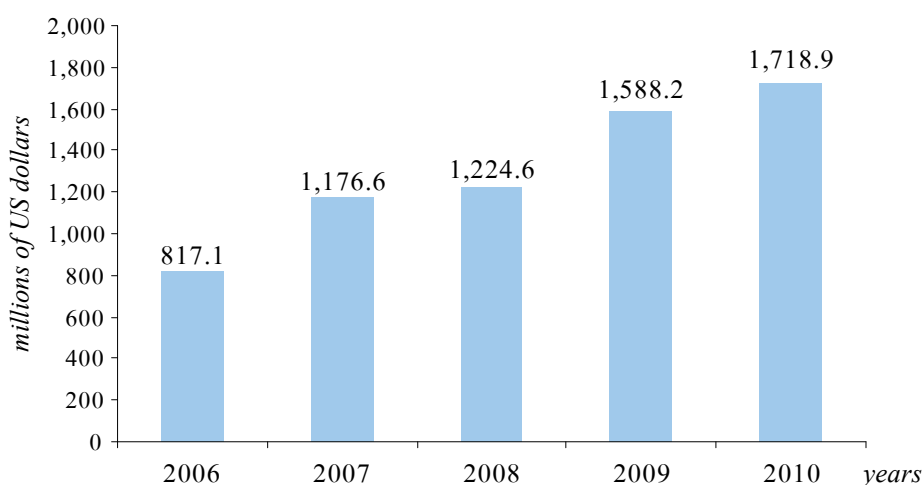
The decision-making in the part of determining the investment strategy of the bank, portfolio structure of international reserves, the ratio of risks and the yield of investment tools, as well as a selection of bank counterparties was realized by the Board and the Investment Committee of the National Bank. The Investment Committee held 19 meetings on issues of managing international reserves in 2010. Criteria, the requirements and restrictions on the counterparties, the types of tools, the amounts and maturity of investment were established to minimize the risks arising in reserve asset management.

Structure and volume of IR

The structure of international reserves of the National Bank comprises the assets in gold, the Special Drawing Rights, and the portfolio of foreign currencies. The total of reserves was equivalent to US\$ 1.7 billion at the end of 2010, having thus increased by US\$ 130.7 million or by 8.2 percent for the year.

Chart 2.3.1.

Gross International Reserves of NBKR



Sources of IR growth

The sources of growth of international reserves in 2010 were those of income from management of international reserves and foreign exchange receipts in favor of the Government and the National Bank from the international financial institutions and the donor countries. In addition, the level of international reserves was influenced by the change in the exchange rates of portfolio currencies and the prices of precious metals.

The volume of gold, as part of international reserves of the National Bank, remained unchanged in 2010. Growth of the share of gold in the international reserves of the National Bank in 2010 was determined by the price increase for this precious metal.

Table 2.3.1.

Pattern of NBKR Reserve Assets (end of period)
(In percent)

	2009	2010
Gold	5.7	6.8
Foreign Currency Portfolio	83.8	83.3
Special Drawing Rights	10.4	9.9
Total	100.0	100.0

In 2010, the foreign exchange portfolio of international reserves comprised of: the US dollars, Euro, the Swiss francs, the British pounds, the Australian and Canadian dollars, as well as the Japanese yens, and the Russian rubles.

In order to maintain the required level of liquidity, as well as to enhance efficiency in management of international reserves, the work with the reserve assets was built on the portfolio basis. The division of foreign exchange portfolios into working and investment ones provided for maintenance of the optimal yield level of reserves.

The working capital assets were invested into the most liquid instruments and were used for the payments of the National Bank and the Government in foreign currency and for the operations in the domestic foreign exchange market. The investment portfolio was managed in compliance with the approved benchmark portfolio of international reserves.

The National Bank invested the international reserves into the highly reliable and liquid instruments: securities, time deposits, as well as into one-day REPO operations. The portfolio of securities comprised of the government securities of Australia, Great Britain, Germany, the USA, France, Switzerland, as well as the short- and mid-term investment tools of the Bank for International Settlements. Time deposits were placed with the international financial institutions, with the foreign central and commercial banks with the high international rating.

In 2010, the world economy still experienced the negative implications of the largest financial crisis. In these circumstances, small signs of recovery were observed only in some leading world economies in the course of adopting a number of government programs on stimulating business activity and domestic demand. The central banks continued their measures of injecting considerable volumes of liquidity into the economy and of redemption of a large number of government securities. The key rates of basic central banks of the world remained at the historical minimal levels, thus demonstrating the commitment of the monetary authorities to moderate the monetary policy, which, in its turn, had an impact on the yield of the currency portfolio of the National Bank.

*Structure of foreign
exchange portfolio
of IR*

IR structure

Allocation of IR

Table 2.3.2.

Pattern of Placement of NBKR International Reserves (end of period)
(in percent)

	2009	2010
International Financial Institutions	32.5	35.7
Central Banks	39.4	30.9
Commercial Banks	27.6	33.0
NBKR	0.4	0.4
Total	100.0	100.0

The low liquid assets of the National Bank comprise of the deposits in CJSC “Central Asian Bank for Cooperation and Development” and participation in the authorized capital of the Interstate bank. The volume of low liquid assets as part of international reserves of the National Bank remained unchanged for the past five years and totaled US\$ 3.9 million (0.23 percent) at the end of 2010.

2.4. Monetary Policy Results

Monetary base

At the end of December 2010, the monetary base amounted to KGS 48.6 billion, having thus increased by 18.4 percent for the accounting year (in 2009 - by 18.9 percent). In 2010, money to the economy was supplied through the public finance sector in view of the stimulating tax and fiscal policy of the Government of the Kyrgyz Republic.

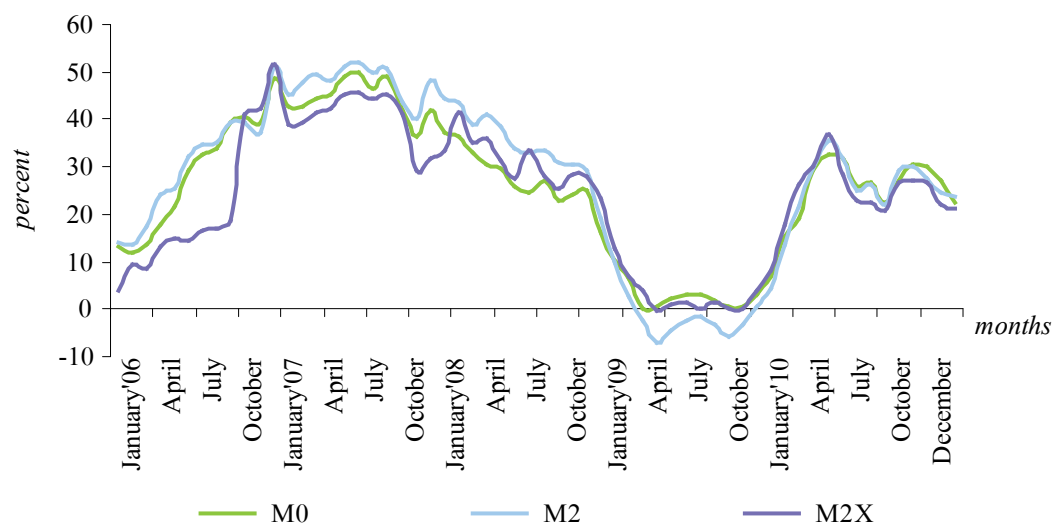
In the monetary base structure there was an increase in the share of cash in circulation from 87.0 percent at the beginning of the year to 89.1 percent at the end of 2010. The share of funds on the correspondent accounts of commercial banks with the National Bank reduced from 13.0 percent to 10.9 percent, accordingly.

Monetary aggregates

The monetary aggregate M0 (money outside banks) was KGS 41.5 billion at the end of December 2010, having thus increased by 22.4 percent for the accounting year (in 2009 – by 15.3 percent). The monetary aggregate M2, which includes money outside banks and deposits in national currency, grew by 23.6 percent, to KGS 53.7 billion in comparison with the beginning of 2010 (in 2009 – by 13.8 percent), and the deposits in national currency increased by 27.8 percent.

Chart 2.4.1.

Annual Rates of Change in Monetary Aggregates (end of period)



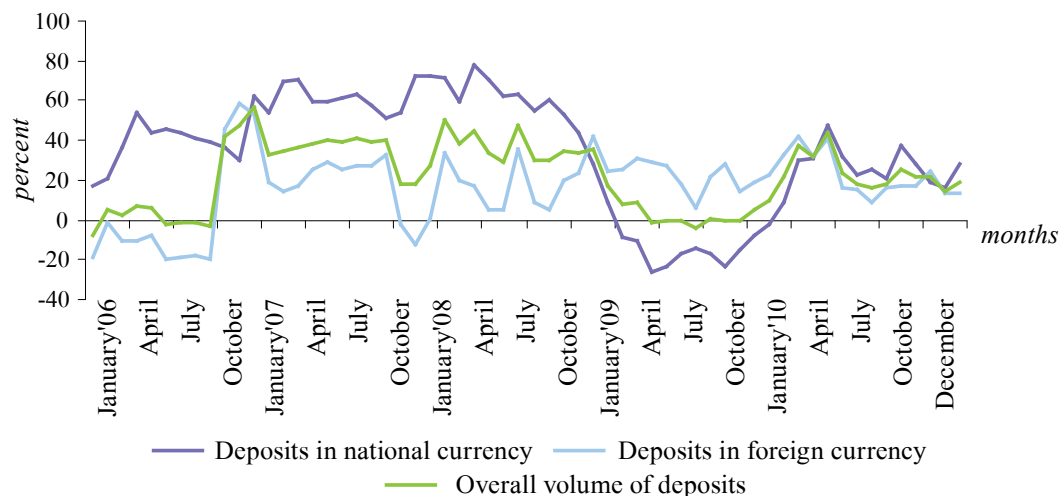
At the end of 2010, broad money M2X (M2+deposits in foreign currency) amounted to KGS 69.2 billion, having thus increased by 21.1 percent in 2010 or by KGS 12.1 billion that is slightly higher than in 2009 (+17.9 percent, or by KGS 8.7 billion). The growth of deposits¹ contributed to the growth of broad money by KGS 4.5 billion or 7.9 percent, while the growth of money outside banks contributed by KGS 7.6 billion or 13.3 percent, in this regard, the rates of growth of deposits in soms exceeded those of growth of deposits in foreign currency. In 2010, the share of deposits in foreign currency in the broad money mix decreased by 1.6 percentage points, to 22.3 percent,

¹ Excluding the deposits of the Government of the Kyrgyz Republic and the deposits of nonresidents.

and in the structure of deposits of the banking system, this share decreased by 2.9 percentage points, to 55.7 percent.

Chart 2.4.2.

Annual Rates of Change in Deposits of Commercial Banks Included in M2X
(end of period)



The net foreign assets of the banking system mainly contributed (19.8 percent) to the increase in broad money M2X due to the external receipts at the rate of US\$ 128.5 million, budget revenues from local enterprises developing gold mining sites at the rate of US\$ 100.3 million and from the Transit Center at Manas at the rate of US\$ 60 million. The net domestic assets made a minor contribution (1.3 percent) to the growth of broad money M2X.

Factors influencing M2X

The increase in broad money in 2010 was followed by the growth in the monetization of economy indicator of the Kyrgyz Republic, which, despite its increase by 3.9 percentage points for the year, to 27.9 percent, remained below than the similar indicators in Russia and Kazakhstan.

According to the NSC data, the inflation rate was 19.2 percent in 2010. The main reasons for such growth of the general price level in the country were the following:

Inflation

- The price increase in the world, and domestic markets of food products and electricity, correspondingly;
- Changes in the tariff policy for electricity and heating;
- Partial closing of borders and tightening of border passing regime with the neighboring countries;
- Deterioration of the trading terms within the country due to the unstable social and political situation in the country.

Table 2.4.1.

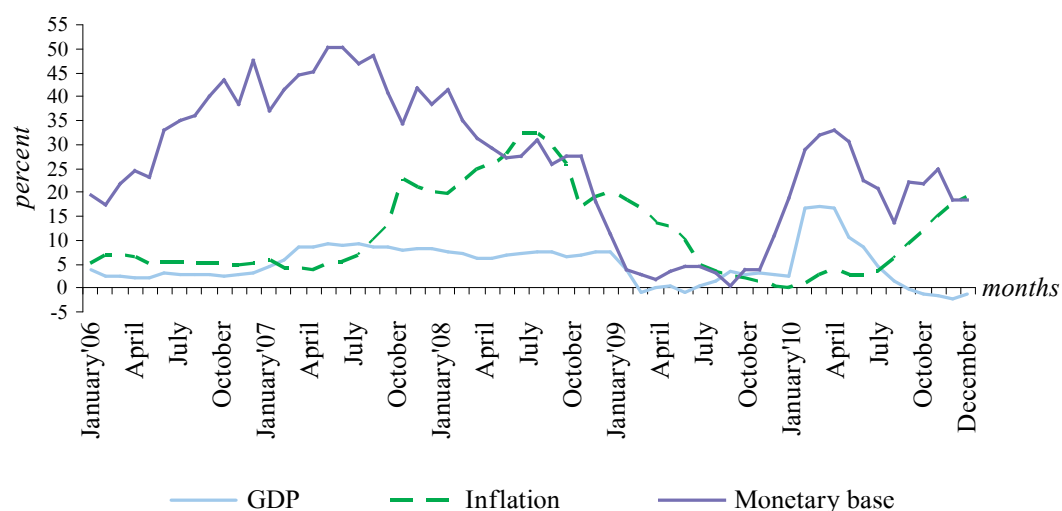
Sources of Broad Money Supply M2X (end of period)

	2009	2010	Growth, in millions of soms	Growth rate, in percent	Impact on M2X, in percent
Net foreign assets	60,114.0	71,424.8	11,310.9	18.8	19.8
Net international reserves	68,134.9	79,773.0	11,638.2	17.1	20.4
Other foreign assets	133.3	134.3	0.9	0.7	0.0
Distribution of SDR	-5,863.2	-6,096.4	-233.2	4.0	-0.4
Settlements with CIS countries	0.0	0.0	0.0		0.0
Long-term foreign liabilities	-2,291.1	-2,386.1	-95.0	4.1	-0.2
Net domestic assets	-2,987.5	-2,217.1	770.4	-25.8	1.3
Net claims to general Government	-5,992.3	-4,195.4	1,796.9	-30.0	3.1
Net claims to Government	-2,125.9	-3,039.2	-913.3	43.0	-1.6
Net claims to special funds	-3,866.4	-1,156.2	2,710.2	-70.1	4.7
Kyrgyz Republic Development Fund	-3,866.4	-1,156.2	2,710.2	-70.1	4.7
Claims to other sectors	25,952.3	27,574.7	1,622.4	6.3	2.8
Other items	2,332.1	2,654.6	322.5	13.8	0.6
Capital account	-25,279.7	-28,251.0	-2,971.4	11.8	-5.2
Broad money M2X	57,126.4	69,207.7	12,081.3	21.1	21.1
Money outside banks	33,882.3	41,471.2	7,588.8	22.4	13.3
Deposits of other deposit corporations	23,244.1	27,736.6	4,492.5	19.3	7.9
Deposits in national currency	9,607.6	12,274.3	2,666.7	27.8	4.7
Deposits in foreign currency	13,636.5	15,462.3	1,825.8	13.4	3.2

Inflationary processes in our country, mainly, occur due to the impact of non-monetary factors. Thus, 9.8 percentage points of 19.2 percent of the inflation rate were directly contributed by non-monetary factors, the contribution of inflationary expectations was 4.8 percentage points, and that of monetary factors – 4.6 percentage points.

Chart 2.4.3.

Annual Rates of Change in Monetary Base, CPI and GDP (end of period)

*REER and NEER*

Higher inflation rates in the country in comparison with the rates of the key trading partner countries determined the growth of the real effective exchange rate index (REER) of the Som by 7.9 percent, to 111.1. At the same time, the nominal effective exchange rate index of the Som for 2010 decreased by 6.4 percent and was 116.2 at the end of December. The reduction was caused by the Som devaluation vis-à-vis the

majority currencies of key trading partners. In December 2010 in comparison with December 2009, the Som devalued vis-à-vis the Kazakh tenge by 7.2 percent, the Chinese yuan by 8.7 percent, the US dollar by 6.3 percent, the Russian Ruble by 2.3 percent, and appreciated toward the Euro by 4.3 percent.

OVERVIEW AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT INSTITUTIONS

In 2010, the finance and credit system of Kyrgyzstan, represented by the commercial banks and the non-bank finance and credit institutions (NFCIs) was developing under the influence of the social and political situation in the country and against the background of deceleration of the economic growth rates. However, the finance and credit system of Kyrgyzstan on the basis of the accumulated safety margin was able to resist the shocks in 2010.

The National Bank in accordance with its functions determined in the Law “On the National Bank of the Kyrgyz Republic” regulates and supervises activities of banks and non-bank finance and credit institutions through licensing, off-site (distance) and on-site supervision.

Peculiarities of regulating activities of the finance and credit institutions in 2010 were connected with the need to localize problems in OJSC “AsiaUniversalBank” and related banks and NFCIs, and promptly apply adequate and effective measures of regulatory nature with a view of preventing the crisis in the finance and credit system of Kyrgyzstan. Significant resources were directed to consider a drastically growing number of inquiries, requests and applications from clients and shareholders of problems banks and NFCIs. As before, within the framework of off-site and on-site supervision, increasing attention had been paid to the credit risk monitoring, being a basic risk in the activities of banks and NFCIs and the stress-testing tool had been actively used, also in analyzing other risks inherent in the banking activity.

The development trends in the NFCI system remained positive in 2010 and were characterized by the growth in the number of NFCIs, in the volume of their assets, loan portfolio and number of borrowers.

The National Bank continued to improve the regulatory documents with a view of improving the efficiency of banking supervision, enhancing internal controls in banks, developing the risk management system in banking, the consolidated supervision system, the deposit protection system, implementing the Islamic principles of financing, and streamlining the ratios and requirements to the NFCIs.

3.1. Banking Supervision

3.1.1. Licensing

Authorized capital of banks

At the end of 2010, total paid authorized capital of commercial banks amounted to KGS 7.5 billion, of which the net share of foreign capital in authorized capital of the banking system decreased to 35.0 percent and was KGS 2.6 billion. In 2010, the size of authorized capital of banks reduced by KGS 1.1 billion or by 13.2 percent in comparison with this indicator in 2009. The decrease in the size of authorized capital was due to the bankruptcy of OJSC “AsiaUniversalBank”.

On 27 October 2010, the Judicial Collegium for Administrative and Economic Affairs of Bishkek City Court made a ruling on recognizing OJSC “AsiaUniversalBank” as insolvent and appointed the Agency on Banks Reorganization and Debt Restructuring as a special administrator to OJSC “AsiaUniversalBank”. In this connection, the bankruptcy procedure was initiated in relation to this bank, as a result of which, the National Bank revoked banking licenses of OJSC “AsiaUniversalBank” entitling to perform banking operations in national and foreign currencies, and also, entitling to conduct operations with precious metals.

On 24 December 2010, the National Bank of the Kyrgyz Republic issued licenses to OJSC “Zalkar Bank” entitling to conduct banking operations in national and foreign currencies. This bank was established in accordance with the Law “On Conservation, Liquidation and Bankruptcy of Banks” by way of restructuring a bankrupt bank OJSC “AsiaUniversalBank”.

The National Bank initiated law suits against the shareholders of a number of banks in view of established facts of violating legislation.

In view of the development of OJSC “Aiyl Bank” and fulfillment of the NBKR requirements in the accounting period, a number of restrictions were removed in its license, thus expanding the list of the bank’s services related to the conduct of banking operations in foreign currency with the letters of credit, operations with financial instruments (derivatives), with the National Bank (swap operations). Also, the prior limitation on the total volume of mobilized deposits was increased for this bank from 25 percent to 50 percent of the capital (own funds).

In 2010, two banks changed their names: OJSC “ATFBank-Kyrgyzstan” was re-named as OJSC “UniCreditBank”, and OJSC “EcoBank” changed its name to OJSC “EcoIslamicBank”.

Taking into account the political and economic situation in the country, and also considering the requests of commercial banks, the Board of the National Bank decided to extend the date from October 1, 2010 to December 31, 2010 for fulfilling the minimal capital (own funds) ratio for banks, branches of non-resident banks at the rate of no less than KGS 200.0 million.

Table 3.1.1.1.

Development of the Branch Network, Savings Banks and Field Cash Offices*

	Number of branches		Number of savings banks		Number of field cash offices	
	2009	2010	2009	2010	2009	2010
Bishkek	50	46	193	187	-	10
Batken oblast	13	11	30	27	-	-
Jalalabat oblast	39	33	74	73	-	-
Issyk-Kul oblast	35	30	27	21	-	1
Naryn oblast	17	14	4	3	-	-
Osh oblast	42	39	105	98	-	1
Talas oblast	10	9	5	5	-	-
Chui oblast	33	29	43	38	-	-
Total:	239	211	481	452	0	12

* Total of 35 branches and 53 savings banks of OJSC “Zalkar Bank” were at the re-registration stage as of December 31, 2010.

With a view of providing access to the population and expanding the range of services, the banks were given an opportunity to open a new type of standalone structural units that is a field cash office. During 2010, commercial banks opened 8 branches, 35 savings banks and 12 field cash offices in different regions of the country.

Branches, savings banks, and field cash offices

3.1.2. Off-Site Supervision

The asset quality, the capital adequacy, the yield factors, the liquidity management and risk management systems were evaluated in the context of off-site (distance) supervision of commercial banks.

Off-site supervision of activity of commercial banks was based on using the system of indicators, describing the bank’s activity under the components of the CAM-ELS system, identifying the relationships between indicators, reviewing factors of

changes in these indicators and the level of risks assumed by banks, conducting stress testing and comparing obtained results with the average results for the group of homogeneous banks.

Reports about the status of banks were prepared on the basis of monitoring the implementation of the on-site inspection recommendations, analysis of presented regulatory reporting, audit opinions, including information about meeting the requirements about presence of the risk management systems and internal controls, and other information about the activity of banks.

Supervisory measures, special regimes and limitations in the activities of several problem commercial banks were applied to protect interests of depositors and creditors of commercial banks, to maintain stability in the banking system, and to reduce the risk of deposit outflow.

With a view of improving the techniques and principles of regulation, an activity was carried out to streamline the supervision practices and procedures. Thus, the National Bank regularly performed stress-testing for credit, foreign exchange, interest rate and liquidity risks with the individual banks and the banking system, as a whole, to prevent potential losses of commercial banks in the event of various shocks in the economy, and also with a view of preventing the development of a possible negative scenario of events in the banking sector and assessing soundness of banks to the changes of a macroeconomic nature and potential stress events in the economy, which may impact activity of banks.

As a result, the National Bank used the stress test results prepared by banks and own stress tests to determine critical risk levels. An analysis of the adequate management of risks assumed by commercial banks was prepared on their basis. The development of a stress testing methodology and the use of more advanced risk assessment approaches in the banking system enabled to ensure financial and structural soundness of the banking system of the Kyrgyz Republic in view of shock situations in 2010. However, since the financial statements of OJSC “AsiaUniversalBank”, which was regularly presented to the National Bank, had been significantly distorted, the techniques used in conducting off-site supervision require further improvements.

In addition, a multifold increase in the number of inquiries from the clients of the banking system and their participants (shareholders) on different issues, including the issues of legal nature, banking service, deposit protection, credit administration and protection of consumer rights were considered in the context of off-site supervision.

Within the framework of implementing the Core Principles for Effective Banking Supervision established by the Basel Committee on Banking Supervision, the meetings were held with the executive and supervisory agencies of commercial banks, and also with the external auditors to discuss the current situation, including the highest risk areas of activities.

In 2010, the “net” risk assets of banks decreased by KGS 3.5 billion and “net” total capital decreased by KGS 2.3 billion. The share of risk assets in total assets of the banking system was 64.8 percent at the end of 2010 (at the end of 2009 - 61.1 percent).

¹ The credit risk-weighted assets and off-balance sheet liabilities of commercial banks.

² The estimate that covers shareholder capital of the bank, financial performance in the reporting and previous years, built-up reserves less investments in subsidiaries and capital of other finance and credit institutions. It is used for calculation of prudential norms established by the NBKR.

Table 3.1.2.1.

Capital of Commercial Banking System (end of period)

	2009	2010
Net total capital, <i>in millions of soms</i>	13,914.9	11,567.5
Net risk assets, <i>in millions of soms</i>	41,505.4	37,981.3
Total capital adequacy ratio, <i>percent</i>	33.5	30.5
Total capital adequacy requirement (not less), <i>percent</i>	12.0	12.0

Reduction of the authorized capital due to the bankruptcy of OJSC “AsiaUniversalBank” led to the reduction in the total capital of the banking system. Taking into account that the capital adequacy ratio is 12.0 percent, and also, considering that the adequacy level decreased only by 3.0 percentage points and was 30.5 percent according to 2010 year-end results, the banking system of Kyrgyzstan had certain potential for expanding the supply of financial services.

The off-site supervision of activity of commercial banks was conducted on the basis of assessment of risks inherent in the banking activity.

The credit risk is estimated based on the classification of assets and off-balance sheet liabilities¹. The credit risk, calculated as the ratio of loan loss provisions (LLP) to the total assets bearing the risk of credit losses, increased and was 10.7 percent at the end of 2010 as compared to the end of 2009. By the end of 2010, the overdue loans totaled KGS 3.5 billion or 13.1 percent of all of the assets bearing the risk of credit losses. At the end of 2009, this parameter was 7.9 percent or KGS 2.0 billion. The main reasons for the growth of past due debt were June events and unresolved issues on the nationalized property pledged as collateral for a number of loans.

Credit risk

The exchange risk is considered from the point of view of contingent losses of the bank due to the changes in the value of its assets and liabilities in foreign currency when the exchange rate changes. This risk is assessed proceeding from the ratio of assets and liabilities in foreign currency, as well as their shares in total assets or liabilities of commercial banks. The assets of the banking system in foreign currency were KGS 24.8 billion or 42.2 percent of total assets by the end of 2010. The liabilities of commercial banks in foreign currency were KGS 25.3 billion or 54.9 percent of total liabilities. In this regard, the cumulative open currency position of the banking system was short at the end of 2010, amounting to KGS 2.1 billion or (-18.6) percent of net total capital of the banking system. At the end of 2009, the cumulative currency position of the banking system was long, amounting to KGS 255.7 million or 1.8 percent of net total capital of the banking system.

Exchange risk

The liquidity risk is considered from the point of view of coverage of liabilities by the assets in each maturity interval that enables to estimate the need for funds in case of a mismatch between the assets and the liabilities in the context of maturity. The analysis of liquidity risks of commercial banks conducted in 2010 showed that the negative gap in maturities of assets and liabilities was noted with regard to maturities of up to 90 days, however, this being the case, the positive gap by maturities of more than 90 days shows that the banks have long-term sources of coverage of their liabilities.

Liquidity risk

¹ The data are given in section 1.4. “Banking Sector”, Table 1.4.3. “Classification of Assets, Off-Balance Sheet Liabilities and Credits to Clients”.

Table 3.1.2.2.**Assets and Liabilities by Maturities**

2009*	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	32,716.1	3,369.5	5,162.4	7,633.0	20,584.0	69,465.1
Financial liabilities	32,909.5	5,078.0	2,813.2	5,951.3	6,306.5	53,058.5
Amount of excess of financial assets over financial liabilities	-193.4	-1,708.5	2,349.3	1,681.7	14,277.5	16,406.6
in percent, total to financial assets	-0.3	-2.5	3.4	2.4	20.6	23.6

* - data as of December 31, 2008, inclusive.

2010**	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	25,806.1	3,807.1	3,454.5	7,135.6	21,892.4	62,095.7
Financial liabilities	28,583.9	4,304.2	2,825.1	3,216.7	7,094.7	46,024.5
Amount of excess of financial assets over financial liabilities	-2,777.8	-497.1	629.4	3,918.9	14,797.7	16,071.2
in percent, total to financial assets	-4.5	-0.8	1.0	6.3	23.8	25.9

** - data as of December 31, 2009, inclusive.

The analysis of basic risks of the banking system indicated that the actual values of prudential norms limiting the considered risks were at the level considerably exceeding the standard one and this fact testifies to presence of the certain margin of safety. At the same time, there are still potential hazards connected with growth of credit risk, growth of the volume of overdue credits and growth of insolvency of clients of banks. The National Bank regularly monitors the development trends in the banking sector of Kyrgyzstan and other countries, in order to undertake the necessary actions on minimization of negative developments of the world financial crisis, and takes the relevant anti-crisis measures, involving inter alia the commercial banks.

The work commenced by the National Bank in 2009 related to requiring the commercial banks to have a program of actions in the event of emergence of banking risks was continued in 2010. On two occasions in 2010, the National Bank required to update activities in the context of anti-crisis measures of banks on overcoming impact of the global financial crisis. Moreover, the National Bank indicated the need to simulate the actions of a commercial bank in different shock situations at the regular meetings with the supervisory body of commercial banks and their risk managers.

3.1.3. On-Site Inspection

The National Bank in performing its supervisory functions envisaged by the legislation of the Kyrgyz Republic conducted 10 comprehensive inspections and 16 target inspections (3 as to observance of cash discipline and 13 unscheduled inspections of specific aspects of the banking activity) during the supervisory cycle in 2010.

Total of 13 unscheduled target inspections were conducted due to the force majeure events that took place in the Kyrgyz Republic in 2010 and required to take a number of measures aimed to prevent escalation of the crisis in the banking sector, in particular, the National Bank introduced special regimes in a number of banks.

Considering the systemic importance and interconnection of banks placed under special regimes, the target inspections focused on the key issues, which, were, primarily, the following: compliance with the requirements of legislation in forming authorized capital and establishing legitimacy of originated sources of funds; the quality of loans extended to related persons and affiliated companies; lawfulness of operations with securities; compliance with the requirements of legislation on combating terrorism and money laundering.

According to the results of target inspection of banks placed under special regimes, the following violations were detected:

- Off-shore entities or related individuals were the participants of shareholders of certain banks. In this connection, the sources of capital in these banks were cash funds of companies related to the offshore entities, which is considered to be the violation of banking legislation;
- In some banks, the management performed large scale suspicious and doubtful transactions using different operations for a number of years, as a result, these banks were involved in unsound banking practice;
- In a number of banks, the schemes were detected on performing operations with cash funds, which according to the legislation on combating financing of terrorism and money laundering have features of suspicious and doubtful operations, since they had no economic substance and were aimed, primarily, at money laundering and legalization of criminal income, as well as at financing “grey” imports;
- Fictitious operations were identified on the purchase and sale of securities;
- Some banks ignored the Financial Action Task Force (FATF) recommendations;
- In some banks, the officials failed to comply with their direct functional responsibilities, proper fulfillment of which is explicitly required by the banking legislation;
- There were facts when some banks, including OJSC “AsiaUniversalBank” conducted significant volumes of doubtful and suspicious (fictitious) operations aimed at concealing the real financial standing and distortion of the financial statements.

According to the results of on-site inspections, the orders were sent to the banks and meetings were held with the management of banks to remove the deficiencies identified in the activity of banks. The Supervisory Committee of the National Bank reviewed the results of on-site inspections in commercial banks and took appropriate measures.

Based on the violations of legislation of the Kyrgyz Republic detected in the course of on-site inspections, the National Bank initiated a number of law suits to apply the implications resulting from invalidation of the deals on the purchase of shares of OJSC “Kyrgyz Credit Bank”, OJSC Investbank “Issyk-Kul”, OJSC “Akylinvestbank” and to convert the shares of these banks to the state revenues. In addition, the enforcement measures were applied to the officials of some banks, whose actions and/or lack of actions engaged banks in unsound banking practice.

3.1.4. Enforcement Measures

The decisions on application of preventive measures and sanctions of the National Bank against banks were made in accordance with the legislation of the Kyrgyz Republic, rules and regulations of the National Bank.

In order to prevent the expansion of consequences of political instability that occurred in 2010 in the country to the banking system, and localize problems in interrelated banks, the National Bank immediately took a number of supervisory measures, including, the introduction of special management regimes in some banks, initiation of termination of powers of the Board of Directors and Management Boards in commercial banks engaged in unsound banking practice.

Consequently, taking into account the systemic importance and interconnection of some banks, in order to establish control over them and to ensure safety of the accounting ledgers, bank’s records and safety of assets in the interests of depositors and other creditors of banks, and, also, considering, possible facts of robbery and

significant damage in view of the decisions of the law enforcement authorities, the temporary management regimes were introduced in seven commercial banks. Furthermore, the National Bank exercised direct banking supervision in 12 commercial banks during a certain period of time.

In due course of implementing special regimes and supervisory actions of the National Bank, the numerous facts were detected proving financial offences and also violations of legislation of the Kyrgyz Republic, which, were, mainly, connected with conducting operations without economic substance for substantial amounts and with features of suspicious and doubtful transactions. In this connection, the conservation regimes were introduced in OJSC “AsiaUniversalBank” and OJSC Investbank “Issyk-Kul”.

At the same time, it should be noted that according to the assessment results of the real financial standing of OJSC “AsiaUniversalBank”, this bank was recognized to be insolvent by the court decisions and, in this connection, the bankruptcy procedure was initiated and the special administration method of restructuring was determined by way of creating a new bank.

Therefore, at the end of 2010, the direct bank supervision remained in CJSC “BTA Bank Kyrgyzstan” and the temporary management regime was continued in OJSC “Kyrgyz Credit Bank”, CJSC “Manas Bank” and OJSC “Akylinvestbank”.

Moreover, within the powers of the National Bank envisaged by the legislation of the Kyrgyz Republic, the enforcement measures were applied to some officials in commercial banks that were recognized to engage banks in unsound banking practice. Subsequently, the law enforcement bodies initiated criminal proceedings against some officials of banks for committing offences related to money laundering, corruption and participation in the criminal community.

The Board of the National Bank made decisions on 110 issues of a supervisory nature and the Supervisory Committee of the National Bank decided on 61 issues related to the activity of commercial banks.

With a view of taking actions on detecting “grey” schemes in operations conducted by banks and making follow-up decisions within the framework of legislation of the Kyrgyz Republic, the National Bank repeatedly directed information on observance of requirements concerning anti-money laundering and combating the financing of terrorism by the commercial banks to the State Financial Intelligence Service of the Kyrgyz Republic.

The National Bank provided consultative and advisory assistance in banking legislation and banking activity to the law enforcement agencies of the Kyrgyz Republic.

As a whole, the measures taken by the National Bank allowed to stabilize the situation in the banking sector of the country in the shortest possible time and protect the interests of depositors and other creditors.

3.2. Supervision of Nonbank Finance and Credit Institutions

With a view of the implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010, adopted with the Resolution of the Government and the NBKR, the activities were implemented to improve the legal framework of microfinance organizations and, as a result, the draft Law was developed providing for the amendments and addenda to the laws “On Microfinance Organizations” and “On Operations in Foreign Currency” and aimed to expand the list of banking services provided by the NFCIs. In February 2010, Jogorku Kenesh (Parliament) adopted this draft law in the second reading. However, due to the political events, the Law did not come into effect.

MTMDS implementation activities

The meetings of the intergovernmental working group were held to review the results of monitoring the performance under an action plan on implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010.

The National Bank supervised specialized credit organizations in parallel with the supervision and regulation of NFCIs performing microfinance and foreign exchange operations.

Due to the loss of management, in order to control the capital movements and safety of assets, starting 16 April 2010, the Temporary management was introduced in CJSC “Kyrgyz Republic Development Fund” in accordance with the NBKR Board Resolution. In the subsequent Decree of the Interim Government of the Kyrgyz Republic, the decision was made “On Liquidation of CJSC “Kyrgyz Republic Development Fund”. In accordance with this Decree, the Ministry of Economic Regulation established a liquidation commission to carry out activities related to the liquidation of CJSC “Kyrgyz Republic Development Fund”. On 7 May 2010, in accordance with the abovementioned Decree, the NBKR Board in its decision revoked the license of CJSC “Kyrgyz Republic Development Fund” entitling to perform certain banking operations. Accordingly, the temporary management regime was terminated and the liquidation of the Fund commenced.

In the accounting year, the majority of large MFOs faced the problem of converting funds in foreign currency received from partners, donors and other creditors. Swap operations with commercial banks are one of the ways of converting foreign currency and forming assets in national currency, and also insuring against foreign exchange risks. Swap operations of MFOs were mostly concentrated in OJSC “AsiaUniversalBank”, which was declared bankrupt by the court decision. In view of this situation the National Bank temporarily opened a swap window for commercial banks to satisfy the liquidity demand of MFOs in national currency.

*Swap operations
of MFOs*

In 2010, the NBKR inspected 333 exchange bureaus as part of its work on licensing private entrepreneurs and legal entities conducting foreign exchange operations, including the work on re-registration upon the expiration of the license period and start-up of additional exchange bureaus.

*Inspection of
NFCIs*

In 2010, the NBKR conducted a number of inspections of exchange bureaus for observance of the NBKR regulatory and legal acts. The inspections were conducted by the NBKR staff and jointly with the employees of the law enforcement agencies. Altogether, 137 exchange bureaus were inspected in the accounting period, with 100 cases of violation of the legislation revealed.

Based on the results of inspections, 17 warnings were issued, 38 orders were directed and licenses of two exchange bureaus were withdrawn. During the spot inspections to reveal the facts of unlicensed activity, 43 individuals were disclosed and the administrative disciplinary measures in the form of penalties were applied to them in the total amount of KGS 44.0 thousand.

For the accounting year, the NBKR conducted 77 comprehensive and six target inspections of credit unions, 41 counter inspections of credit unions within the framework of inspecting LLC “FCSDCU”. Also, the NBKR conducted a comprehensive inspection of the SFBR. Total of 124 credit unions were inspected that is 57 percent of the total number of credit unions.

In 2010, the NBKR Board made a number of amendments to the Activity Regulation Rules and to the Banks Refinancing Policy of LLC “Special Fund for Banks Refinancing” directed at streamlining the activity of the SFBR and increasing opportunities of commercial banks and FCIs for expansion of their lending.

With a view of checking for observance of the legislation, the NBKR conducted the specialized inspections of one microfinance company, one microcredit agency and also six microcredit companies, in the course of which the NBKR identified violations of legislation of the Kyrgyz Republic. The NBKR issued appropriate orders to eliminate detected violations.

3.3. Supervision and Regulation Methodology

Basic guidelines of regulatory framework improvement

In 2010, the National Bank continued working on improvement of the banking supervision and regulatory framework, aimed at enhancing the efficiency of the banking supervision system and developing the banking system of the Kyrgyz Republic, implementing the basic banking supervision principles of the Basel Committee on Banking Supervision, and at harmonizing the prudential norms with the banking legislation.

Licensing activities of banks

To bring into line with the legislation of the Kyrgyz Republic, the amendments and addenda were approved to the Regulation “On Bank Licensing”. According to these amendments and addenda, the requirements were established to perform effective supervision related to the purchase of banks’ shares by the shareholders, the increase in the limits of funds that may be kept in the field cash office, harmonizing procedures for opening branches, savings banks and field cash offices, and their technical equipment. In addition, the requirements relate to the constituent documents of banks and presentation of information about individual officials of banks.

Risk management

The new wording of the Regulation “On Minimal Requirements to the Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” was adopted to protect the rights of clients of banks, ensure compliance of banks with these rights and to prevent the misuse on the part of the employees of banks. The Regulation sets forth the requirements directed to improve the transparency of activities of banks and lending process, and also to comply with the requirements on protection of rights of clients of banks.

Consolidated supervision

Within the framework of improving the system of consolidated supervision with due consideration of the banking system development and creation of the banking groups, the new wording of the Regulation “On Consolidated Supervision” was approved and, also, the changes were made to the Rules “On Creation and/or Acquisition of Subsidiary or Dependent Companies of Commercial Banks of the Kyrgyz Republic”. These regulatory and legal acts were developed in accordance with the Law “On Banks and Banking Activity in the Kyrgyz Republic” and the recommendations of the Basel Committee on Banking Supervision.

AML/CFT

In accordance with the Law “On Anti-Money Laundering and Combating the Financing of Terrorism”, the Regulation “On Minimal Requirements to the Organization of Internal Controls in Exchange Bureaus in the Kyrgyz Republic Aimed at Anti-Money Laundering and Combating the Financing of Terrorism” was approved. The regulation provides for the basic requirements to the organization of internal controls in the exchange bureaus in the Kyrgyz Republic aimed at AML/CFT and determined a registration amount to identify and record information with cash foreign currency.

The new edition of the Regulation “On Minimal Requirements to the Organization of Internal Controls in Commercial Banks Aimed at Anti-Money Laundering and Combating the Financing of Terrorism” was approved in view of the violations in the activity of banks. This document is aimed to strengthen the responsibility of the Board of Directors and Management Board of the bank for effective organization of the bank’s activity in the area of anti-money laundering and combating the financing

of terrorism (AML/CFT), to improve internal controls aimed at AML/CFT and to expand the powers and responsibilities of the official on AML/CFT.

With a view of improving the system of enforcement measures, the addenda were approved to some regulatory and legal acts of the NBKR related to the application of sanctions in terms of levying a monetary penalty against the bank in the force-majeure circumstances and during the period of the temporary management or conservation in the bank.

The amendments and addenda were approved with regard to the Regulation “On Minimum Requirements for External Audit of Banks and Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” stipulating the obligation to conduct external audit of Islamic banks and banks that have an “Islamic window”. Furthermore, the provision was added to the regulations as stipulated by the Resolution of the Government of the Kyrgyz Republic of August 15, 2009 concerning the application of the Audit Standards for Islamic financial institutions developed by the Accounting and Auditing Organization for Islamic Financial Institutions.

*External audit
of banks*

To bring the regulatory and legal acts of the NBKR into line with the International Financial Reporting Standards (IFRS), the new wording was approved with regard to the Regulation “On Requirements to the Preparation of Financial Statements of Commercial Banks of the Kyrgyz Republic”. During the accounting year, the addenda were made to this regulation aimed at specifying the requirements to the preparation and presentation of consolidated financial statements in line with the IFRS and legislation of the Kyrgyz Republic. The regulations were added with the provisions about the need to disclose information about the ownership structure of the parent company, shareholders and interrelationships of the subsidiary, dependent and related companies according to the Law “On the Securities Market”, including information disclosure about the material facts impacting the activity of the issuing bank and/or the security price.

*Financial state-
ments*

Amendments and addenda were made with regard to the Regulation “On Classification of Assets and Corresponding Deductions to the Loan Loss Reserve” concerning the creation of the reserve to cover potential losses under factoring operations in order to maintain the adequate reserve and ensure sound banking activity. Also, the requirements were defined to the classification of assets provided by the banking group to the same borrower or to the group of related borrowers.

*Loan Loss
Reserve*

To improve the banking supervision tools the addenda were approved with regard to the Regulation “On the Periodic Regulatory Banking Report” concerning the presentation of information about the broker, dealer, depository that service the bank and also information about the transactions with corporate securities.

*Periodic
regulatory
reporting of
banks*

In addition, the Regulation “On Periodic Regulatory Consolidated Reporting” was approved defining the forms, the procedure of preparation and presentation of the periodic regulatory consolidated reporting on the activity of the banking group to the National Bank with a view of analyzing and evaluating the financial standing of the banking group and risks of the banking group.

In accordance with the Civil Code and Law “On State Registration of Legal Entities, Branches (Representative Offices)”, the amendments and addenda were approved to the Interim instruction on dealing with the deposits. According to these amendments and addenda, the list of documents, presented by the legal entities to the bank when opening accounts, was brought into line with the legislation.

*Interim instruc-
tion on dealing
with the deposits*

To provide the opportunity for opening an account in a commercial bank to the citizens that lost their passports or identification documents during June events in Osh City, Osh and Jalal-Abad regions, the National Bank adopted the resolution “On the Use of the Identification Card of the Citizen of the Kyrgyz Republic for Opening an Account in Commercial Banks of the Kyrgyz Republic”.

*Regulations on
NFCI*

*Regulation of
microfinance
organizations,
credit unions and
FCSDCU*

To bring into line with the resolution “On Amendments and Addenda to the Banks Refinancing Policy of LLC “Special Banks Refinancing Fund”, the amendments were approved to the rules of regulating the activity of LLC “Special Banks Refinancing Fund”, where the maximum risk exposure per borrower was increased.

To reduce the liquidity risk of the deposit taking MFCs, the Regulation “On the Mandatory Reserve Requirements of the Deposit Taking Microfinance Companies” was approved.

In the context of liberalization of the regulatory requirements to the microfinance companies, the amendments to the Interim rules of regulating the activity of microfinance companies were approved. According to these changes, the limitations were reduced for the MFCs on unsecured lending by way of recognizing the solidary liability of the group of individuals as collateral, and the limitation was removed for the MFCs on investing in microfinance organizations and banks. The changes also provide for the decrease in the capital adequacy ratio from 18.0 percent to 8.0 percent and the deduction of the assets in foreign currency provided as collateral against the loan in national currency from the total assets of the MFC.

To minimize the risks at all stages of verifying the authenticity of information concerning the founders (shareholders) and officials, and also to verify the legitimacy of the origin of funds, the amendments and addenda were made to the Regulation “On Licensing, Reorganization and Liquidation of Microfinance Companies in the Kyrgyz Republic”.

Amendments and addenda were made to the Regulation “On the Creation of Microcredit Companies and Microcredit Agencies” to bring it into line with the Law “On State Registration of Legal Entities, Branches (Representative Offices)”.

In the context of improving the legal framework for regulation of the credit unions, the amendments and addenda were made to the Rules for regulating the activity of the credit unions in the Kyrgyz Republic and to the Interim rules for regulating the activity of LLC “FCSDCU”.

*Islamic principles
of financing*

According to the Laws “On Amendments to the Law “On Banks and Banking Activity in the Kyrgyz Republic” and “On Amendments to the Law “On the National Bank of the Kyrgyz Republic”, the amendments and addenda were approved to the Regulation “On Enforcement Measures Applicable to Banks and Some Other Finance and Credit Institutions Licensed by the NBKR”. According to these changes, the enforcement measures may apply to the banks performing operations in accordance with the Islamic principles of banking and financing, and to the banks that have an “Islamic window” on the grounds and in accordance with the procedure envisaged by these regulations.

*Deposit
protection
system*

Within the framework of further implementation of the deposit protection system, the requirements were approved to the agent bank for making compensatory payments to the depositors in case of the guarantee event. The requirements relate to the experience in the banking services market and business reputation of the bank, break-even activity, the management’s ability to carry out safe and effective activity of the bank, and others.

*Mortgage
lending*

To bring the regulatory and legal acts into line with the adopted amendments to the Land Code, the laws “On Management of Agricultural Lands”, “On Pledge”, the National Bank approved the changes to the joint resolution of the Government of the Kyrgyz Republic and National Bank of the Kyrgyz Republic of 4 September 2002 “On Approval of the Interim Requirements on Mortgage Lending for Agricultural Land Plots”.

PAYMENT SYSTEM

As a whole, the payment system of the Kyrgyz Republic was functioning in a stable manner in the accounting period.

The uninterrupted functioning of the payment system components, the involvement of all commercial banks in the payment system, the use of uniform approaches to the payment systems enabled to avoid emergence of financial risks and create conditions for conducting payments by all participants.

In 2010, the National Bank continued to implement tasks related to the development of the modern national payment system aimed at expanding the range of retail financial services, increasing the number of participants and expanding the public access to the payment services.

One of the key objectives of the National Bank is to timely satisfy the needs of the country's economy in cash. In 2010, the work was carried out to maintain the optimal reserve of the required denominations of banknotes and coins in circulation, put into circulation new banknotes, withdraw from circulation the worn out banknotes and destroy them.

4.1. Payment System Development

4.1.1. Non-cash settlements

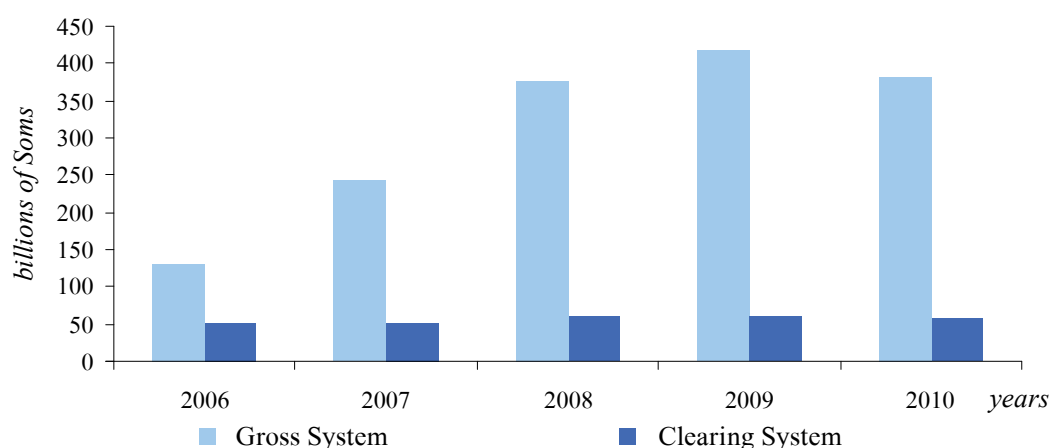
The interbank payment system of the Kyrgyz Republic is represented by the gross settlement system (RTGS), the bulk clearing system (BCS), the system of settlements with the use of payment cards, the remittance systems and the cross-border payments systems. The National Bank, the commercial banks, including their branches, the Central Treasury of the Ministry of Finance, and the Interstate Bank were the participants of the interbank payment systems in the Kyrgyz Republic.

*Interbank
payment system*

Overall, 1.6 million payments totaling KGS 441.3 billion were made through interbank payment systems (RTGS and BCS) and it is by 7.8 percent or by KGS 37.2 billion less than in 2009.

Chart 4.1.1.1.

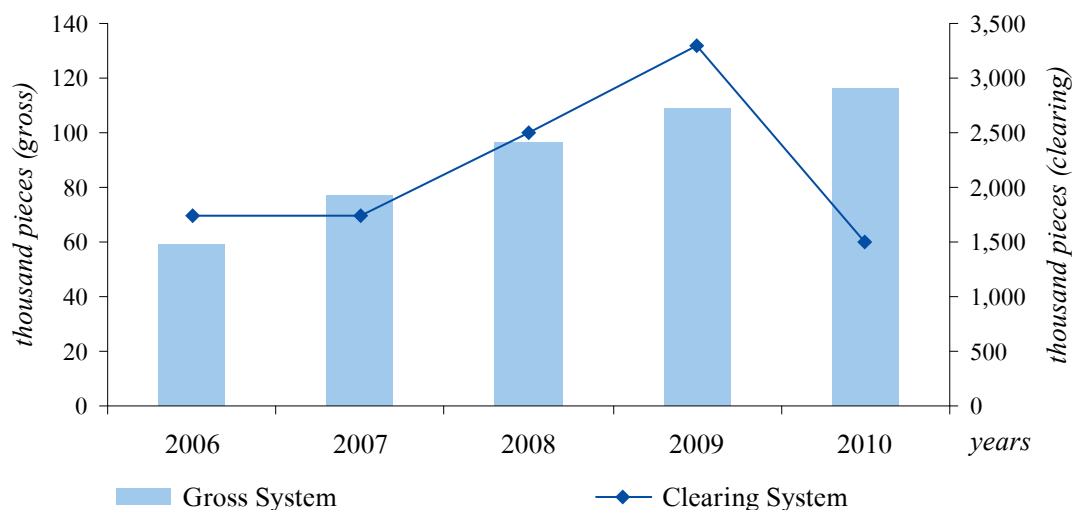
Value of Payments via Interbank Payment Systems (RTGS and BCS)



The volume of gross payments in comparison to the same indicator in 2009 increased by 7.0 percent, while the volume of clearing payments in comparison to the 2009 indicator decreased by 54.8 percent.

Chart 4.1.1.2.

Volume of Payments via Interbank Payment Systems (GSS and BCS)

*Bank payment cards*

In 2010, the commercial banks continued to expand their services in the area of issuing and acquiring the payment cards of local, international systems, and the national Elcard system.

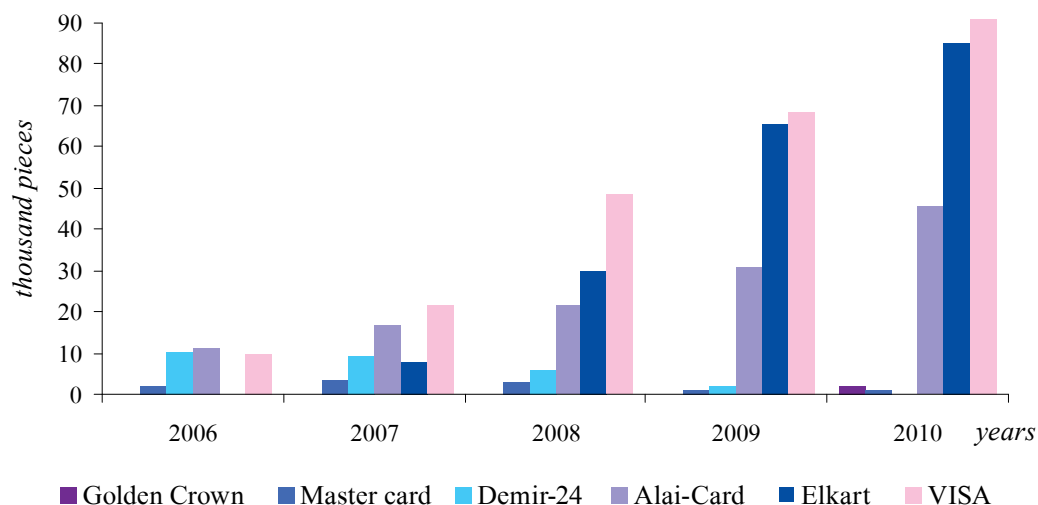
At the end of the accounting year, the services for issuing, acquiring, and the settlement-cash services were rendered to the clients with the use of bank cards by 16 of 22 banks of the republic, of which emitters of national system cards were 14 banks, eight banks issued international system cards and three banks issued local systems cards.

Emission of cards

The total number of emitted payment cards made 225.2 thousand pieces, having increased by 34.1 percent for the year. The significant growth rate of the number of emitted bank cards was mainly due to the growth in the number of bank cards issued under the salary payment projects. As a result, over 50 thousand cards were issued in 2010, of which 25.1 thousand were the cards of the Elcard national system.

Chart 4.1.1.3.

Dynamics of Number of Bank Payment Cards (end of period)

*Operations with the use of cards*

During 2010, the total card-based operations amounted to KGS 14.5 billion and increased by 45.0 percent in comparison with the same indicator in 2009. Operations totaling KGS 8.6 billion were channeled via the international systems and it was by 59.2 percent more than the total of operations conducted in 2009. The total operations

conducted through the local systems amounted to KGS 3.0 billion and it was by 33.0 percent more than in 2009. The total operations conducted via the Elcard national system in 2010 were KGS 2.9 billion, having thus increased by 26.0 percent.

The increase in the number of card users and operations with their use testifies to the accelerating efforts in the market of bank cards.

Total of 3.4 million card transactions were conducted in 2010 and it was by 18.8 percent more than in 2009. Of these transactions, 814.0 thousand operations were conducted through the local systems being by 43.6 percent more than in 2009. The volume of transactions conducted via the international systems grew by 22.1 percent compared to the same indicator in 2009 and totaled to over 1.7 million transactions. In 2010, total of 851.6 thousand transactions were conducted via the national Elcard system.

The value of transactions on withdrawal of cash in the ATM network amounted to KGS 14.1 billion, while the value of transactions in the trade and service network with the use of cards were KGS 0.5 billion.

The total number of terminals and ATMs was as follows:

- The Elcard national system - 72 ATMs and 510 terminals. The outcome of integration of settlement systems with the use of payment cards indicated that 133 ATMs and 663 terminals of international systems and 175 terminals of the Alai-Card local system accept the national Elcard payment cards for servicing;

- The international systems – 143 ATMs and 838 terminals;

- The Alai-Card system – 54 ATMs and 203 terminals, of which 68 terminals accept and service the Gold Crown system cards.

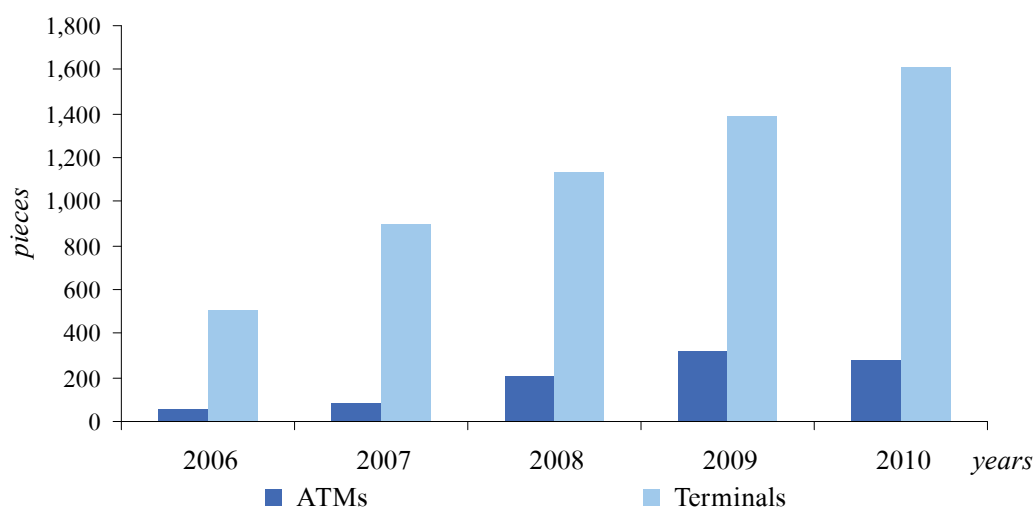
- The Gold Crown local system – 11 ATMs and 64 terminals.

Thus, as of end of 2010, the bank payment cards are accepted by 280 ATMs and 1,615 terminals installed at the public places throughout the whole territory of the republic.

Infrastructure to accept and service the cards

Chart 4.1.1.4.

Number of Active ATMs and Terminals (end of period)



4.1.2. The oversight of the Payment System of the Kyrgyz Republic

During 2010, the National Bank strengthened its activities on oversight and control of the functioning of the payment system of the Kyrgyz Republic, the activity of the payment system's operators, being the residents of the Kyrgyz Republic, and their participants, and also on resolving emergency situations.

<i>Objects of payment system oversight</i>	<p>The objects of intensified payment systems oversight:</p> <ul style="list-style-type: none"> - The systemically important payment systems: the Real Time Gross Settlement System and the Bulk Clearing System; - The important payment systems: payment cards systems.
<i>Measures to ensure the functioning of the payment systems</i>	<p>The National Bank also exercised the control over the Center of multiple access SWIFT (CMA SWIFT) functioning and conducting through this system the cross-border payments of commercial banks.</p> <p>Within the set of measures on controlling the capital flows and safety of assets in the interests of depositors and other creditors, the National Bank temporarily introduced limitations for conducting payments and settlements in a number of commercial banks, and restricted access for sending cross-border payments during April events in 2010. To stabilize the functioning of the payment systems, restore the payment flows and to allay depositors concerns, the National Bank applied appropriate effective response measures that were timely communicated to the payment systems operators, carried out outreach and coordination work with the population and commercial banks that coupled with other supervisory measures allowed to prevent the systemic crisis in the banking system.</p> <p>The value of liquid funds in commercial banks reduced from KGS 6.1 billion in the first quarter of 2010 to KGS 3.5 billion in the third quarter of 2010, but as of end of 2010, the liquidity of commercial banks increased to KGS 5.3 billion. Financial risks in the payment system remained at the minimal level (the liquidity ratio was 4.2, while the turnover ratio was 0.2) due to the high ratio of liquid funds to debit turnovers of participants.</p> <p>The National Bank paid special attention to the activity of the Closed Joint Stock Company “Interbank Processing Center” (CJSC “IPC”), as operator of the national payment cards system “Elcard”. The National Bank provided every possible support for the further development of CJSC “IPC” to ensure a stable functioning of the national payment card system “Elcard”. The meetings were held with the management of CJSC “IPC” and commercial banks to discuss the current activity and the company’s funding, redistribution of CJSC “IPC” shares among shareholder banks to ensure effective operation of the corporate governance system and to implement new projects using the cards.</p> <p>As a whole, the measures taken by the National Bank in the context of payment systems oversight contributed to prevent the negative influence of problems in certain banks for other participants of the national payment system.</p> <p>Some suspicious and fraudulent operations using payment cards were noted during 2010. The main reason for fraudulent activities was the failure of the card holders to comply with the security rules in using cards.</p> <p>The 2010 assessment of the functioning of systemic payment systems in the Kyrgyz Republic indicated that the systemically important payment systems broadly observed to all of the Core Principles set for the systemically important payment systems. The responsibilities of the Central Bank in applying the Core Principles for systemically important payment systems are fully implemented.</p> <p>The national system “Elcard”, mainly, operated according to the international standards and requirements of the regulatory and legal acts of the National Bank.</p>

4.1.3. Implementation of Activities under the State Program of Measures to Increase the Share of Non-Cash Payments.

In 2010, the National Bank continued working on practical implementation of activities under the State Program of Measures to Increase the Share of Non-Cash

¹ Core Principles for Systemically Important Payment Systems, BIS, Basel, Switzerland, January, 2001.

Payments and on the expansion of the infrastructure that enables to ensure an efficient payment execution in the Kyrgyz Republic.

In the context of development of the Bulk Clearing System, commercial banks performed the work on completing the measures aimed at introduction of direct debiting. Thus, all banks are ready to accept the payments for the services of the Sever-electro Open Joint Stock Company, the Bishkekvodokanal Water Supply Company, and the Bishkekteploset Open Joint Stock Company by direct debiting the client's account. 10 banks make payments for their clients using this method. The activities are carried out to introduce this service in Bishkek City Telephone Network (the landline use fee).

Bulk clearing system

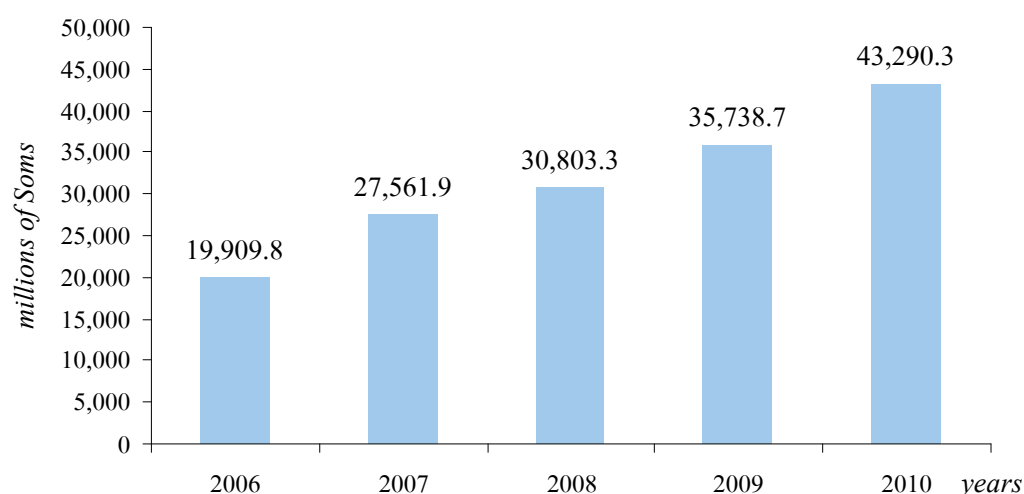
4.2. Cash Turnover

One of the main objectives of the National Bank is to timely satisfy the needs of the economy of the Republic for cash.

In 2010, the total amount of currency in circulation increased by 21.1 percent and amounted to KGS 43.3 billion.

Chart 4.2.1.

Developments in Currency in Circulation (end of period)



In 2010, collectibility of cash in the cash departments of commercial banks remained at the same level as in 2009 and was 98.8 percent.

In 2010, receipt of cash in the cash departments of commercial banks amounted to KGS 298.7 billion, having thus increased by 24.0 percent in comparison with 2009. Issuance of cash from the cash departments of commercial banks also increased by 24.0 percent and totaled KGS 302.2 billion.

Receipt & issue of cash by the cash offices of commercial banks

Table 4.2.1.

Cash Flow via Cash Departments of Commercial Banks

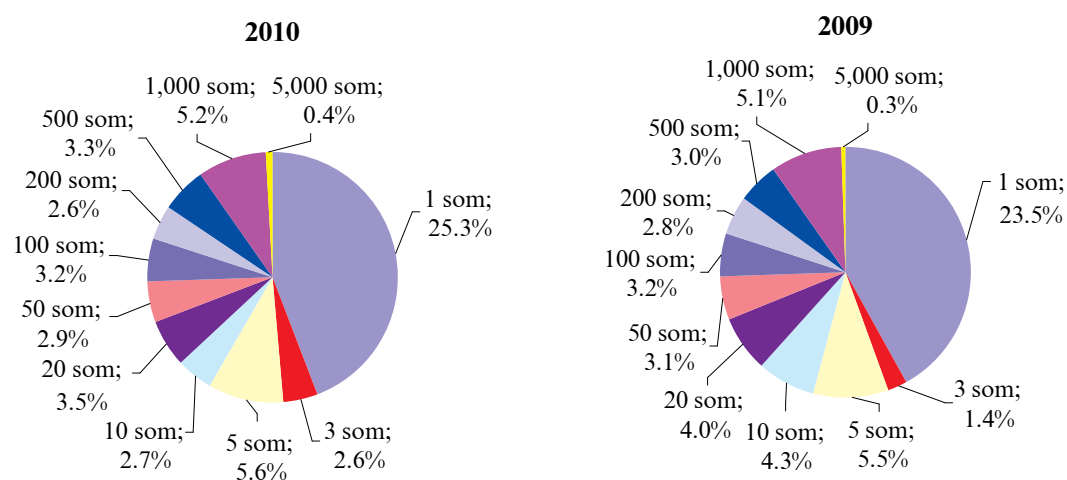
	Receipt, millions of Soms		Issue, millions of Soms		Collectibility, percent	
	2009	2010	2009	2010	2009	2010
Total	240,814.7	298,652.6	243,719.9	302,242.5	98.8	98.8
Bishkek	149,787.5	177,571.7	139,375.2	161,479.6	107.5	110.0
Batken oblast	3,871.6	7,079.7	6,381.7	11,047.7	60.7	64.1
Jalalabat oblast	20,818.1	30,412.9	26,675.8	37,101.7	78.0	82.0
Issyk-Kul oblast	8,204.9	10,094.4	10,586.8	13,400.0	77.5	75.3
Naryn oblast	2,542.4	3,479.5	4,525.9	5,885.7	56.2	59.1
Osh	36,717.9	41,052.1	31,960.8	38,222.3	114.9	107.4
Osh oblast	4,903.3	8,680.2	8,432.6	13,341.0	58.1	65.1
Talas oblast	3,109.1	4,330.6	5,367.6	6,713.6	57.9	64.5
Chui oblast	10,859.9	15,951.5	10,413.5	15,050.9	104.3	106.0

Based on the analysis of money denominations in circulation, the work was always performed to maintain optimal stocks of required denominations of banknotes and coins, the new banknotes were issued into circulation, and unfit banknotes were withdrawn from circulation for their destruction.

The banknotes by denominations in circulation were stable as a whole, with the reduction of the share of the KGS 1,000 banknote as a result of issuance of the KGS 5,000 banknote into circulation.

Table 4.2.2.Denominations of Banknotes and Coins in Circulation (end of period)
(In percent of total money in circulation)

Denomination	below 5 soms	10 soms	20 soms	50 soms	100 soms	200 soms	500 soms	1000 soms	5000 soms	Total
2009	0.7	0.4	0.9	1.7	3.4	6.1	16.4	54.9	15.5	100.0
2010	0.7	0.4	0.7	1.4	3.2	5.0	16.1	52.3	20.2	100.0

Chart 4.2.2.Distribution by Denominations of Banknotes and Coins in Circulation (end of period)¹¹ In percent of total banknotes and coins in circulation.

The National Bank performed the work to further improve the regulatory framework, the procedures to arrange the cash turnover and to handle cash.

In 2010, the silver collection coins «Tunduk kotoruu» and “10 Years of EurAsEC” were issued and devoted to the series of “National Customs and Rituals of EurAsEC Countries” and “10 Years of EurAsEC”. In the accounting year, the 200, 500 and 1,000 Som banknotes of the fourth series were issued into circulation, with a new set of improved security features, a new design, and the smaller size.

In 2010, the number of identified counterfeit banknotes amounted to 328 pieces (in 2009 - 555 pieces) that totaled KGS 324,050 (0.0007 percent of total cash in circulation as of December 31, 2010).

Issue into circulation of numismatic coins and banknotes of the forth series

FOREIGN ECONOMIC RELATIONS

In 2010, the National Bank of the Kyrgyz Republic continued its collaboration with different international organizations, central banks of the Commonwealth of Independent States and other foreign states. This work resulted in the further strengthening of existing foreign economic relations and building new partnership relations and cooperation with international institutions and central banks.

5.1. Cooperation with International Organizations

In 2010, the National Bank collaborated with the international organizations in view of the existing situation in the country's economy, the need to resolve problems in the banking sector and its further development. This collaboration was, mainly, directed to provide advisory assistance and review world experience in resolving issues of the banking system functioning.

Cooperation with the IMF

The International Monetary Fund (IMF) mission visited the Kyrgyz Republic on January 20- February 2, 2010, within the framework of their visit, a number of meetings were held with the representatives of the Government of the Kyrgyz Republic, ministries and agencies of the country, including, the management of the National Bank of the Kyrgyz Republic. The monetary policy issues, the situation in the foreign exchange market and the status of the balance of payments were discussed during the meetings. A great attention was paid to considering the development perspectives of the banking sector of the country and improvement of banking supervision.

An adviser to the Managing Director of the International Monetary Fund was on an official visit to the Kyrgyz Republic. Within the framework of the visit, the meetings were held with the management of the NBKR and MER KR, in the course of which the macroeconomic situation and the economic policy issues were discussed. The economic growth issues, the financial stability and the monetary policy implementation in the context of the impact of the global financial crisis were discussed during the meetings.

Four IMF missions visited the Kyrgyz Republic in 2010. Based on the review of implementation of the program activities within the framework of the Exogenous Shock Facility (ESF) mechanism conducted by the IMF mission in February 2010, the program was formally completed. In May and mid-July 2010, the IMF performed review missions to evaluate the economic situation in the Kyrgyz Republic after events in April and June. In August, based on the results of the joint work of the National Bank and the Government with the IMF mission, the new program was developed and presented in the "Memorandum of Economic and Financial Policies for September-December 2010 within the framework of the Rapid Credit Facility (RCF) mechanism". Based on the review results of the Memorandum, the Executive Board of the International Monetary Fund approved on September 15, 2010 a disbursement of a credit in the amount equivalent to SDR 22.2 million for the Kyrgyz Republic.

An IMF expert visited the National Bank with a technical mission within the framework of reforming the payment system of the Kyrgyz Republic on February 21- March 5, 2010. In due course of the work, the adviser provided consultations and recommendations on the current aspects of the Bulk Clearing System, evaluated the implementation of Insurance funds as the mechanism for protecting the payment systems in accordance with the Core Principles of the Bank of International Settlements, considered the issues of enhancing supervision of the payment systems, the implementation of the marketing and commercial policy measures by commercial banks on the provision of modern banking services to the population, the issues of elaboration and implementation of the regulatory acts aimed to reduce risks in providing basic

payment services by the non-bank operators and agents.

The technical IMF mission visited in April 2010, in the course of the visit the experts provided consultations on enforcement measures directed at the financial recovery of a problem bank, reviewed the experience of introducing and exercising special regimes towards the banks given the example of the National Bank of Poland.

The IMF consultants provided technical assistance on strengthening the supervisory functions of the NBKR. The recommendations of the International Monetary Fund adviser were used in the restructuring OJSC “AsiaUniversalBank”. Also, within the framework of implementing international cooperation projects, a long-term IMF adviser commenced his work in November 2010 to improve the regulatory and legal acts and provide advice on the banking supervision methodology.

With support from the IMF regional project on public debt management and development of the government securities markets in Azerbaijan, Kyrgyzstan and Tajikistan, the NBKR staff took part in the seminars on macroeconomic and financial planning, public debt management, development of the government securities market and had the opportunity to exchange experience on the development of the long-term strategy, financial programming, analysis of debt sustainability, application of effective public debt management assessment tools and the development of the government securities market.

The annual meetings of the International Monetary Fund and World Bank (WB) were held in Washington D.C. on October 6-11, 2010, where the management of the National Bank participated as the IMF Manager on behalf of the Kyrgyz Republic. A number of meetings were held with the representatives of the IMF, WB and other international financial institutions to discuss the situation in the economy and banking sector of the Kyrgyz Republic, and also to obtain advice and technical assistance.

In view of continued cooperation with the World Bank, in July-August 2010, the National Bank prepared information for the World Bank within the framework of the Second Global Payment Systems Review throughout the world, which includes information about the legal basis of the large payment systems, retail payments, payments in foreign currency, cross-border payments, securities settlement systems, supervision of the payment system and planned reforms.

*Cooperation with
the World Bank*

The World Bank mission visited the NBKR on October 4-15, 2010 within the framework of the FIRST Initiative project implementation, in the course of the visit, the recommendations were given in the area of improvement of the bank bankruptcy and liquidation procedures, strengthening regulatory framework of the National Bank related to the preventative measures and sanctions.

The NBKR management met with the World Bank representatives in December 2010. In the course of the meeting, the issues were discussed concerning provision of financial assistance by the World Bank to the Kyrgyz Republic to support the state budget; in particular, provision of US\$ 40 million to the Kyrgyz Republic. Also, the issues concerning the situation around OJSC “AUB” and other commercial banks; activity of the “Interbank Processing Center (IPC)” and the development of the microfinance sector were covered during the meeting.

In March 2010, the NBKR employees took part in the teleconference “Migration and Remittances in the Region of Europe and Central Asia. Practical Experience in the Migration MiRPAL” organized by the World Bank, where, they discussed important aspects of the migration policy and remittances, the methodology for assessing the volumes of remittances made by the migrants.

The NBKR representatives participated in the international symposium on the economic and social impact of migration, remittances and expatriate community, held on June 24-25 in Erevan that contributed to extending the NBKR research activity in the area of the impact of remittances on the country’s economic indicators.

*Cooperation with
the EBRD*

Within the framework of the technical assistance to the Kyrgyz Republic, the European Bank for Reconstruction and Development (EBRD) provided financial assistance in conducting an international court audit of OJSC “AsiaUniversalBank”. This audit confirmed that the balance sheet of OJSC “AsiaUniversalBank” was distorted and that a significant number of operations of this bank were suspicious since they had no economic substance.

*Cooperation with
KRJC*

In 2010, the NBKR developed cooperation with the Kyrgyz Republic-Japan Center for Human Development. Participation in the seminars conducted by the Center allowed the NBKR representatives learn about Japan’s experience in regulating and supervising banking institutions, using the credit risk assessment systems and ways of minimizing credit risks. They also reviewed Japan’s experience in human resource management area, operational analysis of activity of structural units in the central bank and reforming the financial system with the objective to stabilize it.

*Cooperation with
SECO*

At the beginning of 2010, the Swiss Economic Cooperation Office (SECO) mission on combating the financing of terrorism and anti-money laundering (CFT/AML) visited the National Bank. This work resulted in conducting a seminar for the staff of the NBKR, exchange bureaus and commercial banks of the country. Also, the National Bank jointly with the commercial banks developed the draft training program modules on AML/CFT required for commercial banks, carried out activities under the risk assessment matrix and prepared questionnaires in view of recommendations made by SECO experts for self-assessment of commercial banks. Two types of information posters for the population and exchange bureaus were published and disseminated with the support of the SECO project.

In August 2010, with SECO co-funding in the Kyrgyz Republic, the NBKR organized field researches of frontier trade and re-export of goods not covered by official statistics in Chui Oblast, the south and north of the country.

On September 10, 2010, the specialists of the National Bank, Ministry of Economic Regulation and Ministry of Finance took part in a seminar on financial programming held by SECO. The issues of using financial programming tools for macroeconomic projection were considered during the seminar.

*Cooperation with
the GTZ*

As a whole, the NBKR collaboration with the German Society of Technical Cooperation (GTZ) in 2010 was directed at increasing the National Bank capacity in regulating the microfinance sector.

To strengthen and develop international cooperation, the NBKR and the German Society of Technical Cooperation (GTZ) entered into an Agreement “On Implementation of the “Regional Program on Support of Microfinancing in Central Asia” in the Kyrgyz Republic”. In 2010, the first stage of the Regional Program on Support of Microfinancing in Central Asia was completed, based on its results, the GTZ decided to launch the second stage for three years from 2011 through 2013.

The GTZ funded the training of the National Bank staff under the CAP/CIPA program that would help them in supervising NFCIs and professional development of the NBKR staff. With the GTZ assistance, the NBKR specialists took part in the following seminars: “Microfinance Principles, Lending Technologies, Evaluation of Credit and Operational Risks in Microfinance Organizations”, “The Best Microfinance Experience in the Post Crisis Period”, “Islamic Financial Services and Standards of the Islamic Financial Services Board (IFSB)”, and “Consolidated Supervision”.

With the GTZ support, the NBKR commenced elaborating the Microfinance Development Strategy for 2011-2015. To develop this strategy, the working group was established comprising of the representatives of the microfinance sector, National Bank, state agencies and GTZ. Within the framework of this project, the first Round Table was held on December 16, 2010 with participation of the microfinance sector,

Government and other interested parties to discuss the key areas of the new development Strategy for the sector.

During 2010, the NBKR continued its cooperation with various international financial institutions, particularly, with the International Finance Corporation, the German Development Bank KfW and USAID.

On September 8, 2010, the management of the National Bank met with the delegation of the International Finance Corporation led by the Director of the IFC Department for Central Asia and Eastern Europe and senior Manager for Central Asia and Azerbaijan. During the visit, the parties discussed the current and future cooperation; in particular, it was proposed to continue the implementation of projects on introduction and development of leasing, insurance, mortgage lending, microfinance and other projects in the Kyrgyz Republic.

Cooperation with the IFC

The NBKR employees took part in a number of activities organized with the assistance of the International Finance Corporation, such as the World Conference on the Activity of Credit Information Bureau in Berlin and the Microfinance seminar in Ulan-Bator.

On August 24, 2010, the management of the National Bank held a meeting with the delegation of the German Development Bank KfW led by the Director of Regional Bureau for Central Asia. In the course of the visit, the parties discussed the conditions of implementing microfinance and mortgage lending projects, the introduction of which had been planned for 2011. Also, they exchanged opinions about possible projects in the framework of cooperation in future.

Cooperation with the German Development Bank KfW

On September 22, 2010, the management of the National Bank met with the Acting Director of the USAID Representative Office in the Kyrgyz Republic and an Economic Advisor to the Political and Economic Section of the US Embassy in the Kyrgyz Republic. In the course of the visit, the parties exchanged opinions concerning implementation of projects and programs aimed at increasing economic growth in the Kyrgyz Republic and stabilization of the banking system, discussed future cooperation issues, noted the underdevelopment of the insurance, leasing and mortgage lending markets in Kyrgyzstan and agreed to carry out activities in these areas.

Cooperation with USAID

On September 23-26, 2010, the NBKR management took part in the 24th session of the Club of Governors of Central Banks held in Dushanbe, where the managers of central banks from 20 Central Asian, Black Sea, and Balkan countries are club members. The main objective of the Club is to provide the central banks of participating countries the opportunity for regular exchange of opinions on conducting monetary policy, exercising banking supervision and maintaining the stability of the banking systems. During the session, the parties discussed the issues concerning the global and regional economic and financial development, strengthening of banking supervision in the post-crisis period, and also, considered the issues of developing existing relationships and future regional collaboration of central banks.

Cooperation in the framework of the Club of Governors of Central Banks

During 2010, the National Bank carried out the work within the framework of the EurAsEC Integration Committee, CIS Executive Committee, Interstate Bank, Interstate Foreign Exchange Committee and Moscow Interbank Currency Foreign Exchange.

Cooperation with the EurAsEC

For the accounting period the National Bank representatives took part in the meetings of experts of the 22 and 23 sessions of the Council of Heads of Central (National) Banks of the EurAsEC member states.

At the 22nd session the following issues were discussed: the analysis results of movements in the rates of national currencies of the EurAsEC participating states and the reasons for their changes, legal aspects of regulating banking activity in the EurAsEC member states and a number of other pressing issues related to the banking system functioning. The National Bank representatives presented a report on the

issue of “Harmonization of Legislation of the EurAsEC Member States in Banking Regulation and Supervision Area in Accordance with the Basel Core Principles for Effective Banking Supervision and National Strategies and Plans of the Parties”.

To discuss a number of important issues related to the functioning and development of the banking systems in the countries of Eurasian Economic Community, the National Bank management took part in the 23rd session of the Council of Heads of Central (National) Banks of the EurAsEC member states held in Almaty on November 29, 2010. As a whole, the central (national) banks of the EurAsEC member states worked more actively on the integration in the banking and financial areas. In particular, during the session, the decisions were made on the use of national currencies of the CIS member states as the accounting currencies to service turnover among them.

Cooperation with the Interstate Bank

In 2010, the NBKR continued its cooperation with the Interstate Bank. The National Bank management participated in the regular meetings of the Interstate Bank Council. The parties considered the pressing issues of future activity of the Interstate Bank, performance of interstate settlements in national currencies, and also reviewed the new wording of the Formation Agreement and the By-laws of the Interstate Bank at the Council meetings.

The NBKR, being a member of the CIS Interstate Foreign Exchange Committee, regularly provided information on basic indicators describing the condition of the country's banking sector during 2010.

Cooperation within the SCO

On November 25, 2010, the National Bank management as part of the government delegation participated in a meeting of the Council of prime-ministers of the Shanghai Cooperation Organization member states in Dushanbe. The meeting agenda included the issues of future profound cooperation between the SCO member states and strengthening interaction on the issues of overcoming the impact of the global financial and economic crisis, and also considered the role of the Business Council and Interbank SCO union in implementing the Action Plan on executing a multilateral trade and economic cooperation program of the SCO member states.

To familiarize with the world practice of the banking activity, the NBKR representatives took part in a number of international importance conferences, such as the Regional Forum in the Republic of Philippines on “The World Crisis Impact on the Asian Countries, Lessons Learned, Political Views” and the annual round table of Asian/Middle East Government Institutions in Malaysia.

In 2010, within the framework of expanding cooperation with international financial institutions the issue was reviewed about the NBKR accession to the Alliance for Financial Inclusion (AFI) that is an international community of high level officials from developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of best policies of expanding financial services.

In the accounting year, the NBKR maintained relationships in the area of personnel training with such international financial organizations as the Islamic Development Bank, Asian Development Bank and the United Vienna Institute. The NBKR employees were trained on the issues of implementing Islamic principles of financing and banking, effective post crisis management and others in the course of the trainings arranged by these organizations.

5.2. Cooperation with Central (National) Banks

In 2010, the National Bank cooperated with the central banks on a multilateral and bilateral basis, in the framework of existing and newly concluded agreements, and also in the framework of activity of integration agencies. A number of activities

of international importance were conducted, and the projects of technical and advisory assistance were implemented resulting in the exchange of experience between the employees of central (national) banks.

On February 16-19, 2010, the delegation of the Swiss National Bank led by the Head of International Research and Technical Cooperation Department visited the NBKR to discuss the technical assistance projects and the research work plan in the NBKR for 2010.

*Cooperation with
the Swiss National
Bank*

On December 16-18, 2010, an Adviser to the Head of Monetary and Foreign Exchange Markets Department of the Swiss National Bank was on the visit to provide advisory assistance with the evaluation methodology of the bid proposals from the suppliers in the framework of the procurement project of automated trade systems and depository. The NBKR employees received regular consultations on organizing and ensuring safety, information protection and other issues related to the banking activity.

In 2010, the NBKR continued its technical cooperation with the Deutsche Bundesbank and implemented a number of projects that have significant importance for professional development of the NBKR staff involved in the development and conduct of the monetary policy in Kyrgyzstan. In addition, the Deutsche Bundesbank provided recommendations on constructing a new NBKR building.

*Cooperation with
the Deutsche
Bundesbank*

In the course of communication between the NBKR and the National Bank of Poland, there was an exchange of experience on organizing the work with the public in the central bank and projecting economic processes.

*Cooperation with
the National Bank
of Poland*

The issues of combating the financing of terrorism and anti-money laundering (CFT/AML) and supervision of banking and non-bank institutions in the areas of CFT/AML were communicated with the Central Bank of Armenia resulting in the exchange of experience in specified areas. The IMF/SECO project funded the training internship from January 30 through February 6, 2010 for the National Bank staff in the Central Bank of Armenia on regulating the activity of exchange bureaus and combating the financing of terrorism and anti-money laundering. Internship materials were used by the working group on introducing amendments and addenda to the regulatory and legal acts governing the activity of exchange bureaus. There was an exchange of practical experience between the NBKR experts and the Central Bank of the Republic of Armenia in the monetary policy area during the seminar on the “Development and Conduct of Monetary Policy under Inflation Targeting”

*Cooperation with
the Central Bank
of Armenia*

In 2010, an agreement was achieved for the NBKR staff internship in the Bank of Lithuania. During the visit, the NBKR employees exchanged opinions concerning the peculiarities of organizing and conducting internal audit and risk management in the Central Bank. They also considered the implementation of the integrated risk management in central banks and used obtained information as the basis of the Development Strategy and Risk Management Policy in the NBKR. In addition, on December 1-3, 2010, the National Bank held a seminar on “Risk Management in the Bank of Lithuania” conducted by the Head of Risk Management Unit of the Bank of Lithuania, where such issues were discussed as the prerequisites and implementation stages of the integrated risk management system, risk management in the Bank of Lithuania based on the analysis of business processes, self-assessment of risks, and the European Union requirements to the risk management.

*Cooperation with
the Bank
of Lithuania*

In the framework of provided technical assistance the NBKR supervisors were able to review the world practice of organizing the activity of credit bureaus using the practice of the Central Bank of Morocco as an example. The supervisors used acquired information for conducting expert review of the draft law of the Kyrgyz Republic “On Credit History Bureau”.

*Cooperation with
the Central Bank
of Morocco*

*Cooperation with
the Bank of Russia*

The National Bank collaborated with the Bank of Russia on the basis of the Inter-Regional Training Center of the Central Bank of Russian Federation (CBRF), in particular, shared experience on managing the banking system, combating anti-money laundering and the financing of terrorism, preparation and use of the monetary and financial statistics, liquidity management in the banking sector, macroeconomic model building in the central bank and the conduct of the monetary analysis.

*Cooperation with
the Negara Bank
of Malaysia*

In order to improve the regulatory and legal acts governing the activity of Islamic Financial Institutions, the visit of experts from the Negara Bank of Malaysia was organized on November 1-5, 2010 to provide consultations on the basis of their experience of regulating Islamic banking, specific nature of risks in Islamic banking, risk-oriented supervision and philosophy of Islamic financing.

*Cooperation with
the National Bank
of the Republic of
Belarus*

In the accounting year, the National Bank collaborated with the National Bank of the Republic of Belarus in maintaining statistics of the financial account in the balance of payments and organizing the statistical data base of the financial account in the balance of payments.

The NBKR continued its cooperation with the Central (National) Banks of England, Italy, France, Czech Republic and the CIS countries within the framework of the Professional Training Program for Experts of Central (National) Banks of the EurAsEC member states.

GENERAL DATA ON ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC

6.1. Structure of the National Bank of the Kyrgyz Republic

In 2010, the NBKR's organizational structure remained unchanged and comprised 25 central staff departments, five regional departments and the Representative Office in the Batken oblast.

The committees and commissions operate at the National Bank on the ongoing basis. Six committees, eight commissions, seven editorial boards of the National Bank, one scientific and expert council and four supervisory boards operated as of the end of 2010. The order and the procedures of activity of committees, commissions and editorial boards are regulated by the relevant regulations.

As of the end of the reporting year, the authorized staff size of the NBKR totaled 570 people, including 497 people employed as the central staff and 73 people working at the regional departments and at the Batken Representative Office. Of this number, the female staff made 296 people as central staff members and 42 people – the staff of regional departments and Batken Representative Office. The percentage-wise number of women was 59 percent, that of men – 41 percent. The number of specialists totaled 422 people. Of this number of specialists, 96.5 percent or 407 people are those with higher education and four specialists hold the degrees of candidates of sciences.

NBKR staff size

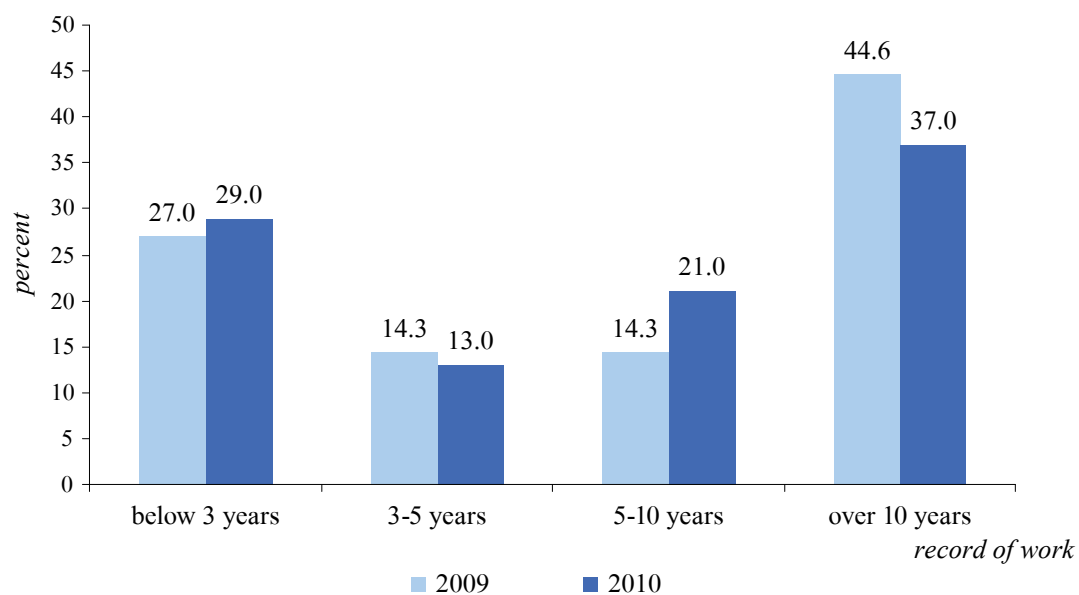
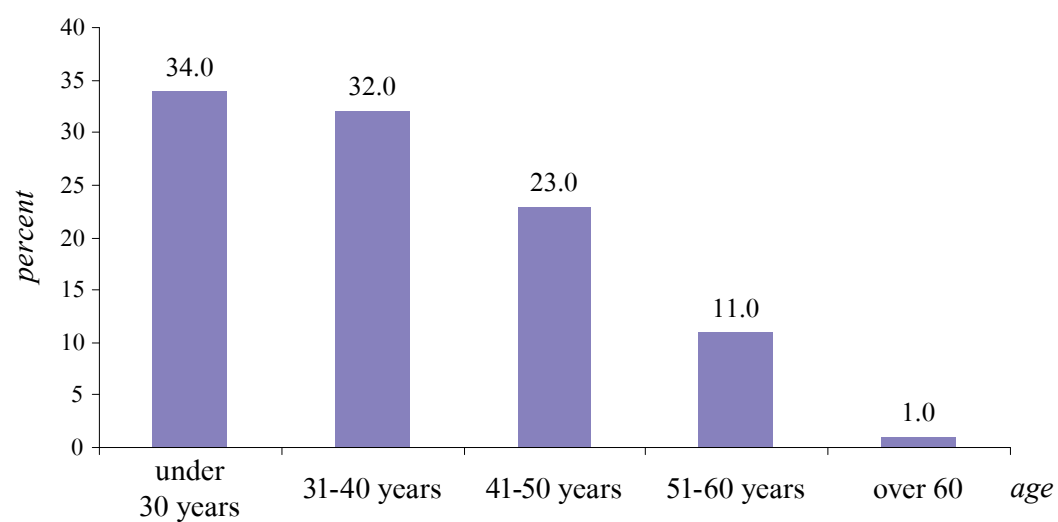
To maintain the transparent, equal and fair approach, the system of a competitive selection of staff is applied when employing the new staff. This allows ensuring the selection of the most qualified specialists in view of their professional training. Announcements of competitions for vacancies are published on a web-site of the NBKR and in the mass media.

Competitive selection

Total of 21 competitions were held in 2010, of which eight competitions were held in the regional departments. Totally, 362 people participated in the competitions. 51 people were recruited to work at the NBKR based on the results of these competitions.

As part of cooperation with high educational institutions of the country aimed at training the contingent staff, 48 students of higher educational institutions of the Republic underwent internships at the NBKR's departments in the year of account.

The turnover of staff decreased by two times and was 11.4 percent in 2010 as compared with 2009. The staffing structure by record of work and age are given in charts 6.1.1, and 6.1.2, correspondingly.

Chart 6.1.1.**Personnel Structure by Record of Work****Chart 6.1.2.****Personnel Structure by Age**

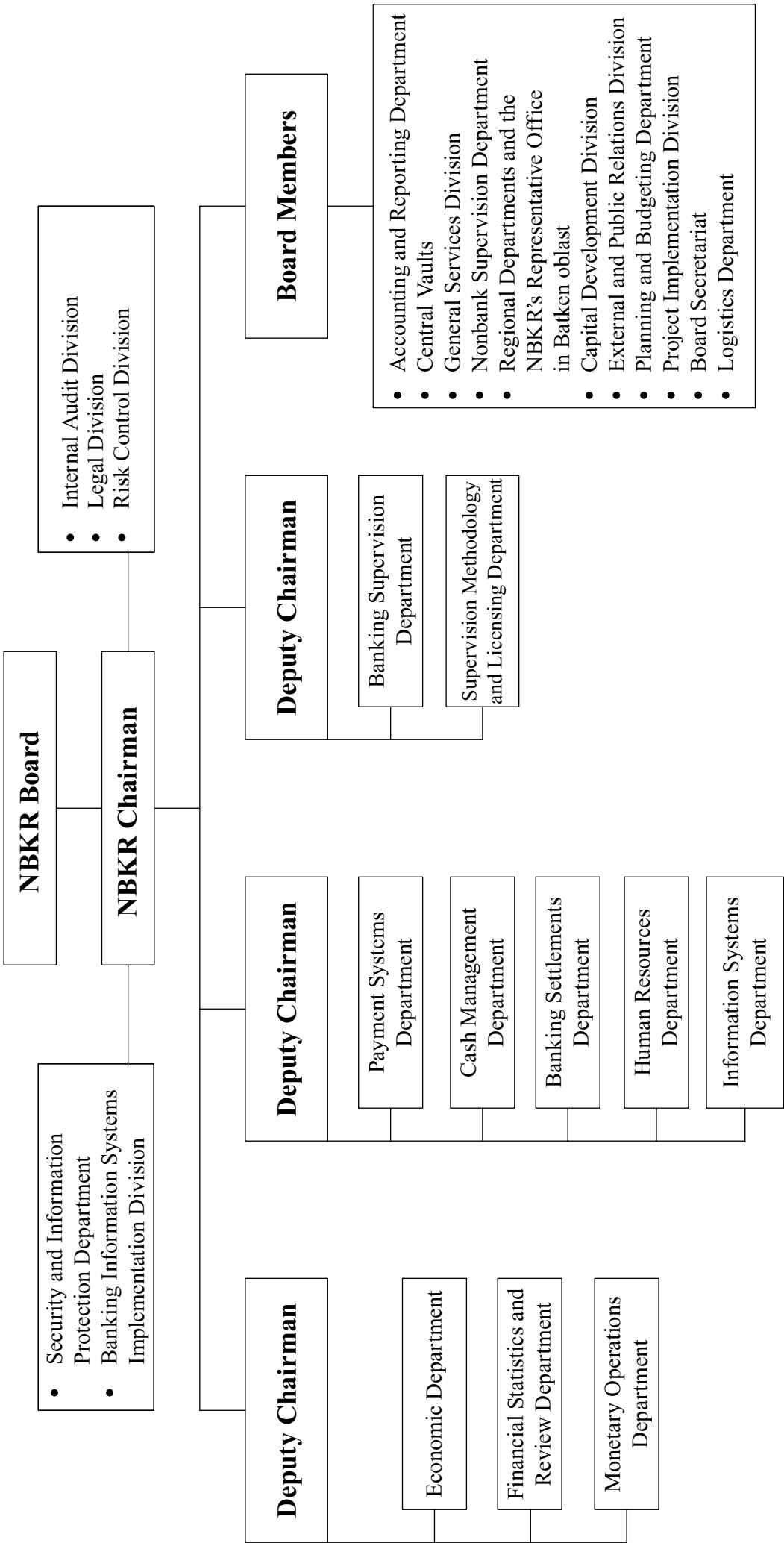
Key Functions of Departments of the National Bank of the Kyrgyz Republic

<i>Board</i>	The highest collegial management body of the National Bank of the Kyrgyz Republic that defines the primary areas of its activity, including the monetary policy, the decision making to ensure the stability of the banking and payment systems and other issues referred to the Board's terms of reference according to the Law "On the National Bank of the Kyrgyz Republic".
<i>Economic Department</i>	develops proposals on monetary policy and on its implementation; analyzes the situation in the real, financial and fiscal sectors of the economy.
<i>Monetary Operations Department</i>	conducts operations in the financial markets, performs their assessment and analysis, identifies the trends and factors of changes in the financial markets in order to effectively coordinate the open market operations.
<i>Financial Statistics and Review Department</i>	collects monetary statistics and financial market performance indicators, processes the statistical data for the real sector and public finance sector; compiles the balance of payments, and provides expert support on the external debt issues.
<i>Banking Supervision Department</i>	organizes supervision of commercial banks licensed and regulated by the NBKR over compliance with the prudential norms, as well as over observance of the banking legislation of the Kyrgyz Republic.
<i>Supervision Methodology and Licensing Department</i>	creates the regulatory and methodological framework for regulation and supervision of banks, finance and credit institutions licensed and regulated by the NBKR, for prospective lines of development of the banking and non-banking sectors and innovative banking products that facilitate effectiveness, safety and reliability of the banking system; licenses banks in accordance with the principles of the Basel Committee for Banking Supervision and other international standards.
<i>Non-Banking Supervision Department</i>	exercises supervision of activity of credit unions and other non-bank institutions licensed and regulated by the NBKR according to the legislation, regulatory and legal acts.
<i>Cash Management Department</i>	satisfies the needs of the Republic's economy for cash, provides for cash circulation, and promotes the implementation of anti-counterfeiting measures.

<i>Central Vaults</i>	provides for safety of banknotes, coins and other values in the vault, transports the values between the National Bank institutions, handles cash and destructs worn currency.
<i>Banking Settlements Department</i>	provides for the functioning of interbank settlement systems, performs settlements on operations and transactions in the financial markets.
<i>Information Systems Department</i>	satisfies the NBKR needs in computerized data processing on the basis of modern information technologies.
<i>Payments System Department</i>	develops and implements measures for maintenance of the effective operation of the payment system, its reliability and safety.
<i>Accounting and Reporting Department</i>	keeps records of operations and prepares the NBKR's financial statements; develops the regulatory acts governing the accounting in the bank, exercises internal control of operational activity.
<i>Human Resources Department</i>	performs the manpower deployment; organizes the staff training and professional development; works out and implements the tools of staff motivation.
<i>Planning and Budgeting Department</i>	organizes the NBKR's planning and budgeting process; ensures control over the effective and target use of the NBKR's financial resources.
<i>General Services Division</i>	provides for the effectiveness of the NBKR's system of the flow of documents and records management, including control over execution, also the archiving and the translation of the legal framework into the state language.
<i>External and Public Relations Division</i>	informs the public of the NBKR goals, objectives, functions and performance; cooperates with the foreign organizations, the mass media and the public. Organizes and conducts protocol, administrative and representative events.
<i>Internal Audit Division</i>	inspects and evaluates the operating internal control system and elaborates recommendations on its improvement; communicates with the external audit and Audit Committee.
<i>Legal Division</i>	provides for comprehensive enforcement of NBKR's activity, the development and promulgation of the banking legislation.

<i>Banking Information Systems Implementation Division</i>	provides for optimization of business processes of the bank with the use of modern information technologies.
<i>Capital Development Division</i>	provides for arrangements for construction and assembly works.
<i>Risk Control Division</i>	manages financial risks in conducting the NBKR transactions at the external markets by introducing quantitative methods of their assessment, develops proposals on the risk management strategy and policy in a bank, and coordinates the work of units on the risk management issues.
<i>Project Implementation Division</i>	develops and carries out projects of international financial organizations and donor countries implemented by the NBKR or with its participation, also organizes a centralized procurement system in accordance with the applicable NBKR regulatory and legal acts.
<i>Board Secretariat</i>	provides for organizational support of the work of the Board of the NBKR and controls execution of the NBKR Board Resolutions and decisions.
<i>Security and Information Protection Department</i>	provides for safe functioning of the National Bank of the Kyrgyz Republic.
<i>Logistics Department</i>	provides for proper functioning of all types of power supply systems, engineering networks and equipment of the NBKR, the logistics, transportation services and the servicing of buildings and structures.
<i>Regional Departments and the NBKR's Representative Office</i>	provide the commercial banks and their branches with cash; perform supervisory activities for compliance with the banking legislation by banks and nonbank finance and credit institutions in the framework of specified authorities.

Organization chart of the National Bank of the Kyrgyz Republic as at 31 Decamber 2010



6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2010

According to the Law “On the National Bank of the Kyrgyz Republic”, the Board is the supreme management body of the National Bank and approves the basic lines of its activity. The Board is a collegial body. The members of the Board are appointed by the President of the Kyrgyz Republic as advised by the NBKR Chairman. The Chairman of the National Bank, who is elected by the Jogorku Kenesh of the Kyrgyz Republic, as advised by the President of the Kyrgyz Republic, supervises the work of the Board.

General information

The Board considers and determines the monetary policy, resolves the issues of banking supervision and payment system development, approves the regulatory acts, the annual report, establishes the procedure for issue of new samples and nominal values of banknotes, as well as the procedure for the withdrawal from the circulation of banknotes and coins. According to the rules, the Board of the National Bank also considers other issues referred to its terms of reference, including: granting of credits of last resort, issue, suspension of the bank license, implementation of measures and sanctions vis-a-vis the banks and other finance and credit institutions.

During the accounting period, the Board of the NBKR operated according to the approved annual and quarterly activity plans. Due to the current situation in the country the Board of the NBKR also conducted unplanned meetings. Total of 96 meetings were held, 646 issues were considered with 368 adopted resolutions.

In 2010, the Board of the NBKR considered on a quarterly basis the monetary policy report and the monetary program for the forthcoming period. The report contains the monetary policy outcome, the analysis of economic development, and the recommendations on the monetary policy implementation, and serves as the benchmark for the Monetary Regulation Committee in the decision-making on the open market operations.

Consideration of monetary policy issues

In the framework of improving the regulatory base for the monetary policy tools, the Board approved the new edition of the Regulation “On Required Reserves”. Also, the decision was made to reduce the required reserves of commercial banks to 8.0 percent with a view of stimulating economic growth and increasing the credit capacity in commercial banks. The addenda were introduced to the List of liabilities for calculating required reserves of commercial banks in order to synchronize it with the periodic regulatory bank reporting.

At the end of 2010, the Board approved the Basic Monetary Policy Guidelines for 2011-2013 that defined the monetary policy objectives for the medium-term. The trends in the world financial and commodity markets, external and internal factors, possible risks, medium-term forecasts of the Ministry of Economic Regulation and Ministry of Finance for the real sector and public finance sector were taken into account when developing this document.

To prepare a Joint Statement of the Government of the Kyrgyz Republic and National Bank, the Board approved the Statement of the National Bank of the Kyrgyz Republic on the Monetary Policy for 2011 that addressed the basic activities in 2011 with a view of solving the main task of the National Bank set forth in the legislation. The NBKR statement was developed on the basis of analysis of the status in the monetary sphere, preliminary forecast of development of real, fiscal and external economic sectors.

To implement the activities related to preventing the impact of negative shocks on the republic's economy, at the information meetings, the Board considered, on a monthly basis, analytical reviews of the situation in the world and domestic financial and commodity markets.

With a view of expanding the volume of government securities pledged as collateral for intraday and overnight credits, the Board of the National Bank by its resolution introduced a change to the collateral requirements. Thus, the government securities of the Kyrgyz Republic placed through the NBKR (GT-Bills, GT-Bonds and the NBKR Notes) of all maturities without limitation are accepted as collateral. Earlier, the government securities with the maturity up to twelve months from the date of the loan issue were pledged as collateral.

In May 2010, with a view of supporting the financial sector on stimulating economic growth, the Board permitted to temporarily conduct foreign currency SWAP operations on providing cash in national currency in exchange of funds in the US dollars with the commercial banks for the microfinance organizations.

In the context of improvement of the regulatory framework in the area of regulating mandatory reserve requirements, at the end of 2010, the Board approved the Regulation on the procedure of conducting deposit operations in foreign currency by the National Bank. Also, with a view of further development of the government and municipal securities market, the NBKR continued the work on unification of titles of Government securities. Thus, in the third quarter of 2010, a joint resolution of the Government of the Kyrgyz Republic and National Bank was adopted “On Approval of the Regulation “On the Procedure for Assignment of the Registration Number to the Government and Municipal Securities and Keeping the Register of Government and Municipal Securities in the Kyrgyz Republic”.

According to the Law “On the National Bank of the Kyrgyz Republic”, the NBKR manages international reserves guided by the principles of liquidity and safety of reserve assets. With a view of implementing prescribed principles, the Board of the National Bank defines the investment strategy, the investment portfolio structure, the ratio of risk/yield indicators and also approves the relevant regulations.

In the context of developing quantitative evaluation techniques of financial risks and minimizing them, the Board of the NBKR annually considers and approves the benchmark portfolio of investment assets that defines the set of tools, their maximum term and the share of investments.

To evaluate international reserves management efficiency, the Board of the NBKR considers and approves the report on management of international reserves on an annual basis. In the first quarter of 2010, the Board considered the report on management of international reserves for 2009.

Altogether, 23 resolutions were adopted on the monetary policy issues in 2010.

*Consideration of
issues of supervision
over banks and
nonbank institutions*

The Board paid great attention to the issues of maintaining efficiency, safety and reliability of the banking system of the republic, considered the issues of supervision and regulation of commercial banks. After political events in April 2010, a special attention was paid to ensuring a stable functioning of the banking system, safety of assets in the interests of depositors and other creditors of banks and measures were undertaken to improve confidence in banks. In addition, during 2010, the Board of the NBKR considered information on the commercial banking system development trends on a quarterly basis.

During 2010, in order to protect the interests of depositors and creditors of banks and to prevent destabilization of the situation, the NBKR applied enforcement measures towards some commercial banks. In particular, the decision was made to introduce temporary management in a number of commercial banks: OJSC “AsiaUniversalBank”, OJSC Investment Bank “Issyk-Kul”, OJSC “KyrgyzCreditBank”, CJSC “Manas Bank” and OJSC “Akylinvestbank”. Subsequently, the conservation regime was introduced in OJSC “AsiaUniversalBank” and after declaring the bankruptcy of the bank, the special administration procedure of restructuring by way of creat-

ing a new bank was applied. OJSC “Zalkar Bank” was created as a result of OJSC “AsiaUniversalBank” restructuring. Also, the conservation regime was introduced in OJSC Investment Bank “Issyk-Kul”.

In addition, a number of limitations were removed in the activity of OJSC “Ayil Bank” during the year.

With a view of establishing provisions aimed at expanding the range of services provided by commercial banks and exercising effective supervision, the Board approved amendments and addenda to the Regulation “On Licensing of Banks”.

In the framework of the Concept on promoting the capital market in the Kyrgyz Republic and also to soften the requirements for creating loan loss reserves on restructured loans, the Board approved amendments and addenda to the Regulation “On Classified Assets and Corresponding Deductions to the Loan Loss Reserve”.

As part of the work on improvement of consolidated supervision system, the Board approved the new edition of the Regulation “On Consolidated Supervision” and also the amendments to the rules on start-up and/or purchase of subsidiary or dependent companies by commercial banks of the Kyrgyz Republic and to the regulation “On Periodic Regulatory Consolidated Reporting”.

With a view of implementing legislation of the Kyrgyz Republic that provides for creation of conditions to promote Islamic banking in the republic, the Board approved amendments and addenda to the regulation “On Minimal Requirements for External Audit of Banks, Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” and to the regulation “On Enforcement Measures Applied to Banks and Some Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.

In the context of bringing the NBKR regulatory and legal acts in line with the International Financial Reporting Standards (IFRS) in the edition of 2009, the Board adopted the new edition of the regulation “On Requirements to the Preparation of Financial Statements of Commercial Banks of the Kyrgyz Republic”.

According to the amendments made to the Land Code and Laws “On Management of Agricultural Land” and “On Pledge”, the Board approved the draft resolution of the Interim Government and National Bank “On the Amendments to the Resolution of the Government of the Kyrgyz Republic and National Bank of the Kyrgyz Republic of September 4, 2002, No 605 “On Approval of Interim Requirements to Mortgage Lending for Agricultural Land Plots”.

With a view of protecting rights of clients of banks, ensuring banks compliance with these rights and preventing misuse on the part of employees of commercial banks, the Board adopted the new edition of the Regulation “On Minimal Requirements to Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.

The Board of the NBKR approved the regulation “On Minimal Requirements to Internal Control in Exchange Bureaus in the Kyrgyz Republic to Combat the Financing of Terrorism (Extremism) and Anti-Money Laundering” in the context of bringing it in line with the Law “On Combating the Financing of Terrorism and Anti-Money Laundering”. Also, the Board approved the new edition of the regulation “On Minimal Requirements to Internal Controls in Commercial Banks to Combat the Financing of Terrorism (Extremism) and Anti-Money Laundering” in order to raise responsibility of the official in charge of CFT/AML, Board of Directors and Management Board for effective organization of the bank’s activity in the field of CFT/AML and strengthen internal controls for the purposes of CFT/AML.

In addition, the Board approved amendments and addenda to the Interim Instruction on the Work with Deposits due to the need to bring it in line with the Civil Code

and amendments and addenda to the Laws “On State Registration of Legal Entities, Branches (Representative Offices) and “On Combating the Financing of Terrorism and Anti-Money Laundering”.

The Board of the NBKR adopted the resolution “On the Use of an Identification Card of the Citizen of the Kyrgyz Republic” to speed up the process of rendering targeted state financial assistance to the aggrieved citizens of the Kyrgyz Republic as a result of mass riots in Osh, Jalal-Abad oblasts and Osh City in June 2010.

With the objective to comply with the provisions of the Law “On Protection of Bank Deposits” and to ensure the functioning of the Deposit Protection Agency under the Ministry of Finance of the Kyrgyz Republic, the Board appointed the Board of Directors members for the Deposit Protection Agency. In addition, the Board approved the requirements to the agent bank for making compensatory payments to the depositors. The document sets forth additional criteria for selecting an agent bank for making compensatory payments to the depositors in case of a guarantee event and is applicable to all participating banks.

Within the framework of improvement of banking supervision tools, the Board approved the addenda to the regulation “On Periodic Regulatory Bank Report”, in particular, on furnishing of information about the broker, dealer, depositary and the servicing bank.

The Board of the NBKR approved the addenda to some regulatory and legal acts of the National Bank concerning compliance with the open foreign currency position limitations by commercial banks and application of enforcement measures towards banks and some other finance and credit institutions licensed by the National Bank. The approved addenda were aimed at protecting banks under the special regimes and the NBKR employees performing temporary management and conservation in banks.

In accordance with the Decree of the Interim Government of the Kyrgyz Republic “On Liquidation of CJSC “Development Fund of the Kyrgyz Republic”, the Board of the NBKR in its decision on CJSC “Development Fund of the Kyrgyz Republic” revoked the license to perform certain banking operations.

In the context of heightening the interest of finance and credit institutions, the Board made a number of decisions to introduce amendments to the Rules of regulating the activity of LLC “Special Banks Refinancing Fund” aimed at increasing the maximum aggregate bank debt threshold on credit funds of LLC “Special Banks Refinancing Fund”, calculated to the net total capital of the fund from 10 to 20 percent, and excluding credits extended to the banks and secured by government securities issued by the Government and National Bank and/or cash of a commercial bank in a separate deposit account with the NBKR, and also the REPO operations concluded between the SBRF and a commercial bank from the maximum risk exposure per borrower.

For purposes of creating a required reserve for a certain part of liabilities of a microfinance company to maintain its initial liquidity, the Board approved the regulation “On Mandatory Reserve Requirements of Deposit Taking Microfinance Companies”.

In the framework of activities aimed at further development of credit unions, the amendments were approved to the “Rules of Regulating Credit Unions in the Kyrgyz Republic” that annul the external borrowings ratio for credit unions operational for eight years and over this period, and/or that have a license to mobilize deposits from participants. At the same time, the Credit Union (CU) shall meet the requirements to the adequate institutional capital at 12 percent and to the total capital at 18 percent. Moreover, in order to increase the volume of issued loans and satisfy the growing

demand, the maximum risk exposure per borrower of LLC “Financial Company for Support and Development of Credit Unions” was increased from 20 to 25 percent.

In order to liberalize the activity of microfinance companies, the Board of the NBKR by its resolution approved the amendments to the Interim Rules of Regulating Microfinance Companies in the Country and to the Regulation “On Minimal Requirements to Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.

In order to minimize risks in selecting, analyzing and verifying reliability of information concerning the founders (shareholders) and officials, and to verify the legitimacy of the funds source in the authorized capital of microfinance companies, the Board introduced amendments and addenda to the existing Regulation “On Licensing, Reorganization and Liquidation of Microfinance Companies in the Kyrgyz Republic”.

In the framework of activities on the development of LLC “Financial Company for Support and Development of Credit Unions”, the Board approved the implementation of a round table to discuss the Action Plan on the company transfer to the credit unions.

As a whole, for the reporting year, 112 Resolutions were adopted with regard to the activity of some commercial banks and other FCIs licensed by the NBKR, as well as 27 Resolutions on the regulatory framework regulating their activity. These were both the new statutory acts, and the amendments introduced to the earlier adopted statutory acts.

According to Article 3 of the Law “On the National Bank of the Kyrgyz Republic”, the fulfillment of functions in the payment system is directed to maintain the effective and uninterrupted functioning of the payment system. Assuming the supervisory role in the policy-making concerning the general structure and practical activities of the payment system of the Kyrgyz Republic, the Board of the National Bank performed the work on regulation of activity of the payment system of the country. During 2010, total of 12 Resolutions were adopted to further develop the payment system, reduce the risks, and expand the spectrum of payment tools.

Consideration of the payment system issues

In 2010, the Board approved the Regulation “On Basic Requirements to the Activity of Commercial Banks in Concluding an Agent Agreement on Provision of Bank Retail Services” and “Amendments to the Methodological Guidelines on Completing a Periodic Regulatory Bank Report”.

In addition, the Board of the National Bank considered the reports on the current status of the payment system on a quarterly basis.

The Board considered the general issues and the issues of organizing activity of the NBKR. The NBKR adopted 43 Resolutions on the regulatory framework issues and 130 Resolutions on other issues. 278 issues were considered at the Board meetings as information messages.

Other issues

6.3. Improvement of Banking Legislation

In 2010, the National Bank carried out the work on improvement and development of the legal framework governing the banking activity in the Kyrgyz Republic.

Adopted amendments

In the accounting period the following amendments and addenda were introduced in the banking legislation:

- The amendments were introduced to the Law “On the National Bank of the Kyrgyz Republic” related to reducing the number of the National Bank Board from nine to seven members, and the amendments related to the capital formation of the National Bank;

- The amendments were introduced to the Law “On Protection of Bank Deposits” concerning the definition of investees for the Deposit Protection Agency funds and the procedure for covering operating costs and other Agency expenses for each financial year.

With the objective to further improve banking legislation in the Kyrgyz Republic, in 2010, the National Bank developed five draft laws, namely:

Proposed amendments

- On amendments and addenda to the Law “On Conservation, Liquidation and Bankruptcy of Banks”. This draft law was developed to bring into compliance with the adopted Law “On Amendments and Addenda to the Laws of the Kyrgyz Republic “On Bankruptcy (Insolvency)” and “On Conservation, Liquidation and Bankruptcy of Banks” of July 24, 2009.

- On amendments and addenda to some legislative acts of the Kyrgyz Republic (Laws “On the National Bank of the Kyrgyz Republic”, “On Central Commission on Elections and Referendums of the Kyrgyz Republic” and “On the Accounts Chamber of the Kyrgyz Republic”). This draft law was developed to bring the specified laws to conformity with the Constitution of the Kyrgyz Republic adopted on June 27, 2010 at the referendum;

- On ratification of the Agreement on core principles of the foreign exchange policy of the Eurasian economic community member states, signed on December 11, 2009 in Saint Petersburg. This agreement defines the principles of the foreign exchange policy conducted by the EurAsEC member states and provides for gradual removal of foreign currency limitations on the capital flow;

- On the Development Bank of the Kyrgyz Republic. This draft law defines the legal and organizational bases for the activity of the Development Bank of the Kyrgyz Republic intended to implement national, state and large private projects aimed at developing and encouraging priority and strategic sectors of economy of the Kyrgyz Republic;

- On ratification of amendments to the Articles of Agreement of the International Monetary Fund due to the adoption of Resolutions “Amendments on strengthening the vote and participation in the International Monetary Fund” of April 28, 2008, No 63-2 by the Board of Governors, and adoption of the Resolutions “Amendments on Expanding Investment Authorities of the International Monetary Fund” of May 5, 2008, No 63-3 by the Board of Governors;

The National Bank representatives were involved in the work of 10 intergovernmental working groups, in particular, on the following issues:

- Introduction of a simplified collateral foreclosure procedure;
- Investment legislation of the Kyrgyz Republic;
- Development of the system of indicators to measure achievements, record changes related to the implementation of the concept on introduction of a simplified collateral foreclosure procedure for finance and credit organizations;

- A fund for refinancing problem loans;
- Considering issues related to the ratios for CUs and FCSDCU;
- Development of the new Social and Economic Development Concept of the Kyrgyz Republic;

- Introducing amendments to the Tax Code of the Kyrgyz Republic;
- Reviewing the issue of possible participation of the Kyrgyz Republic in the Customs Union and other issues.

RLA improvement

In 2010, the work was ongoing to improve the regulatory framework governing activity of banks and other finance and credit institutions licensed and supervised by the National Bank. For the past year, the Board of the National Bank adopted over 360 resolutions, including the following RLA regulating the banking activity:

- “On Approval of the Regulation “On Mandatory Reserve Requirements to Deposit Taking Microfinance Organizations” of January 30, 2010, No 1/1;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of March 2, 2006, No 5/7 “On Approval of the Regulation “On Licensing of Banks” of February 24, 2010, No 3/6”;
- “On Amendments and Addenda to the Resolution of the NBKR Board of January 19, 2003, No 4/4 “On the Interim Instruction on the Work with Deposits” of February 24, 2010, No 3/9;
- “On Approval of the Regulation “On Requirements to the Preparation of Financial Statements of Commercial Banks of the Kyrgyz Republic” of March 12, 2010, No 6/2;
- “On the Size of Required Reserves” of May 19, 2010, No 34/2;
- Regulation “On the Basic Requirements to the Commercial Banks in Concluding the Agent Agreement on Provision of Bank Retail Services” of May 26, 2010, No 36/7;
- “On Amendments and Addenda to the Regulation “On Licensing, Reorganization and Liquidation of Microcredit Companies in the Kyrgyz Republic” of June 16, 2010, No 49/4;
- “On Registration Rules of Collateral in the Form of Government Securities Placed through the National Bank of the Kyrgyz Republic” of June 30, 2010, No 52/1;
- “On Approval of the Regulation “On Periodic Regulatory Consolidated Reporting” and others of June 30, 2010, No 52/3;

The National Bank took preventive measures and adopted a number of regulatory and legal acts due to the events in April 2010 in the Kyrgyz Republic with the objective to ensure stability of the country’s banking system, safety of assets in the interests of depositors and other creditors of banks, and to prevent unsafe or unsound activity of banks. According to the banking legislation, the Board of the National Bank introduced by its resolutions the temporary bank management in OJSC “AsiaUniversalBank”, OJSC Investment bank “Issyk-Kul”, OJSC “KyrgyzCreditBank”, CJSC “Manas Bank”, OJSC “Akylinvestbank”, OJSC “Dos-Credobank” and OJSC “Bank Bakai”. Also, the National Bank adopted the following:

- The Regulation “On Minimal Requirements to Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” of June 30, 2010, No 52/4;
- The “Requirements to the Agent Bank for Making Compensatory Payments to the Depositors” of October 13, 2010, No 79/4;
- The Amendments and Addenda to the Resolution of the Board of the National Bank of March 2, 2006, No 5/7 “On Approval of the Regulation “On Licensing of Banks”;
- The Amendments and Addenda to the Resolution of the Board of the National Bank of December 29, 2004 “On Approval of the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Banks in the Kyrgyz Republic”;
- The new edition of the Regulation “On Minimal Requirements to Internal Controls in Commercial Banks to Combat the Financing of Terrorism and Anti Money Laundering” and others.

The National Bank was involved in the implementation of specific items under the lawmaking work plan conducted by the public management bodies and affecting the banking and financial system of the republic.

*Examination of
draft laws*

Over 30 draft laws were reviewed, namely:

- The Draft Law “On Addenda to Some Legislative Acts of the Kyrgyz Republic”;
- The Law “on Amendments and Addenda to the Law of the Kyrgyz Republic “On Restructuring of Debt of the Government of the Kyrgyz Republic to the National Bank of the Kyrgyz Republic” that envisages re-registration of debt of the Government of the Kyrgyz Republic on the government restructured loan into other government securities of the Government of the Kyrgyz Republic;
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Audit Activity in the Kyrgyz Republic”;
- The Draft Law “On Interpretation of Article 32 of the Law of the Kyrgyz Republic of December 17, 1991, No 660-XII”;
- The Draft Law “On Amendments to the Rules of Jogorku Kenesh of the Kyrgyz Republic of January 3, 2005, No 3”;
- The Draft Law “On Amendments to Some Laws of the Kyrgyz Republic”;
- The New edition of the draft Constitutional Law of the Kyrgyz Republic “On the Government of the Kyrgyz Republic”;
- The Draft Law “On Introducing Amendments and Repealing Some Laws of the Kyrgyz Republic”;
- The Draft Housing Code of the Kyrgyz Republic and Law of the Kyrgyz Republic “On Enactment of the Housing Code of the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Law “On Protection of Bank Deposits”;
- The Draft Law “On Partnerships of Owners of Residential and Non-Residential Premises in the Apartment Buildings”, “On Amendments and Addenda to the Civil Code of the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Land Code of the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Civil Code of the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Tax Code of the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On State Registration of Legal Entities and Branches (of Representative Offices);
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Free Economic Zones in the Kyrgyz Republic”;
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Communities and Their Unions”
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Bankruptcy “Insolvency”;
- The Draft Law “On Conservation, Liquidation and Bankruptcy of Banks”;
- The Draft Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Cooperatives”;
- The Draft Law “On Licenses and Permits”;
- The Draft Law “On Ratification of the Financing Agreement with the Asian Development Bank” and others.

In 2010, the National Bank also reviewed and prepared suggestions to over 60 resolutions of the Government of the Kyrgyz Republic.

6.4. Fulfillment of Financial Adviser Functions

In the context of fulfillment of financial adviser functions to the President of the Kyrgyz Republic, the Jogorku Kenesh the Kyrgyz Republic, and the Government of the Kyrgyz Republic, the National Bank performed the following in 2010:

- Regularly informed the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic, and the Government of the Kyrgyz Republic on progress in implementation of the monetary policy, on the status of the banking and payment system;

- Provided analytical information on the situation in the financial market;
- Examined the draft laws and other regulatory and legal acts and decisions covering the financial and banking issues or the sphere of authority of the National Bank;

During 2010, the National Bank took part in the development and implementation of the following state programs and plans:

- The Program on Investment Climate Improvement in the Kyrgyz Republic;
- The Interim Government Program on Recovery of Business Activity and Further Business Environment Improvement;
- The Action Plan of the Government of the Kyrgyz Republic on Minimizing the Impact of the Global Financial Crisis on the Economy of the Kyrgyz Republic and Retaining Economic Growth Rates;
- The High Priority Measures Plan to Stabilize the Social and Economic Situation in the Country until 2011;
- The Draft Program on Control of Inflation in 2011;
- The Country Development Strategy for 2011-2013;
- The Interim Government Program on Recovery of Business Activity and Further Business Environment Improvement and others.

In the context of participation of the Kyrgyz Republic in the international and interstate organizations, during 2010, the National Bank examined the following international contracts and agreements relating to the financial or banking system of the Kyrgyz Republic:

- The draft Bilateral Agreement Concerning the Status of the Resident Representative Office of the International Monetary Fund in the Kyrgyz Republic;
- The draft on Opening a Regional Technical Assistance Center of the International Monetary Fund;
- The draft Agreement on Cooperation between the Eurasian Economic Community Member States on Sharing Information that is Part of the Credit History;
- The draft Memorandum on Economic and Financial Policy for 2010 within the framework of the joint ESF program with the International Monetary Fund;
- The draft Agreement on Cooperation between the Eurasian Economic Community Member States on Sharing Information that is Part of the Credit History;
- The Protocol “On Amendments to the Agreement on the Sizes of a State Duty and the Procedure for Its Payment While Considering Business Disputes Between Business Entities of Different States of December 24, 1993”;
- The draft Protocol on amendments and addenda to the Agreement between the Kyrgyz Republic and the Republic of Belarus “On the Size of a State Duty and the Procedure for Its Collection While Considering Business Disputes Between Business Entities of Different States”;
- The draft Protocol on amendments to the Agreement on the sizes of a state duty and the procedure for its payment while considering business disputes between business entities of different states;

Development and implementation of state programs

Examination of international

- The draft agreement between the National Bank of the Kyrgyz Republic and the Central Bank of the Islamic Republic of Iran;
- The Agreement between the National Bank of the Kyrgyz Republic and the Central Bank of the Russian Federation “On Information Support to the Participants of the Integration Foreign Exchange Market of the Eurasian Economic Community Member States”;
- The Framework agreement between the National Bank of the Kyrgyz Republic and the European Investment Bank “On the Activity of the European Investment Bank in the Kyrgyz Republic”;
- The Agreement “On Harmonization of Principles and Mechanisms of Conducting the Monetary and Foreign Exchange Policies by the Parties”;
- The draft Agreement on cooperation of the members states of the Commonwealth of Independent States in combating corruption;
- The draft Agreement on harmonization of insurance legislation of the Eurasian Economic Community member states in accordance with the core insurance principles adopted by the International Association of Insurance Supervisors;
- The draft Agreement on development in the Eurasian Economic Community of international leasing of agricultural equipment, machinery, facilities, equipment and transport vehicles used in agro-industrial complexes;
- The draft Agreements and the Protocol of Customs Services of the Eurasian Economic Community member states;
- The draft Framework Agreement between the Government of the Kyrgyz Republic and the UN World Food Program;
- The draft Agreement between the Kyrgyz Republic and the Hellenic Republic on Economic Cooperation.

As the financial agent of the Government of the Kyrgyz Republic, the National Bank continued servicing the accounts of the Government of the Kyrgyz Republic. As of December 31, 2010, total of 51 accounts of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic were serviced in the National Bank, of which: 31 accounts in national currency and 20 accounts in foreign currency (15 – USD; 2 – EUR; 1 – CAD; 1 – GBP; 1 – RUB). In 2010, the Government of the Kyrgyz Republic opened five accounts in foreign currency and four accounts in national currency. At the same time, three accounts in US dollars and one account in national currency were closed.

6.5. Internal Audit and Internal Control System

Legal framework

According to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”, an internal audit division performs internal audit of the National Bank. The International Standards on Internal Audit and the Standards of the Professional Practice of Internal Auditing serve as the methodological framework for the internal audit activity of the National Bank.

Consolidation of activities

In 2010, the audit and review inspections were conducted according to the long-term work plan for the period of 2009-2011 prepared on the basis of a map of operational risks inherent in activity of any central bank. Proceeding from the results of audits, the internal auditors and inspectors gave their recommendations aimed at optimization of activities of departments and branches, minimization of their risks and improvement of the internal control system. The results of audit and review inspections served as the basis to provide the management of the NBKR with independent information as to conformity of activities of departments to their assigned tasks and functions, and on the detected violations and problems. In 2010, the Internal Audit

Division participated as a pilot unit in the operational analysis of activities of some departments of the National Bank.

The Internal Audit Division coordinated interaction with the external auditors of the NBKR. In 2010, the independent audit of the National Bank was conducted by the Grant Thornton auditor. According to the external audit results, an action plan was prepared to perform recommendations as approved by the Board of the National Bank with a view to follow-up its execution by the departments.

The arrangements for the internal control system of the NBKR correspond to the principles of performance evaluation of Internal Control Systems recommended by the Basel Committee on Banking Supervision and represent the continuous process directed to achievement of the goal and to observance of established rules. According to the internal control policy requirements, the holistic performance evaluation of the NBKR's system of internal control is made by its Internal Audit Division, which is the integral part of the internal control system.

The yearly internal audit findings allow drawing a conclusion that activity of the National Bank in all essential aspects conforms to the regulatory and legal acts of the Kyrgyz Republic. The internal control system is continuously improved to ensure its adequacy to the assumed risks.

In the framework of interaction with the Audit Committee of the National Bank, whose members are two independent experts, whose activity is not connected with that of the National Bank, and one Board Member of the National Bank, had four meetings to consider the issues and take the decisions on its terms of reference according to the assigned tasks and functions. The Audit Committee reviewed performance of the external and internal audit and the system of internal control of the National Bank and gave the relevant recommendations reflected later in the action plan on their execution by the departments.

*Communication
with the Audit
Committee*

Internal audit services of central banks continue their cooperation in order to apply the best internal audit practice under the training seminars held in the training centers of central banks of EurAsEC member countries.

*Cooperation with
the objective to gain
experience*

6.6. Public Information

In 2010, the National Bank informed the general public by releasing official publications, placing information on the web-site of the NBKR, which is an important source of information about the bank's activity, placing publications in the mass media and by organizing TV and radio broadcasts, briefings, press conferences, information and training programs. The interviews of the NBKR management, special information messages on the monetary policy issues, the situation in the foreign exchange and financial markets, about the status of the banking system and some commercial banks, as well as explanations about the exchange rate were covered and placed in the newspapers, on the web-site of the NBKR and information agencies.

*Public information
tools*

During the year the National Bank received numerous inquiries from the mass media representatives. The NBKR received total of 70 inquiries for the year. The journalists showed a great interest in the NBKR activity in the third and fourth quarters. This was due to their interest in the situation in the banking sector because of introduction of special regimes in a number of commercial banks and issue of new banknotes of 200, 500 and 1,000 som of the fourth series into circulation. In the second half of the year, the NBKR started receiving requests from foreign mass media representatives, such as The Washington Post, Business New Europe and The Banker. Their requests, mainly, related to the macroeconomic situation, status of the banking

*Work with the mass
media inquiries*

sector and of OJSC “AsiaUniversalBank”.

Monetary policy

The monetary policy issues were covered at the quarterly press conferences, in the analytical reviews and commentaries placed on the web-site, in the Press Release and periodic publications. The key issues raised by the journalists during the press conferences related to the inflation growth, measures taken by the NBKR to control the price increase and the foreign currency fluctuations.

Banking system

Total of eight press conferences were organized due to introduction of the temporary management in OJSC “AsiaUniversalBank”, OJSC Investment Bank “Issyk-Kul”, CJSC “Manas Bank”, OJSC “KyrgyzCreditBank” and OJSC “Akylinvestbank” and to inform the general public. Also, in September 2010, the interviews were organized on the NTRK in a TV broadcast “Naroz hochet znat (People want to know)” in Russian and Kyrgyz languages. The National Bank prepared a separate TV broadcast “Natsbank Soobschayet” (The National Bank Informs) and devoted to this subject, organized numerous interviews with participation of the NBKR management, prepared information messages, which were published in the Press Release and on the NBKR web-site.

Activities to expand noncash payments

The NBKR continued to inform the public of the progress in implementation of the State Program on Introduction of Non-Cash Payment System in 2010. An article titled “Development of the Bulk Clearing System Tools” was published in the newspaper “Slovo Kyrgyzstana” to explain the implementation of the State Program on Introduction of Non-Cash Payments. Another article was published in the newspaper “Vecherniy Bishkek” about the implementation of the Concept of increasing non-cash payments in the Kyrgyz Republic that was elaborated to ensure transparency of currency circulation in Kyrgyzstan and to reduce the level of shadow economy.

Activity of non-bank finance institutions

The articles in Kyrgyz and Russian languages were published in the newspapers at the republic level and local regional newspapers to inform the public about the need to obtain licenses for conducting exchange operations with cash foreign currency and reducing the facts of unlicensed activity. In addition, these issues were covered in the broadcast “Protokol” NTRK and in a TV broadcast “Natsbank Soobschayet”. Information about the registration, revocation and suspension of licenses, and also other news of nonbank finance and credit institutions were continuously published in the Press releases and placed on the web-site of the National Bank.

The round table on “Key Microfinance Problems/Issues” was held in December 2010 and was covered by all mass media. The representatives of the National Bank and microfinance sector, the Association of Microfinance Organizations and Credit Unions, the representatives of such business associations as the Union of Banks, the Credit Information Bureau, and also, the representatives of the Ministry of Economic Regulation, Ministry of Finance and State Service on the Securities Market Regulation and Supervision took part in the round table. The goal of the round table was to share information, discuss problems of the microfinance sector involving interested parties to identify issues for further elaboration of the microfinance development strategy in Kyrgyzstan. Such problems as the financial literacy of the population, transparency of microfinance organizations related to the provision of services to the clients about the pricing, the need for developing other financial services, including the Islamic principles of financing were identified as the key problems in microfinance.

Activity of the Public Chamber

In 2010, the National Bank continued its interaction with the public in the framework of the Public Chamber operational in Bishkek and all regional centers. The Public Chamber activity was focused on providing consultations and information to the public on all issues within the NBKR’s terms of reference; arrangement of meetings with the management and experts of the National Bank on issues related to the banking sphere; on working with written requests and inquiries. In 2010, over 7 thousand inquiries were addressed to the NBKR, including 958 written inquiries (for compari-

son, in 2009, total of 3 thousand inquiries were received, of which 387 were in writing). The increase in the number of inquiries was connected, in the first place, with the situation in the banking system.

Due to numerous inquiries of the citizens related to the receipt of certificates confirming the absence of debts on bank loans and information about availability or absence of cash on the bank account, the National Bank worked with and obtained responses from the State Customs Service under the Government of the Kyrgyz Republic, the Ministry of Foreign Affairs of the Kyrgyz Republic, the State Registration Service under the Government of the Kyrgyz Republic, the Embassy of the Russian Federation in the Kyrgyz Republic, the Ministry of Interior Affairs of the Kyrgyz Republic and the Border Troops of the SCNS KR that none of these agencies require such certificates while crossing the state border. This information was published in the NBKR Press Release and placed on the NBKR web-site.

According to inquiries of citizens and organizations, the National Bank provided information about the exchange rate of foreign currencies against the Kyrgyz Som, the refinancing rate and the financial standing of some commercial banks of the republic.

During the entire accounting period, the National Bank provided explanations to the population concerning the conservation regime in OJSC “AsiaUniversalBank”, the restructuring process and the issue of deposits of OJSC “AsiaUniversalBank” and other banks. In the third and fourth quarters, the NBKR received a significant number of inquiries of citizens and legal entities concerning the receipt of deposits in OJSC “AsiaUniversalBank”, where the conservation regime was introduced at that time, and then the bankruptcy proceedings and the restructuring commenced. In addition, the meetings were organized with the problem borrowers of some commercial banks involving the National Bank management, at which the restructuring of borrowers’ loans were discussed and the relevant explanations were given.

Due to issue of banknotes of 200, 500, 1,000 soms of the fourth series into circulation in December 2010, the National Bank implemented an information campaign that resulted in placement of information in the mass media, preparation and distribution of video clips on the TV channels of the republic, also, information was given in the news on the television and radio channels; the presentations were organized of the experts of the NBKR and its regional departments in the mass media. Also, an interview on this subject was organized in the TV broadcast “Natsbank Soobshayet”. The posters were prepared and published with information about the protective features of the national currency banknotes of the fourth series that were disseminated among branches of commercial banks, NFCIs, large trade outlets and other public locations. All regional departments of the NBKR also addressed the issue of new banknotes.

Information about the issue into circulation of collection silver coins of the series “10 Years of EurAsEC” and “National Customs and Rituals of the EurAsEC Countries” was given in the NBKR Press Release and in a TV broadcast “Natsbank Soobshayet”.

During the year, the NBKR continued organizing the traditional fact-finding seminars on the subject of the “Role and Functions of the National Bank of the Kyrgyz Republic” for the students of economics faculties of higher educational institutions and the mass media representatives. Seminars provide direct access to information about the NBKR activity and encourage better understanding of processes in the financial and banking sectors of the republic.

Issue of the forth series banknotes into circulation

Issue of the forth series banknotes into circulation

Collection coins

Seminar “Role and Functions of the NBKR”

III

FINANCIAL STATEMENTS FOR 2010

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010	1 (103)
INDEPENDENT AUDITORS' REPORT	2 (104)
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010	3 (105)
Consolidated statement of financial position	3 (105)
Consolidated income statement	4 (106)
Consolidated statement of comprehensive income	5 (107)
Consolidated statement of changes in equity	6 (108)
Consolidated statement of cash flows	7-8 (109)
Notes to the consolidated financial statements	9-51 (111)

7.1. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of the National Bank of the Kyrgyz Republic (the "National Bank").

Management of the National Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Accounting Policy of the National Bank based on International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether the Accounting Policy of the National Bank based on IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the National Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the National Bank, and which enable them to ensure that the financial statements comply with the Accounting Policy of the National Bank based on IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Kyrgyz Republic;
- Taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 30 March 2011 by Management Board of National Bank.

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

INDEPENDENT AUDITORS' REPORT



ООО Грант Торнтон Амни
РА, г. Ереван 0012
ул. Вагаршян 8/1

T + 374 10 260 964
F + 374 10 260 961

Grant Thornton Amyot CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia

T + 374 10 260 964
F + 374 10 260 961

www.gta.am

To the Management Board of the National Bank of the Kyrgyz Republic

We have audited the accompanying consolidated financial statements of the National Bank of the Kyrgyz Republic and its subsidiaries (the "National Bank"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the basis of preparation as described in Note 3 to the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the National Bank as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation as described in Note 3 to the consolidated financial statements.

31 March 2011
Grant Thornton CJSC

Grant Thornton CJSC

Аудит, налоги, консалтинг
Audit, Tax, Advisory
Член Грант Торнтон Интернешнл
Member of Grant Thornton International Ltd.

7.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

(in KGS and in thousands)

	Notes	31 December 2010	31 December 2009
ASSETS:			
Precious metals	5	5,500,912	4,002,740
Due from banks and other financial institutions	6	59,399,711	44,568,992
Amounts receivable from the contracts of purchase and resale of securities	7	200,193	-
Loans extended	8	823,963	68,166
Investments available-for-sale	9	15,572,974	20,800,020
Investments held to maturity	10	3,456,074	3,405,315
Investments held to maturity, pledged under repurchase agreements	10	70,793	-
Property, plant and equipment	11	526,437	485,997
Intangible assets	12	6,707	18,112
Other assets	13	994,451	878,141
TOTAL ASSETS		86,552,215	74,227,483
LIABILITIES AND EQUITY			
LIABILITIES:			
Banknotes and coins in circulation	14	43,290,296	35,738,688
Due to banks and other financial institutions	15	5,612,963	8,549,438
Accounts of the Government of the Kyrgyz Republic		7,246,698	3,980,348
Amounts payable under agreements of sale and repurchase of securities		70,806	-
Debt securities issued	16	667,860	1,059,543
Loans received	17	12,900,494	13,457,660
Other liabilities	18	139,185	89,778
TOTAL LIABILITIES		69,928,302	62,875,455
EQUITY:			
Charter capital	19	1,000,000	300,000
Required reserves		1,805,025	1,614,322
Precious metals and foreign currency revaluation reserve		12,200,552	8 715 341
Investments available-for-sale fair value reserve		1,123	1,878
Retained earnings		1,617,213	720,487
TOTAL EQUITY		16,623,913	11,352,028
TOTAL LIABILITIES AND EQUITY		86,552,215	74,227,483

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

The notes on pages 10-45 form an integral part of these consolidated financial statements.

7.4. CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	20	944,288	811,586
Interest expense	20	(75,427)	(210,847)
NET INTEREST INCOME		868,861	600,739
Fee and commission income		11,672	12,046
Fee and commission expense		(740)	(1,393)
NET FEE AND COMMISSION INCOME		10,932	10,653
(Provision)/recovery of provision for impairment losses on assets	21	(45,479)	151,293
Net gain on precious metals and foreign exchange operations	22	1,354,237	535,726
Other income		18,369	24,392
NET NON-INTEREST INCOME		1,327,127	711,411
OPERATING INCOME		2,206,920	1,322,803
Administrative expenses	23	(410,428)	(403,784)
Expenses related to issuance of banknotes and coins in circulation		(174,279)	(161,483)
Other expenses		(8,811)	(37,049)
OPERATING EXPENSES		(593,518)	(602,316)
PROFIT FOR THE YEAR	24	1,613,402	720,487

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

The notes on pages 10-45 form an integral part of these consolidated financial statements.

7.5. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
PROFIT FOR THE YEAR		1,613,402	720,487
OTHER COMPREHENSIVE INCOME:			
Net unrealized gain from revaluation of precious metals and foreign currency		3,485,211	7,532,012
Net unrealized loss from changes in fair value of investments available-for-sale		(755)	(27,408)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5,097,858</u>	<u>8,225,091</u>

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

The notes on pages 10-45 form an integral part of these consolidated financial statements.

7.6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

Notes	Charter capital	Required reserves	Precious metals and foreign currency revaluation reserve	Investments available-for-sale fair value reserve	Retained earnings	Total equity
31 December 2008	300,000	1,282,357	1,183,329	29,286	1,106,550	3,901,522
Distribution of prior year profit to the Government budget	-	-	-	-	(774,585)	(774,585)
Transfer of prior year profit to reserves	-	331,965	-	-	(331,965)	-
Total	-	331,965	-	-	(1,106,550)	(774,585)
Profit for the year	-	-	-	-	720,487	720,487
Other comprehensive income:						
Net unrealized gain from revaluation of precious metals and foreign currency	-	-	7,532,012	-	-	7,532,012
Net unrealized loss from changes in fair value of investments available-for-sale	-	-	-	(27,408)	-	(27,408)
Total	-	-	7,532,012	(27,408)	720,487	8,225,091
31 December 2009	300,000	1,614,322	8,715,341	1,878	720,487	11,352,028
Increase in share capital	619,000	-	-	-	-	619,000
Transfer of retained earnings to share capital	20 81,000	-	-	-	(81,000)	-
Distribution of prior year profit to the Government budget	-	-	-	-	(444,973)	(444,973)
Transfer of prior year profit to reserves	-	190,703	-	-	(190,703)	-
Total	700,000	190,703	-	-	(716,676)	(174,027)
Profit for the year					1,613,402	1 613,402
Other comprehensive income:						
Net unrealized gain from revaluation of precious metals and foreign currency	-	-	3,485,211	-	-	3,485,211
Net unrealized loss from changes in fair value of investments available-for-sale	-	-	-	(755)	-	(755)
Total	-	-	3,485,211	(755)	1,613,402	5,097,858
31 December 2010	1,000,000	1,805,025	12,200,552	1,123	1,617,213	16,623,913

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

The notes on pages 10-45 form an integral part of these consolidated financial statements.

7.7. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and fee and commission received	691,010	567,649
Interest and fee and commission paid	(32,072)	(145,911)
Realized gain on foreign exchange operations	30,695	100,955
Other income	11,884	21,096
Payroll expenses	(234,061)	(210,252)
Administrative expenses	(339,911)	(343,553)
Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	127,545	(10,016)
Changes in operating assets and liabilities		
<i>(Increase)/decrease in operating assets:</i>		
Due from banks and other financial institutions	(3,812,319)	(14,925,952)
Investments available-for-sale	6,917,388	5,757,637
Loans extended	(760,048)	(65,352)
Amounts receivable from the contracts of purchase and resale of securities	(200,000)	-
Other assets	(89,532)	(29,314)
<i>Increase/(decrease) in operating liabilities:</i>		
Banknotes and coins in circulation	7,551,608	4,935,410
Due to banks and other financial institutions	(3,265,046)	4,118,610
Accounts of Government of the Kyrgyz Republic	3,147,947	(1,791,092)
Debt securities issued/(redeemed) in the normal course of business	(391,963)	(582,445)
Amounts payable under agreements of sale and repurchase of securities	70,790	-
Other liabilities	49,149	(94,160)
Net cash inflow/(outflow) from operating activities	9,345,519	(2,686,674)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(89,971)	(84,512)
Sale of property, equipment and intangible assets	-	4,920
Purchase of investment securities	-	(496,633)
Proceeds on redemption of investments held to maturity	164,352	64,352
Interest received on investments held-to-maturity	122,414	97,076
Dividends received	6,792	3,011
Net cash inflow/(outflow) from investing activities	203,587	(411,786)

7.7. CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on loans received	-	6,932,133
Repayments on loans received	(1,062,323)	(1,180,725)
Net cash inflow/(outflow) from financing activities	(1,062,323)	5,751,408
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,486,783	2,652,948
Effect of changes in foreign exchange rate on cash and cash equivalents	1,899,949	1,802,472
CASH AND CASH EQUIVALENTS, beginning of year (Note 6)	15,709,575	11,254,155
CASH AND CASH EQUIVALENTS, end of year (Note 6)	26,096,307	15,709,575

Jeenbaeva B.J.
Acting Governor

30 March 2011
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

30 March 2011
Bishkek
Kyrgyz Republic

The notes on pages 10-45 form an integral part of these consolidated financial statements.

7.8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(in KGS and in thousands)

1. ORGANIZATION

The National Bank of the Kyrgyz Republic (the “National Bank”) is an assignee of the State Bank of the Kyrgyz Republic which was renamed by the Law “On the National Bank of the Kyrgyz Republic” dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 2 July 1997, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic” (edited by the Laws of the Kyrgyz Republic #17 dated 12 February 2007, #75 dated 30 May 2007, #77 dated 4 June 2007 and #143 dated 9 August 2007, #87 dated 16 May 2008, #90 dated 19 May 2008, #154 dated 18 July 2008, #224 and #231 dated 17 October 2008, #236 dated 3 November 2008, #21 dated 23 January 2009, #94 dated 28 March 2009, #95 dated 28 March 2009, #162 dated 19 May 2009, #30 dated 16 February 2010, #49 dated 15 March 2010), which regulates the activities of the National Bank at the current moment.

The aim of the activities of the National Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic” is the achievement and maintenance of price stability by carrying out monetary and credit policy.

The basic functions of the Bank include:

- Determination and implementation of the monetary and credit and exchange rate policies;
- Promotion of effective development of the payments system and the conduct of inter-bank payments;
- Issuance of banknotes and coins for circulation;
- Management of the international foreign reserves;
- Licensing of banking and other financial and lending activities;
- Regulation and supervision of commercial banks; and
- Other functions determined by the legislation of the Kyrgyz Republic.

The registered office of the National Bank is located at 101 Umetaliyev Street, Bishkek, Kyrgyz Republic.

As at 31 December 2010 and 2009 the National Bank has 5 regional departments and a representative office operating in oblasts of the Kyrgyz Republic.

As at 31 December 2010 and 2009 the number of the National Bank employees was 570 and 558, respectively.

The subsidiaries of National Bank are “Financial company for support and development of credit unions” LLC and “Specialized Fund for Banks Refinancing” LLC. The National Bank is the 100% shareholder of both companies. Besides, the National Bank controls the Agency of Banks Reorganizations and Restructuring of Loans and “Republic Administration of Money Collection” state enterprise. As described in Note 3, the financial statements of “Financial Company for support and development of credit unions” LLC, the Agency of Banks Reorganizations and Restructuring of Loans and “Republic Administration of Money Collection” state enterprise are not consolidated with the financial statements of the National Bank.

“Specialized Fund for Banks Refinancing” LLC was established by the Decree of the President of Kyrgyz Republic dated 8 January 2009. The charter capital of the company comprises KGS 2 000 000 thousand, which was completely paid by the National Bank. The company performs its activi-

ties as a specialized fund for refinancing of banks based on the license granted by the National Bank of Kyrgyz Republic on 6 May 2009. The main objective of the company's activities is to provide financial resources to commercial banks and micro-credit organizations for liquidity purposes and financing the national economy. The financial statements of "Specialized Fund for Banks Refinancing" LLC are consolidated into these consolidated financial statements. The income and profit of "Specialized Fund for Banks Refinancing" LLC for the year 2010 included in these consolidated financial statements comprise KGS 66 535 thousand and KGS 40 083 thousand respectively.

These consolidated financial statements were authorized for issue by the Management Board of the National Bank on 30 March 2011.

2. OPERATING ENVIRONMENT IN THE KYRGYZ REPUBLIC

In recent years, the Kyrgyz Republic has undergone significant political, economic and social changes. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. In addition, the economy of the Kyrgyz Republic is subject to influence of still unstable situation on capital markets and slowdown of economic growth in other countries. Despite the unfavourable conditions, the Government of the Kyrgyz Republic has consistently been conducting economic policies focussed on the resumption of economic growth while maintaining macroeconomic stability.

These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the National Bank's consolidated financial statements in the period when and/or if they become known and estimable.

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting basis

In accordance with the law of the Kyrgyz Republic dated 2 July 1997 "On National Bank of the Kyrgyz Republic" the National Bank determines policies and methods of accounting for itself which should be based on International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared in accordance with the Accounting policy of the National Bank. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with some modifications described below:

- Precious metals are carried at market value and the total net unrealized gain from the mark to market of precious metals and foreign currency assets and liabilities revaluation is recognized directly in equity before deductions of possible deferred distributions. The total net unrealized loss from the mark to market of gold and silver and foreign currency assets and liabilities revaluation is recognized in the income statement except to the extent that it reverses a previous net unrealized gain, in which case it is recognized directly in equity.
- The financial statement of "Financial Company for support and development of credit unions" LLC, the Agency of Banks Reorganizations and Restructuring of Loans and "Republic Administration of Money Collection" state enterprise are not consolidated into the financial state-

ments of the National Bank. Investment in this company is temporal. Investment in “Financial Company for support and development of credit unions” LLC is presented as asset available-for-sale and carried at cost. Impairment losses and reversals of impairment losses in respect of these investments are recognized in the income statement.

These consolidated financial statements are presented in thousands of Kyrgyz Soms (“KGS”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency

Items included in the consolidated financial statements of the National Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the National Bank (the “functional currency”). The functional currency of the consolidated financial statements is the Kyrgyz Som.

4. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Subsidiaries, which are those entities in which the National Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated except for “Financial Company for support and development of credit unions” LLC. Subsidiaries are consolidated from the date on which control is transferred to the National Bank and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the National Bank.

Recognition and measurement of financial instruments

The National Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash on hand in local currency is recorded as a decrease in the amount of banknotes and coins in circulation.

For the purposes of determining cash flows, cash and cash equivalents include unrestricted balances on current accounts and demand advances to banks and other financial institutions and cash on hand in foreign currency.

Precious metals

Precious metals are recorded at market price at the balance sheet date. Market price is determined by reference to the London Bullion Market Association ("LBMA") AM fixings.

Due from banks and other financial institutions

In the normal course of business, the National Bank maintains advances and deposits for various periods of time with banks and other financial institutions. Due from banks are initially recognized at fair value. Due from banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method, and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Investments available-for-sale

Investments available-for-sale represent investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. When sold, the gain/loss previously recorded in equity is recycled through the income statement. The National Bank uses quoted market prices to determine the fair value for the investments available-for-sale.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The National Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Allowance for impairment losses

Assets carried at amortized cost

The National Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

Such impairment losses are not reversed, unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

The management of the National Bank on a continuing basis exercises monitoring of the financial position of the National Bank's counterparties and in case of worsened credit rating an allowance on impairment losses is created.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements of securities ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due under sale and repurchase agreements of securities. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable from the purchase and resale contracts of securities, and therefore are not recognized separately as securities. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the National Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the National Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the National Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a con-

tractual obligation to pay those cash flows to a third party. After a transfer, the National Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the National Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the National Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Property, equipment and intangible assets

Depreciation is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2%
Constructions	5%
Furniture and equipment	20%
Computers	20%-30%
Vehicles	20%
Intangible assets	30%

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

The National Bank is not liable for the corporate income tax. All compulsory payments to the budget, which are assessed on the National Bank's activities, are paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as an agent are included as a component of administrative expenses in the income statement.

Due to banks, accounts of the Government of the Kyrgyz Republic, debt securities issued and loans received

Due to banks, accounts of the Government of the Kyrgyz Republic, debt securities issued and loans received are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings, using the effective interest method.

Charter capital and reserves

The National Bank has a fixed amount of charter capital. Increase and decrease of the amount of charter capital is implemented through amendments to the Law “On the National Bank of the Kyrgyz Republic”. Charter capital is recognized at cost.

Required reserves have been created through capitalization of net profit upon its distribution. Required reserves are recognized at cost.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or

a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment

Interest earned on assets at fair value is classified as interest income.

Recognition of fee and commission income and expense

Commissions for settlement of clearing and gross payments and fees and commissions on due from banks and other financial institutions are recognized as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

The consolidated financial statements of the National Bank are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these transactions are included in net gain on precious metals and foreign exchange operations. The policy of revaluation of precious metals, assets and liabilities in foreign currency is presented in Note 3.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the National Bank's foreign operations are expressed in soms using exchange rates prevailing at the balance sheet date.

Rates of exchange

The exchange rates used by the National Bank in the preparation of the consolidated financial statements as at 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
som/US dollar	47.0992	44.0917
som/euro	61.7949	63.5229
som/special drawing rights	71.9011	69.1644
som/Canadian dollar	46.6435	41.9901
som/Australian dollar	47.2353	39.0167
som/Swiss franc	48.8843	42.5657
som/Great Britain pound sterling	72.6077	70.4012

Depository functions

The National Bank provides depository services to the Ministry of Finance of the Kyrgyz Republic, which includes transactions with securities on its depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in the National Bank's consolidated financial statements. The Ministry of Finance of the Kyrgyz Republic bears credit and market risks associated with such operations.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the National Bank's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the National Bank's financial condition.

Valuation of Financial Instruments

Financial instruments that are classified as available for sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product including the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the income statement on initial recognition. Subsequent gains or losses

are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

New standards and interpretations not yet effective and not adopted by the National Bank earlier

At the date of authorization of these consolidated financial statements, certain new Standards, amendments and interpretations to the existing Standards have been published but are not yet effective. Management anticipates that all of the new standards and interpretations will be adopted by the National Bank for the first period beginning after their effective date. New Standards, amendments and interpretations to the existing Standards not yet effective but may be applied to the consolidated financial statements of the National Bank in the future are presented below. Certain other new standards, amendments and interpretations have been published, but will not probably be applicable to the consolidated financial statements of the National Bank.

IFRS 7 (Amendment) Transfer of Financial Assets

The amendment aims to help users of financial statements evaluate the risk exposure relating to more complex transfers of financial assets and the effect of those risks on an entity's financial position. The additional disclosures required are designed to provide information that enables users:

- To understand the relationship between transferred financial asset that are not derecognized in their entirety and the associated liabilities
- To evaluate the nature of and risks associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety.

This amendment is effective for annual periods beginning on or after July 1, 2011.

Annual Improvements 2010 (effective from 1 July 2010 and later)

In May 2010 IASB issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 1, IFRS 3R, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The preliminary assessments of the National Bank indicate that the 2010 Improvements will not have a material impact on the consolidated financial statements of the National Bank, except for amendments in IFRS 7, which eliminated the requirements to disclose:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated,
- maximum exposure to credit risk for financial instruments whose carrying amount best represents the maximum exposure to credit risk,
- description and estimate of fair value of collateral held for past due or impaired financial assets.

IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management has yet to assess the full impact that this amendment is likely to have on the financial statements of the National Bank. However, initial indications are that it may affect the National Bank's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

Fair value gains and losses on available-for-sale debt investments, will therefore have to be recognized directly in the income statement. In the current reporting period, the National Bank recognized KGS 755 thousand of such losses in other comprehensive income. Also there will be only two categories of financial assets: measured only at amortized cost and fair value.

5. PRECIOUS METALS

Precious metals comprise:

	31 December 2010	31 December 2009
Gold in deposits	5,500,385	4,002,460
Silver in deposits	527	280
	<hr/> 5,500,912	<hr/> 4,002,740
Allowance for impairment losses	-	-
Total precious metals	<hr/> 5,500,912	<hr/> 4,002,740

Weight of gold and silver has not changed and as of 31 December 2010 and 2009 amounts to 83 090 ounces and 364 ounces respectively.

Movements in allowance for impairment losses on precious metals for the years ended 31 December 2010 and 2009 are disclosed in Note 21.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks comprise:

	31 December 2010	31 December 2009
Term deposits	33,805,265	29,389,182
Current accounts	25,812,256	15,418,755
Accrued interest	49,322	13,306
	<hr/> 59,666,843	<hr/> 44,821,243
Allowance for impairment losses	(267,132)	(252,251)
Total due from banks and other financial institutions	<hr/> 59,399,711	<hr/> 44,568,992

Movements in allowance for impairment losses on balances due from banks and other financial institutions for the years ended 31 December 2010 and 2009 are disclosed in Note 21.

As at 31 December 2010 and 2009 the National Bank had balances due from 4 banks, which individually exceeded 10% of total balance due from banks and other financial institutions.

As at 31 December 2010 and 2009 the maximum credit risk exposure on due from banks and other financial institutions amounted to KGS 59 399 711 thousand and KGS 44 568 992 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2010	31 December 2009
Current accounts	25,812,231	15,418,755
Cash on hand in foreign currency (Note 13)	284,076	290,820
Total cash and cash equivalents	26,096,307	15,709,575

7. AMOUNTS RECEIVABLE FROM CONTRACTS OF PURCHASE AND RESALE OF SECURITIES.

In December 2010 subsidiary of the National Bank “Specialized Fund for Banks Refinancing” LLC entered into contract of purchase and resell (“reverse repo”) of government securities with a commercial bank.

Fair value of securities pledged and carrying value of assets under reverse repurchase agreements as of 31 December are presented as follows:

	31 December 2010		31 December 2009	
	Fair value of securities	Carrying value of asset	Fair value of securities	Carrying value of asset
State obligations of the KR Ministry of Finance (Treasury bills)	236,906	200,193	-	-
	236,906	200,193	-	-

8. LOANS EXTENDED

	31 December 2010	31 December 2009
Provided by “Specialized Fund for Banks Refinancing” LLC	831,332	67,285
To commercial banks extended within EBRD program for small and medium sized enterprises	305,412	287,684
Other accounts payables	114,247	114,247
	1,250,991	469,216
Allowance for impairment losses	(427,028)	(401,050)
Total loans extended	823,963	68,166

Reconciliation of allowance account for losses on loans for the years ended 31 December 2010 and 2009 is presented in Note 21.

9. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2010		31 December 2009	
	Market interest rate	Amount	Market interest rate	Amount
At fair value:				
Debt instruments – Quoted				
<i>Australian Treasury Bonds</i>	4.80%	9,312,171	4.04%	7,620,711
<i>Swiss Treasury Bonds</i>	-	-	0.13%	6,385,867
<i>German Treasury Bonds</i>	0.37%	1,543,243	0.45%	6,095,641
<i>US Treasury Bonds</i>	-	-	0.45%	444,573
<i>UK Treasury Bonds</i>	0.58%	1,481,475	-	-
<i>Debt securities of the International Financial Organizations</i>	0.64%	3,221,085	0.11%	238,228
Total investments available-for-sale at fair value		15,557,974		20,785,020
Equity instruments at cost:				
“Financial Company for support and development of credit unions” LLC	-	15,000	-	15,000
Total investments available-for-sale		15,572,974		20,800,020

10. INVESTMENTS HELD TO MATURITY

	31 December 2010		31 December 2009	
	Effective interest rate	Amount	Effective interest rate	Amount
Unpledged debt securities				
<i>Kyrgyz Republic Treasury Bonds</i>	11.32%	3,456,074	8.72%	3,405,315
Total investments held to maturity		3,456,074		3,405,315

As at 31 December 2010 debt securities held to maturity at amortized cost of KGS 70 793 thousand (2009: nil) were pledged to third parties in sale and repurchase agreements with two commercial banks for periods not exceeding six months. These have been reclassified as financial assets pledged under repurchase agreements on the face of the balance sheet.

11. PROPERTY, PLANT & EQUIPMENT

	Buildings and constructions	Furniture and equipment	Computers	Vehicles	Equipment for installation and construction in progress	Total
At initial cost						
31 December 2008	174,926	101,979	154,973	26,274	182,829	640,981
Additions	15,934	17,842	26,569	-	21,195	81,540
Transfers	757	942	1,657	-	(3,356)	-
Disposals	(851)	(23,861)	(41,121)	(577)	(11)	(66,421)
31 December 2009	190,766	96,902	142,078	25,697	200,657	656,100
Additions	812	15,813	8,606	2,919	71,164	99,314
Transfers	3,376	1,118	-	-	(4,494)	-
Disposals	(29)	(20,279)	(13,110)	(4,154)	-	(37,572)
31 December 2010	194,925	93,554	137,574	24,462	267,327	717,842
Accumulated depreciation and impairment						
31 December 2008	30,702	37,725	64,607	8,777	-	141,811
Charge for the year	6,382	19,698	28,513	5,188	-	59,781
Eliminated on disposals	(235)	(10,475)	(20,203)	(576)	-	(31,489)
31 December 2009	36,849	46,948	72,917	13,389	-	170,103
Charge for the year	7,042	19,406	27,403	5,023	-	58,874
Eliminated on disposals	(29)	(20,279)	(13,110)	(4,154)	-	(37,572)
31 December 2010	43,862	46,075	87,210	14,258	-	191,405
Net book value						
As at 31 December 2010	151,063	47,479	50,364	10,204	267,327	526,437
As at 31 December 2009	153,917	49,954	69,161	12,308	200,657	485,997
As at 31 December 2008	144,224	64,254	90,366	17,497	182,829	499,170

12. INTANGIBLE ASSETS

	Intangible assets for installation	Trademarks, licenses and patents	Total
At initial cost			
31 December 2008	4,848	116,420	121,268
Additions	-	3,778	3,778
Transfers	(4,848)	4,848	-
Disposals	-	(33,648)	(33,648)
31 December 2009	-	91,398	91,398
Additions	-	2	2
Disposals	-	(491)	(491)
31 December 2010	-	90,909	90,909
Accumulated depreciation and impairment			
31 December 2008	-	57,667	57,667
Charge for the year	-	29,148	29,148
Eliminated on disposals	-	(13,529)	(13,529)
31 December 2009	-	73,286	73,286
Charge for the year	-	11,407	11,407
Eliminated on disposals	-	(491)	(491)
31 December 2010	-	84,202	84,202
Net book value			
As at 31 December 2010	-	6,707	6,707
As at 31 December 2009	-	18,112	18,112
As at 31 December 2008	4,848	58,753	63,601

13. OTHER ASSETS

Other assets comprise:

	31 December 2010	31 December 2009
Other financial assets:		
Impaired receivables of entities	33,765	34,030
Cash on hand in foreign currency	284,076	290,820
Derivative financial instruments	2,421	-
Other assets	133,100	109,819
	<u>453,362</u>	<u>434,669</u>
Allowance for impairment losses	(38,772)	(34,152)
Other financial assets	<u>414,590</u>	<u>400,517</u>
Other non-financial assets:		
Inventory	428,444	394,171
Prepayments	137,026	69,523
Other assets	14,391	13,930
	<u>579,861</u>	<u>477,624</u>
Total other assets	<u>994,451</u>	<u>878,141</u>

Movements in allowance for impairment losses on other assets for the years ended 31 December 2010 and 2009 are disclosed in Note 21.

Derivative financial instruments represent foreign currency swap contracts with two commercial banks.

	31 December 2010		31 December 2009	
	Notional amount	Fair value of assets	Notional amount	Fair value of assets
Foreign exchange contracts				
Swaps	683,510	2,421	-	-

14. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation comprise:

	31 December 2010	31 December 2009
Banknotes and coins in circulation	44,996,956	36,551,121
Banknotes and coins in operating cash	<u>(1,706,660)</u>	<u>(812,433)</u>
Total banknotes and coins in circulation	<u>43,290,296</u>	<u>35,738,688</u>

15. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2010	31 December 2009
Current accounts of commercial banks	5, 514,241	5,804,904
Current accounts of other financial institutions	98,722	2,700,442
Term deposits of banks and other financial institutions	-	44,092
Total due to banks and other financial institutions	5,612,963	8,549,438

As at 31 December 2010 and 2009 the National Bank had balances due to banks and other financial institutions, which individually exceeded 10% of net assets of the National Bank:

	31 December 2010	31 December 2009
Development Fund of Kyrgyz Republic CJSC	-	2,645,536
AsiaUniversalBank OJSC	-	1,814,999
	-	4,460,535

16. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2010	31 December 2009
Debt securities issued	667,860	1,059,543
Total debt securities issued	667,860	1,059,543

As at 31 December 2010 and 2009 debt securities issued included balances with following counter-parties, which individually exceeded 10% of the total balance on debt securities issued:

	31 December 2010	31 December 2009
Deposit insurance agency of KR	333,617	-
RSK Bank OJSC	82,634	-
BTA Bank OJSC	-	217,469
DocCredobank OJSC	-	179,934
Demir Kyrgyz International Bank CJSC	-	148,904
Issyk-Kul Investment Bank OJSC	-	141,587
AsiaUniversalBank OJSC	-	125,066
	416,251	812,960

As at 31 December 2010 and 2009 accrued interest expense included in debt securities issued amounted to KGS 517 thousand and KGS 257 thousand, respectively.

17. LOANS RECEIVED

Loans received comprise:

	Currency	Maturity	31 December 2010	31 December 2009
Funding by International Monetary Fund	AKY	2011-ЖЫЛ	12,747,680	13,236,990
Funding by the Ministry of Finance of the Kyrgyz Republic	AKШ долл.	2016-ЖЫЛ	99,815	126,779
Funding by European Bank for Reconstruction and Development	AKШ долл.	2012-ЖЫЛ	52,999	93,891
Total loans received			12,900,494	13,457,660

On 24 September 2010 International Monetary Fund provided loan to Kyrgyz Republic amounting to 22 000 000 SDR within the framework of Rapid Credit Facility (RCF) for supporting state budget. This loan is not accounted in the balance sheet of the National Bank as liability to IMF, because there is an agreement between Ministry of Finance of the Kyrgyz Republic and the National Bank dated 02 September 2010, stipulating that Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement.

As at 31 December 2010 and 2009 accrued interest expense included in other borrowed funds amounted to KGS 10 790 thousand and KGS 8 845 thousand, respectively.

The loan from the Ministry of Finance was granted to the National Bank for the implementation of the “Payments and Banking System Modernization” project financed by International Development Association.

The National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2009: nil).

18. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2010	31 December 2009
Other financial liabilities:		
Accumulated account for forming of charter capital of commercial banks	40,900	-
Amounts due to the central banks of the CIS	57,075	55,624
Accounts payable	27,430	24,694
Other liabilities	-	153
Other financial liabilities	125,405	80,471
Other non-financial liabilities:		
Future periods income	13,723	9,302
Prepayment	48	-
Prepayments	9	5
Total other liabilities	139,185	89,778

19. CHARTER CAPITAL

2As at 31 December 2010 and 2009 charter capital of the National Bank established by the Law “On the National Bank of the Kyrgyz Republic” amounted to KGS 1 000 000 thousand and KGS 300 000 thousand respectively.

In accordance with the Law “On amendments and supplements to the Law on the National Bank of the Kyrgyz Republic” dated 28 March 2009 the charter capital of the National Bank shall comprise KGS 1 000 000 thousand. On 17 March 2010 the Government of the Kyrgyz Republic issued treasury bonds in the amount of KGS 619 000 thousand for restructuring of obligations of the Government of Kyrgyz Republic to the National bank. Those treasury bonds were used for replenishment of charter capital of the National Bank. The remaining part of charter capital amounting to KGS 81 000 thousand was replenished on 28 April 2010 through transfer of profit of 2009.

Amounts distributable to the budget of the Government of the Kyrgyz Republic are limited to the profit of the National Bank earned for the year.

On 28 April 2010 the net profit distributable to the budget of the Government of the Kyrgyz Republic earned for the year 2009 in the amount of KGS 444 973 thousand was approved.

Non-distributable reserves are represented with required reserves created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. These reserves are created in accordance with the Law “On the National Bank of the Kyrgyz Republic” providing for creation of such reserves for above-mentioned purposes in the amount limited to 10% of the monetary liabilities of the National Bank taking into consideration the charter capital of the Bank. For these purposes the Bank distributes 30% of profit of the National Bank received in the previous year. The distribution of 30% of National Bank’s profit for the year 2009 into the required reserves comprised KGS 190 703 thousand.

20. NET INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income comprises:		
Interest on due from banks and other financial assets	192,108	145,980
Interest on investments available-for-sale	409,672	357,926
Interest on investments held-to-maturity	306,398	292,162
Interest on other financial assets	36,110	15,518
Total interest income	944,288	811,586
Interest expense comprises:		
Interest on debt securities issued	10,501	89,406
Interest on accounts of Government of the Kyrgyz Republic	42,189	60,896
Interest on loans received	20,829	47,049
Interest on amount payable under sale and repurchase agreements	16	8,730
Interest on due to banks and other financial institutions	1,012	373
Interest on other financial liabilities	880	4,393
Total interest expense	75,427	210,847
Net interest income	868,861	600,739

21. ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Precious metals	Due from banks and other financial institutions	Other financial assets	Loans extended	Total
31 December 2008	47,888	384,911	34,292	371,655	838,746
Creation/(Recovery) of reserves	(47,888)	(132,660)	(140)	29,395	(151,293)
31 December 2009	-	252,251	34,152	401,050	687,453
Creation of reserves	-	14,881	4,620	25,978	45,479
31 December 2010	-	267,132	38,772	427,028	732,932

22. NET GAIN ON PRECIOUS METALS AND FOREIGN EXCHANGE OPERATIONS

Net gain on precious metals and foreign exchange operations:

	Year ended 31 December 2010	Year ended 31 December 2009
Net realized gain on foreign exchange operations and changes in foreign currency positions	1,354,237	535,726
Total net gain on precious metals and foreign exchange operations	1,354,237	535,726

23. ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Employee compensations	197,383	175,880
Depreciation and amortization	70,281	88,929
Repair and maintenance	59,775	48,310
Contribution to the Social Fund	34,634	34,372
Communication	9,466	10,072
Staff training	5,675	8,172
Subscription	5,470	6,817
Expenses for social and cultural events	4,851	5,897
Professional services	7,866	5,588
Business trip expenses	4,708	5,449
Stationery	2,953	3,851
Other	7,366	10,447
Total administrative expenses	410,428	403,784

24. PROFIT FOR THE YEAR

Consolidated profit of the National Bank for the year 2010 and 2009 includes profit of the National Bank, subject to distributions, amounting to KGS 1 577 133 thousand and KGS 716 676 thousand respectively.

25. COMMITMENTS AND CONTINGENCIES

Depository functions – the National Bank provides depository services to the Ministry of Finance of the Kyrgyz Republic, which includes transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in the National Bank's consolidated financial statements. The Ministry of Finance of the Kyrgyz Republic bears credit and market risks associated with such operations.

As at 31 December 2010 and 2009 the total quantity of customer securities recorded at the National Bank's depository accounts amounted to 47 297 871 and 43 509 752, respectively.

Legal proceedings – In the ordinary course of business, the National Bank is subject to legal actions and complaints. Management of the National Bank believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations of the National Bank.

Insurance – The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has partial coverage for its premises and equipment, and third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Economic situation – as a result of frequent changes in the legislation and regulations affecting the economic situation in the Kyrgyz Republic the assets and operations of the National Bank may be exposed to the risk of worsened political and economic situation.

Specific volatility in global and the Kyrgyz Republic's financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in the Kyrgyz Republic, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Kyrgyz Republic, there exists economic uncertainties surrounding the continual availability, and cost, of credit both for the Bank and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the regular course of business, and a corresponding impact on the National Bank's profitability.

Recoverability of financial assets – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2010 the National Bank has financial assets amounting to KGS 85 439 211 thousand (KGS 73 245 750 thousand as at 31 December 2009). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the National Bank's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the National Bank's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

26. AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund (the "IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to IMF financing. The quota of the Kyrgyz Republic as at 31 December 2010 and 2009 amounted to SDR 88 800 012.

To secure a part of the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities in favor of the IMF. The other part was secured by funds placed on the current account of the IMF with the National Bank.

The National Bank was designated as a depository for these securities and funds and as a financial agency authorized to carry out transactions with the IMF on behalf of the Government of the Kyrgyz Republic. The following assets and liabilities are not assets and liabilities of the National Bank and were not included in the National Bank's consolidated financial statements:

	31 December 2010	31 December 2009
IMF membership quota	6,428,168	6,138,065
Securities in favor of the IMF	6,411,736	6,122,374
IMF current accounts	16,432	15,691
	<u>6,428,168</u>	<u>6,138,065</u>

Loan from International Development Association

The International Development Association granted a loan to the Government of the Kyrgyz Republic for support of private enterprises. The Ministry of Finance concluded a Financial Agency Agreement with the National Bank pursuant to which the National Bank was authorized to lend loan funds to selected commercial banks and collect principal and interest repayments. The following assets are not assets of the National Bank and were not included in the National Bank's consolidated financial statements:

	31 December 2010	31 December 2009
Loans to commercial banks	-	1,082
	-	1,082

Loan from the Export and Credit Bank of Turkey

The Export and Credit Bank of Turkey (the "Eximbank") granted a loan to the Government of the Kyrgyz Republic. On 9 March 2006 Eximbank and the Government of the Kyrgyz Republic represented by the National Bank signed a debt restructuring agreement on the terms stipulated in the agreed minutes of the meeting of the Paris Club of Creditors dated 11 March 2005, whereby the entire bilateral debt of the Kyrgyz Republic as at 1 March 2005 was subject to restructuring. Under the above agreement the National Bank acting for and on behalf of the Government of the Kyrgyz Republic issued notes in favor of Eximbank for the amount of restructured debt. The Government of the Kyrgyz Republic and the National Bank entered into agreements pursuant to which the Government of the Kyrgyz Republic bears the direct obligation to settle the amounts payable by the National Bank to Eximbank in accordance with debt restructuring agreement.

The outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank under debt restructuring agreement were KGS 2 333 073 thousand and KGS 2 196 086 thousand as at 31 December 2010 and 2009, respectively.

27. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. In accordance with the revised IAS 24, the National Bank is exempted from ordinary disclosures for the following operations anticipated by previous IAS 24 with:

- a) Government of the Kyrgyz Republic and,
- b) Other organizations which are controlled, jointly controlled or have a significant influence of the Government of the Kyrgyz Republic

In this case the Government of the Kyrgyz Republic on behalf of the Ministry of Finance of the Kyrgyz Republic is a related party with the National Bank. The National Bank is a bank of the Kyrgyz Republic and is under its ownership. The transactions with the Ministry of Finance of the Kyrgyz Republic comprise investments in debt securities held to maturity (Note 9), and accounts of Ministry of Finance of the Kyrgyz Republic presented in the consolidated statement of financial position and included note 17. Interest income and expenses are disclosed in Note 20.

Details of transactions between the National Bank and other related parties are disclosed below:
The remuneration and due from members of the Management Board were as follows:

	31 December 2010		31 December 2009	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Key management personnel compensation for the year:				
Short-term employee benefits	7,324	197,373	8,944	175,880
Due from key management personnel:				
Loans to employees				
Beginning of the year	10,473	71,393	5,347	52,794
Amounts extended	-	39,381	6,250	33,350
Amounts redeemed	(3,242)	(12,007)	(1,124)	(14,751)
End of the year	7,231	98,767	10,473	71,393

Included in the consolidated income statement for the years ended 31 December 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
-Loans to employees	136	1,926	544	2,899
Other income				
- subsidiaries	6,792	18,369	3,011	24,392

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosure” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for some of the National Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The Management of the National Bank estimates that the carrying value of all assets and liabilities approximates their fair value.

The fair value of investment in subsidiary with a carrying value of KGS 15 000 thousand for the year 2010 and 2009 could not be determined because it is unquoted (Note 9). Accordingly, it is not included in the fair value hierarchy presented below:

Fair Value Hierarchy

Financial assets measured at fair value in the consolidated statement of financial position are presented in accordance with the fair value hierarchy. This hierarchy groups financial assets and li-

abilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only financial instrument measured at fair value in the statement of financial position of the National Bank is the investment in debt securities of foreign countries and international financial institutions, which are accounted as securities available for sale and the prices of which are quoted in active markets.

	Level 1	Level 2	Level 3	31 December 2010 Total
FINANCIAL ASSETS				
Debt securities available for sale	15,557,974			15,557,974
	Level 1	Level 2	Level 3	31 December 2009 Total
FINANCIAL ASSETS				
Debt securities available for sale	20,785,020	-	-	20,785,020

29. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to credit risk and market risk.

To ensure effective and efficient risk management policy the National Bank established basic risk management principles the main purpose of which is to secure the National Bank from existing risks and allow it to reach planned results. The principles are used by the National Bank in managing the following risks:

Credit risk

The National Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk management in the National Bank is implemented through continual monitoring, control and observation over the risk sources. For this purpose the National Bank draw up criteria and requirements on counterparties and limitations on financial instruments and amounts of assets as well.

To minimize credit risk the National Bank uses risk management policy which establishes limitations on counterparties of the National Bank. In accordance with the policy only central banks, financial institutions and commercial banks with high ratings per Moody's Investors Service classification or similar ratings per classification of other leading world rating agencies (Standard & Poor's Corporation, Fitch IBCA) may be counterparties of the National Bank.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Moody's. The highest possible rating is Aaa. Investment grade financial assets have ratings from Aaa to Baa. Financial assets which have ratings lower than Baa are classed as speculative grade.

Taking into consideration the National Bank's status as a central bank the counterparties are divided into 2 categories:

Category A

- central banks of advanced develop industrial countries with stable economical and political situation and sovereign rating not less than Aa3 per Moody's Investors Service classification;
- international financial organizations, institutions and banks;
- foreign commercial banks with rating not less than Aa3 per Moody's Investors Service classification.

Category B

- central banks of countries with sovereign rating less than Aa3 per Moody's Investors Service classification;
- financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- foreign commercial banks with rating less than Aa3 but not less than Baa3 per Moody's Investors Service classification.

Decisions on investment deals with the counterparties of the Category A, i.e. limitations on certain counterparties, investment instruments and amount of deals are established based on power of the Investment Committee of the National Bank. Decisions on investment deals with each counterparty of Category B are approved by the Management Board of the National Bank upon submission by the Investment Committee.

The following table details the credit ratings of financial assets held by the National Bank as at 31 December 2010:

	Aaa	Aa	A	Baa	<Baa	Not rated	Total at 31 December 2010
Precious metals	-	5,500,912	-	-	-	-	5,500,912
Due from banks and other financial institutions	53,550,514	5,832,162	-	8,788	5,660	2,587	59,399,711
Amounts receivable from the contracts of purchase and resale of securities	-	-	-	-	-	200,193	200,193
Loans extended	-	-	-	-	-	823,963	823,963
Investments available-for-sale	15,557,974	-	-	-	-	15,000	15,572,974
Investments held-to-maturity	-	-	-	-	-	3,456,074	3,456,074
Investments held to maturity, pledged under repurchase agreements	-	-	-	-	-	70,793	70,793
Other financial assets	-	-	-	-	-	414,590	414,590

As 31 December 2009:

	Aaa	Aa	A	Baa	<Baa	Not rated	Total at 31 December 2010
Precious metals	-	4,002,740	-	-	-	-	4,002,740
Due from banks and other financial institutions	38,356,143	6,181,337	-	18,050	5,298	8,164	44,568,992
Loans extended	-	-	-	-	-	68,166	68,166
Investments available-for-sale	20,785,020	-	-	-	-	15,000	20,800,020
Investments held-to-maturity	-	-	-	-	-	3,405,315	3,405,315
Other financial assets	-	-	-	-	-	400,517	400,517

One of the criteria for control of credit risk is the maximum exposure to credit risk per one counterparty, as well as the geographical segments.

Maximum exposure to credit risk per one counterparty

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets:

	31 December 2010		31 December 2009	
	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption
Precious metals	5,500,385	5,500,912	4,002,460	4,002,740
Due from banks and other financial institutions	17,431,648	59,399,711	15,027,926	44,568,992
Amounts receivable from the contracts of purchase and resale of securities	200,193	200,193	-	-
Loans to banks	392,210	823,963	66,832	68,166
Investments available-for-sale	9,312,171	15,572,974	7,620,711	20,800,020
Investments held-to-maturity	3,456,074	3,456,074	3,405,315	3,405,315
Investments held to maturity, pledged under repurchase agreements	70,793	70,793	-	-

Geographical concentration

The Investment Committee of the National Bank exercises permanent control over financial situation of its counterparties for assessment of country risk. This approach allows the National Bank to minimize potential losses from the investment climate fluctuations in the countries where the National Bank's currency reserves are placed.

The geographical concentration of assets and liabilities is set out below:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2010 Total
FINANCIAL ASSETS					
Precious metals	-	5,500,912	-	-	5,500,912
Due from banks and other financial institutions	2,587	38,428,824	8,788	20,959,512	59,399,711
Amounts receivable from the contracts of purchase and resale of securities	200,193	-	-	-	200,193
Loans to banks	823,963				823,963
Investments available-for-sale	15,000	12,336,889	-	3,221,085	15,572,974
Investments held-to-maturity	3,456,074	-	-	-	3,456,074
Investments held to maturity, pledged under repurchase agreements	70,793	-	-	-	70,793
Other financial assets	414,590	-	-	-	414,590
TOTAL FINANCIAL ASSETS	4,983,200	56,266,625	8,788	24,180,597	85,439,210
FINANCIAL LIABILITIES					
Banknotes and coins in circulation	43,290,296	-	-	-	43,290,296
Due to banks and other financial institutions	5,592,078	-	-	20,885	5,612,963
Accounts of the Government of the Kyrgyz Republic	7,246,698	-	-	-	7,246,698
Amounts payable under agreements of sale and repurchase of securities	70,806	-	-	-	70,806
Debt securities issued	667,860	-	-	-	667,860
Loans received	99,815	-	-	12,800,679	12,900,494
Other financial liabilities	65,678	-	59,727	-	125,405
TOTAL FINANCIAL LIABILITIES	57,033,231		59,727	12,821,564	69,914,522
NET POSITION	(52,050,031)	56,266,625	(50,939)	11,359,033	

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2009 Total
FINANCIAL ASSETS					
Precious metals	-	4,002,740	-	-	4,002,740
Due from banks and other financial institutions	8,164	22,357,675	18,050	22,185,103	44,568,992
Loans to banks	68,166	-	-	-	68,166
Investments available-for-sale	15,000	20,546,792	-	238,228	20,800,020
Investments held-to-maturity	3,405,315	-	-	-	3,405,315
Other financial assets	400,517	-	-	-	400,517
TOTAL FINANCIAL ASSETS	3,897,162	46,907,207	18,050	22,423,331	73,245,750
FINANCIAL LIABILITIES					
Banknotes and coins in circulation	35,738,688	-	-	-	35,738,688

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2009 Total
Due to banks and other financial institutions	8,539,268	-	-	10,170	8,549,438
Accounts of the Government of the Kyrgyz Republic	3,980,348	-	-	-	3,980,348
Debt securities issued	1,059,543	-	-	-	1,059,543
Loans received	126,779	-	-	13,330,881	13,457,660
Other financial liabilities	24,847	-	55,624	-	80,471
TOTAL FINANCIAL LIABILITIES	49,469,473	-	55,624	13,341,051	62,866,148
NET POSITION	(45,572,311)	46,907,207	(37,574)	9,082,280	

Liquidity risk

Liquidity risk - is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Management believes that the National Bank is not exposed to liquidity risk due to the nature of its operations.

An analysis of the liquidity risk is presented in the following table.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
FINANCIAL ASSETS							
Precious metals	993,495	4,507,417	-	-	-	-	5,500,912
Due from banks and other financial institutions	31,971,317	13,403,283	13,985,265	-	-	-	59,359,865
Amounts receivable from the contracts of purchase and resale of securities	-	200,193	-	-	-	-	200,193
Loans to banks	3,331	25,122	232,063	559,794	3,653	-	823,963
Investments available-for-sale	5,800,115	2,510,181	7,247,678	-	-	-	15,557,974
Investments held-to-maturity	5,284	616,654	750,849	1,023,597	579,690	480,000	3,456,074
Investments held to maturity, pledged under repurchase agreements	-	-	793	-	-	70,000	70,793
Total interest bearing financial assets	38,773,542	21,262,850	22,216,648	1,583,391	583,343	550,000	84,969,774
Due from banks and other financial institutions	39,846	-	-	-	-	-	39,846
Investments available-for-sale	-	-	15,000	-	-	-	15,000
Other financial assets	288,193	3,765	7,789	44,507	70,336	-	414,590
Total financial assets	39,101,581	21,266,615	22,239,437	1,627,898	653,679	550,000	85,439,210
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	7,478	-	-	-	-	-	7,478
Accounts of the Government of the Kyrgyz Republic	6,719,071	-	-	-	-	-	6,719,071

Amounts payable under agreements of sale and repurchase of securities	-	70,806	-	-	-	-	70,806
Debt securities issued	667,860	-	-	-	-	-	667,860
Loans received	312,839	162,065	693,052	3,627,343	8,105,195	-	12,900,494
Total interest bearing financial liabilities	7,707,248	232,871	693,052	3,627,343	8,105,195	-	20,365,709
Banknotes and coins in circulation	43,290,296	-	-	-	-	-	43,290,296
Due to banks and other financial institutions	5,605,485	-	-	-	-	-	5,605,485
Accounts of the Government of the Kyrgyz Republic	527,627	-	-	-	-	-	527,627
Other financial liabilities	16,372	1,365	43,552	7,041	-	57,075	125,405
Total financial liabilities	57,147,028	234,236	736,604	3,634,384	8,105,195	57,075	69,914,522
Difference between assets and liabilities	(18,045,447)	21,032,379	21,502,833	(2,006,486)	(7,451,516)		
Difference between interest bearing assets and liabilities	31,066,294	21,029,979	21,523,596	(2,043,952)	(7,521,852)		
Difference between interest bearing assets and liabilities, rising total	31,066,294	52,096,273	73,619,869	71,575,917	64,054,065		
Difference between interest bearing assets and liabilities with cumulative interest of total assets, rising total	36%	60%	85%	83%	74%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
FINANCIAL ASSETS							
Precious metals	722,832	3,279,908	-	-	-	-	4,002,740
Due from banks and other financial institutions	26,902,808	14,181,171	3,363,498	-	-	-	44,447,477
Loans to banks	657	-	1,319	66,190	-	-	68,166
Investments available-for-sale	4,463,218	9,413,651	6,908,151	-	-	-	20,785,020
Investments held-to-maturity	4,446	500,053	129,388	1,581,889	639,539	550,000	3,405,315
Total interest bearing financial assets	32,093,961	27,374,783	10,402,356	1,648,079	639,539	550,000	72,708,718
Due from banks and other financial institutions	121,515	-	-	-	-	-	121,515
Investments available-for-sale	-	-	-	-	-	15,000	15,000
Other financial assets	298,860	2,337	11,612	46,985	40,723	-	400,517
Total financial assets	32,514,336	27,377,120	10,413,968	1,695,064	680,262	565,000	73,245,750
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	44,470	-	-	-	-	-	44,470
Accounts of the Government of the Kyrgyz Republic	3,459,249	-	-	-	-	-	3,459,249
Debt securities issued	1,059,543	-	-	-	-	-	1,059,543
Loans received	155,202	182,418	724,704	3,834,929	2,699,625	5,860,782	13,457,660

Total interest bearing financial liabilities	4,718,464	182,418	724,704	3,834,929	2,699,625	5,860,782	18,020,922
Banknotes and coins in circulation	-	-	-	-	-	35,738,688	35,738,688
Due to banks and other financial institutions	8,504,968	-	-	-	-	-	8,504,968
Accounts of the Government of the Kyrgyz Republic	521,099	-	-	-	-	-	521,099
Other financial liabilities	19,196	63	3,055	692	-	57,465	80,471
Total financial liabilities	13,763,727	182,481	727,759	3,835,621	2,699,625	41,656,935	62,866,148
Difference between assets and liabilities	18,750,609	27,194,639	9,686,209	(2,140,557)	(2,019,363)		
Difference between interest bearing assets and liabilities	27,375,497	27,192,365	9,677,652	(2,186,850)	(2,060,086)		
Difference between interest bearing assets and liabilities, rising total	27,375,497	54,567,862	64,245,514	62,058,664	59,998,578		
Difference between interest bearing assets and liabilities with cumulative interest of total assets, rising total	37%	74%	88%	85%	82%		

The table below summarizes the maturity profile of the National Bank's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the National Bank expects that many customers will not request repayment on the earliest date the National Bank could be required to pay and the table does not reflect the expected cash flows indicated by the National Bank's deposit retention history.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	7,478	-	-	-	-	-	7,478
Accounts of the Government of the Kyrgyz Republic	6,719,071	-	-	-	-	-	6,719,071
Amounts payable under agreements of sale and repurchase of securities	-	71,326	-	-	-	-	71,326
Debt securities issued	669,200	-	-	-	-	-	669,200
Loans received	312,898	162,065	694,180	3,659,728	8,113,833	-	12,942,704
Total interest bearing financial liabilities	7,708,647	233,391	694,180	3,659,728	8,113,833	-	20,409,779
DERIVATIVE FINANCIAL INSTRUMENTS							
Foreign currency swap contracts							
Inflow	336,314	360,346	-	-	-	-	696,660
Outflow	(334,404)	(355,599)	-	-	-	-	(690,003)
Banknotes and coins in circulation	43,290,296	-	-	-	-	-	43,290,296

Due to banks and other financial institutions	5,605,485	-	-	-	-	-	5,605,485
Accounts of the Government of the Kyrgyz Republic	527,627	-	-	-	-	-	527,627
Other financial liabilities	16,372	1,365	43,552	7,041	-	57,075	125,405
Total financial liabilities	57,150,337	239,503	737,732	3,666,769	8,113,833	57,075	69,965,249

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	44,470	-	-	-	-	-	44,470
Accounts of the Government of the Kyrgyz Republic	3,459,249	-	-	-	-	-	3,459,249
Debt securities issued	1,060,000	-	-	-	-	-	1,060,000
Loans received	218,737	185,287	742,345	3,867,032	2,744,060	5,866,536	13,623,997
Total interest bearing financial liabilities	4,782,456	185,287	742,345	3,867,032	2,744,060	5,866,536	18,187,716
Banknotes and coins in circulation	-	-	-	-	-	35,738,688	35,738,688
Due to banks and other financial institutions	8,504,968	-	-	-	-	-	8,504,968
Accounts of the Government of the Kyrgyz Republic	521,099	-	-	-	-	-	521,099
Other financial liabilities	19,196	63	3 055	692	-	57,465	80,471
Total financial liabilities	13,827,719	185,350	745,400	3,867,724	2,744,060	41,662,689	63,032,942

Average effective interest rates

The table below displays average effective interest rates on assets and liabilities of the National Bank as at 31 December 2010 and 2009.

	Average effective interest rates 2010	Average effective interest rates 2009
Assets:		
Interest bearing financial assets		
Precious metals	0.01%	0.01%
Due from banks and other financial institutions	0.50%	0.26%
Investments available-for-sale	3.38%	1.68%
Investments held to maturity	11.32%	8.72%
Amounts receivable from the contracts of purchase and resale of securities	5.2%	-
Investments held to maturity, pledged under repurchase agreements	13.11%	-
Liabilities:		
Interest bearing financial liabilities		
Due to banks and other financial institutions	-	-
Amounts payable under agreements of sale and repurchase of securities	6.78%	-
Debt securities issued	5.31%	0.82%
Accounts of the Government of the Kyrgyz Republic	0.64%	1.38%
Loans received	0.16%	0.40%

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the National Bank is exposed.

Interest rate risk

Interest rate risk is defined as the risk of loss resulted from unfavorable change of interest rates on money market which arises from balance of assets and liabilities with variable interest rates and/or temporary liquidity gap on assets and liabilities with fixed interest rates. For the purpose of minimization of interest risk impact the Management Board of the National Bank establishes limitations on maximum share in the investment portfolio (as a percentage) and the maximum term structure of approved investment instruments.

Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The main directions of market risk management of the National Bank are prediction and minimization of losses from changes in interest rates and rates of exchange.

To minimize market risk the Management Board of the National Bank establishes limitations on instruments, duration, and currency of investment assets.

Department concluding a deal performs continuing monitoring and analysis of financial markets and economic policy of the counterparty countries which affects the market. Based on these data and expectations of professional market participants the forecasts on market prices, rates of exchange and interest the forecast on market prices is prepared and the level of National Bank's potential losses is assessed.

The National Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate sensitivity

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel of the National Bank.

Impact on profit before tax based on asset values as at 31 December 2010 and 31 December 2009:

	As at 31 December 2010		As at 31 December 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
FINANCIAL ASSETS:				
Due from banks and other financial institutions	257,724	(257,724)	152,997	(152,997)
Loan to banks	2,338	(2,338)	346	(346)
Investments held-to-maturity	15,236	(15,236)	12,681	(12,681)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions			-	-
Accounts of the Government of the Kyrgyz Republic	(67,191)	67,191	(39,803)	39,803
Loans received	(528)	528	(935)	935
Net impact on profit	207,579	(207,579)	124,940	(124,940)
FINANCIAL ASSETS:				
Investments available-for-sale	(37,426)	33,373	(49,649)	46,356
Impact on equity	(37,426)	33,373	(49,649)	46,356

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The National Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The National Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	KGS	USD 1 USD = 47.0992 com	EUR 1 EUR = 61.7949 com	SDR 1 SDR = 71.9011 com	CAD 1 CAD = 46.6435 com	AUD 1 AUD = 47.2353 com	CHF 1 CHF = 48.8843 com	GBP 1 GBP = 72.6077 com	Other currency	31 December 2010 Total
FINANCIAL ASSETS										
Precious metals	-	-	-	-	-	-	-	-	5,500,912	5,500,912
Due from banks and other financial institutions	-	23,980,712	14,354,472	8,022,095	5,048,896	1,152,348	4,448,424	2,065,725	327,039	59,399,711
Amounts receivable from the contracts of purchase and resale of securities	200,193	-	-	-	-	-	-	-	-	200,193
Loans to banks	823,963	-	-	-	-	-	-	-	-	823,963
Investments available-for-sale	15,000	-	4,063,074	-	701,254	9,312,171	-	1,481,475	-	15,572,974
Investments held-to-maturity	3,456,074	-	-	-	-	-	-	-	-	3,456,074
Investments held to maturity, pledged under repurchase agreements	70,793	-	-	-	-	-	-	-	-	70,793
Other financial assets	115,398	268,295	30,897	-	-	-	-	-	-	414,590
Total financial assets	4,681,421	24,249,007	18,448,443	8,022,095	5,750,150	10,464,519	4,448,424	3,547,200	5,827,951	85,439,210
FINANCIAL LIABILITIES										
Banknotes and coins in circulation	43,290,296	-	-	-	-	-	-	-	-	43,290,296
Due to banks and financial institutions	5,405,000	207,963	-	-	-	-	-	-	-	5,612,963
Accounts of the Government of the Kyrgyz Republic	3,223,443	3,802,489	220,766	-	-	-	-	-	-	7,246,698
Amounts payable under agreements of sale and repurchase of securities	70,806	-	-	-	-	-	-	-	-	70,806
Debt securities issued	667,860	-	-	-	-	-	-	-	-	667,860
Loans received	-	152,814	-	12,747,680	-	-	-	-	-	12,900,494
Other financial liabilities	65,678	2,652	-	-	-	-	-	-	57,075	125,405
Total financial liabilities	52,723,083	4,165,918	220,766	12,747,680	-	-	-	-	57,075	69,914,522
OPEN BALANCE SHEET POSITION	(48,041,662)	20,083,089	18,227,677	(4,725,585)	5,750,150	10,464,519	4,448,424	3,547,200	5,770,875	

	KGS	USD 1 USD = 44.0917 com	EUR 1 EUR = 63.5229 com	SDR 1 SDR = 69.1644 com	CAD 1 CAD = 41.9901 com	AUD 1 AUD = 39.0167 com	CHF 1 CHF = 42.5657 com	GBP 1 GBP = 70.4012 com	Other currency	31 December 2009 Total
FINANCIAL ASSETS										
Precious metals	-	-	-	-	-	-	-	-	4,002,740	4,002,740
Due from banks and other financial institutions	-	13,242,019	12,210,436	7,153,060	5,129,010	649,952	2,767,616	3,299,919	116,980	44,568,992
Loans to banks	66,832	1,334	-	-	-	-	-	-	-	68,166
Investments available-for-sale	15,000	5,972,259	6,095,641	-	-	7,620,711	1,096,409	-	-	20,800,020
Investments held-to-maturity	3,405,315	-	-	-	-	-	-	-	-	3,405,315
Other financial assets	127,359	241,397	31,761	-	-	-	-	-	-	400,517
Total financial assets	3,614,506	19,457,009	18,337,838	7,153,060	5,129,010	8,270,663	3,864,025	3,299,919	4,119,720	73,245,750
FINANCIAL LIABILITIES										
Banknotes and coins in circulation	35,738,688	-	-	-	-	-	-	-	-	35,738,688
Due to banks and other financial institutions	5,376,865	3,172,548	11	-	-	-	-	14	-	8,549,438
Accounts of the Government of the Kyrgyz Republic	2,081,101	448,364	138,147	-	1,312,736	-	-	-	-	3,980,348
Debt securities issued	1,059,543	-	-	-	-	-	-	-	-	1,059,543
Loans received	-	220,670	-	13,236,990	-	-	-	-	-	13,457,660
Other financial liabilities	24,838	9	-	-	-	-	-	-	55,624	80,471
Total financial liabilities	44,281,035	3,841,591	138,158	13,236,990	1,312,736	-	-	14	55,624	62,866,148
OPEN BALANCE SHEET POSITION	(40,666,529)	15,615,418	18,199,680	(6,083,930)	3,816,274	8,270,663	3,864,025	3,299,905	4,064,096	
Currency risk sensitivity										

The following table details the National Bank's sensitivity to a 10% increase and decrease in the foreign currency against the KGS. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

Impact on net profit and equity of currency risk sensitivity of financial instruments as at 31 December 2010 and 31 December 2009 is presented below:

	As at 31 December 2010		As at 31 December 2009	
	KGS/USD +10%	KGS/USD -10%	KGS/USD +10%	KGS/USD -10%
Impact on profit or loss	2,008,309	(2,008,309)	1,561,542	(1,561,542)

	As at 31 December 2010		As at 31 December 2009	
	KGS/EUR +10%	KGS/EUR -10%	KGS/EUR +10%	KGS/EUR -10%
Impact on profit or loss	1,822,768	(1,822,768)	1,819,968	(1,819,968)

	As at 31 December 2010		As at 31 December 2009	
	KGS/SDR +10%	KGS/SDR -10%	KGS/SDR +10%	KGS/SDR -10%
Impact on profit or loss	(472,559)	472,559	(608,393)	608,393

	As at 31 December 2010		As at 31 December 2009	
	KGS/CAD +10%	KGS/CAD -10%	KGS/CAD +10%	KGS/CAD -10%
Impact on profit or loss	575,015	(575,015)	381,627	(381,627)

	As at 31 December 2010		As at 31 December 2009	
	KGS/AUD +10%	KGS/AUD -10%	KGS/AUD +10%	KGS/AUD -10%
Impact on profit or loss	1,046,452	(1,046,452)	827,066	(827,066)

	As at 31 December 2010		As at 31 December 2009	
	KGS/CHF +10%	KGS/CHF -10%	KGS/CHF +10%	KGS/CHF -10%
Impact on profit or loss	444,842	(444,842)	386,403	(386,403)

	As at 31 December 2010		As at 31 December 2009	
	KGS/GBP +10%	KGS/GBP -10%	KGS/GBP +10%	KGS/GBP -10%
Impact on profit or loss	354,720	(354,720)	329,991	(329,991)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the National Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

IV

ATTACHMENTS

Chronology of Major Events in the Monetary Sphere in 2010

Date	Contents
December 16, 2009	The Board of the NBKR considered and approved the following documents: <ul style="list-style-type: none"> – “Main Monetary Policy Guidelines for 2010” – “Statement of the National Bank of the Kyrgyz Republic about Monetary Policy for 2010”.
January 20 - February 2	The IMF mission visited the Kyrgyz Republic to review performance under the Exogenous Shocks Facility (ESF). According to the IMF review results, the ESF program was officially completed.
January 27–February 2	The Adviser to the IMF Executive Director was on an official visit in the Kyrgyz Republic. At the meeting, the Chairman of the NBKR and the Adviser discussed the economic policy conducted by the Kyrgyz Republic, reviewed the macroeconomic situation, touched on the economic growth and financial stability issues, and also the implementation of the monetary policy in the context of the impact of the global financial crisis.
January 29	The Chairman of the NBKR delivered an open lecture at the American University of Central Asia on the “Impact of the Global Financial Crisis on the Monetary Policy of the Kyrgyz Republic”, where he also announced the monetary policy benchmarks for 2010.
January 30	The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> – “On Approval of the Regulation “On Reserve Requirements to the Deposit Taking Microfinance Organizations”; – “On Amendments and Addenda to the Banks Refinancing Policy of the “Special Fund for Banks Refinancing” LLC.
February 9	The 19 th meeting of the working group on monitoring of implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010 was held.
February 17	The Board of the NBKR adopted the resolution “On Some Regulatory and Legal Acts of the NBKR”, according to which the new edition of the Regulation “On Consolidated Supervision” was approved, and the amendments were made to the resolution of the NBKR Board No 26/3 of June 10, 2009 “On Approval of the “Rules for Start-up and/or Acquisition of Subsidiaries or Dependent Companies by Commercial Banks of the Kyrgyz Republic”.
February 19	<ul style="list-style-type: none"> • The press conference was held at the KABAR Kyrgyz National News Agency with the Deputy Chairman of the NBKR on the monetary policy results for 2009. • The first meeting of the Scientific and Expert Council of the NBKR was held with participation of invited experts. The decisions were made relating to the organization of the SEC activity for conducting the first stage of field works on the “Survey of the frontier trade and re-export of goods not covered by the official statistics”.

Date	Contents
February 24	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Policy Report for 2009 and the Monetary Program for the Forthcoming Period”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of December 31, 2009”; – “On the Report of the Payment System Status of the Kyrgyz Republic for the Fourth Quarter 2009”; – “On Amendments and Addenda to the Resolution of the Board of the NBKR No 5/7 of March 2, 2006 “On Approval of the Regulation on Licensing of Banks”; – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 4/4 of February 19, 2003 “On Interim Instruction on the Work with Deposits”.
March 12	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Policy of Banks Refinancing of the “Special Fund for Banks Refinancing” LLC; – “On Extending Conservation Regime in OJSC “Ak Bank” (the conservation regime was introduced in December 2007 and was extended in June 2009).
March 15	<p>The Law of the Kyrgyz Republic was adopted “On Amendments and Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”, according to which, the authorized capital is formed by deductions from the profit of the Bank of Kyrgyzstan prior to its distribution and using the republican budget funds, including the issue of government securities.</p>
March 19	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Regulation “On Required Reserves”; – “On Amendments and Addenda to the Policy of Banks Refinancing of the “Special Fund for Banks Refinancing” LLC.
March 31	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 7/5 of March 23, 2006 “On Approval of the Regulation “On Enforcement Measures Applied to Banks and Some FCIs Licensed by the National Bank of the Kyrgyz Republic”; – “On Amendments to the Resolution of the Board of the NBKR of May 27, 2009 No 25/8 “On Approval of Rules for Regulating the Special Fund for Banks Refinancing LLC”.
March 31– April 7	<p>The IMF mission visited the Kyrgyz Republic with a view of providing technical assistance on the financial recovery of problem banks. Within the framework of this mission, the parties discussed the existing system of enforcement measures applied by the NBKR to commercial banks, further improvement of legislation, regulatory and legal acts of the NBKR in this field and considered the presentation on the “Review of Actions Related to the Introduction of a Special Regime and Reorganization of a Problem Bank”.</p>

Date	Contents
April 8	The Board of the NBKR adopted the Resolution “On Introduction of Temporary Management in Commercial Banks of the Kyrgyz Republic”, according to which, the temporary management of a bank for the term of six months was introduced starting 8:00 a.m. on April 8, 2010 in the following banks: OJSC “AsiaUniversalBank”, OJSC Investbank “Issyk-Kul”, OJSC “Kyrgyz Credit Bank”, CJSC “Manas Bank” and OJSC “Akylinvestbank”.
April 10-30	The Board of the NBKR adopted a number of resolutions related to the provision of banking and payment services, prohibition of some operations in the following banks”: OJSC Investbank “Issyk-Kul”, OJSC “Kyrgyz Credit Bank”, CJSC “Manas Bank”, OJSC “Akylinvestbank”, OJSC “Dos-Credobank”, OJSC “BANK-BAKAI” and OJSC “AsiaUniversalBank”, and also repayment of obligations by the clients to these banks.
April 16	<ul style="list-style-type: none"> • The meeting of a representative of the Interim Government of the Kyrgyz Republic and the management of the National Bank was held in the National Bank with the managers of commercial banks of the republic, the Union of Banks of Kyrgyzstan, the Special Fund for Banks Refinancing and the Deposit Insurance Fund to coordinate actions and elaborate joint measures by the NBKR and commercial banks to ensure further normal functioning of the entire banking system after April events in the country. • The meeting of a representative of the Interim Government of the Kyrgyz Republic and the management of the NBKR was held in the National Bank with the representatives of the microfinance sector, credit unions and FCSDCU LLC. At the meeting, the parties discussed the problems that the microfinance sector faced resulting from April political events, the coordination of actions and elaboration of joint measures by the NBKR and microfinance sector of the republic to ensure further normal functioning of the entire system. • The Board of the NBKR adopted the resolution on introduction of the temporary management regime in CJSC “Development Fund of the Kyrgyz Republic” for one month.
April 22	The Board of the NBKR adopted the Resolution “On Activity of CJSC “Interbank Processing Center”.
April 30	The Board of the NBKR adopted the Resolution “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 8/6 of February 13, 2002 “On Temporary Rules “On Lending (overdraft) on Bank Payment Cards”.
May 4-6	The Board of the NBKR adopted resolutions on performing loan disbursement operations in OJSC “Akylinvestbank”, OJSC Investbank “Issyk-Kul”, CJSC “Manas Bank” and OJSC “KyrgyzCredit Bank”.
May 7	The Board of the NBKR adopted the Resolution “On the Revocation of the License of the CJSC “Development Fund of the Kyrgyz Republic”.
May 13	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Removing Limitations in the License of the OJSC “Ayil Bank” to perform banking operations in foreign currency under paragraph 1.12 related to the operations with financial derivatives with the National Bank of the Kyrgyz Republic (swap operations); – “On Removing Limitations on Banking Operations and Lending to the Affiliates and Insiders in the OJSC “BANK-BAKAI” that were introduced earlier.

Date	Contents
May 19	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 8/2 of March 19, 2010 “On Approval of the Regulation “On Required Reserves”; – “On Reserve Requirements”; – “On Amendments and Addenda to the Policy of Banks Refinancing of the “Special Fund for Banks Refinancing” LLC; – “On Extending the Term of Powers of the Temporary Management of CJSC “Development Fund of the Kyrgyz Republic”.
May 20-30	<p>The IMF review mission visited the Kyrgyz Republic to assess the economic situation in the Kyrgyz Republic as a consequence of April events in the country.</p>
May 26	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Policy Report for the First Quarter of 2010 and the Monetary Program for the Forthcoming Period”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of March 31, 2010”; – “On the Report on the Current Status of the Payment System for the First Quarter of 2010”; – “On Amendments and Addenda to the “Rules of Regulating Credit Unions in the Kyrgyz Republic” – “On Amendments and Addenda to the “Temporary Rules of Regulating Microfinance Organizations in the Kyrgyz Republic”; – “On Amendments and Addenda to the “Temporary Rules of Regulating the Activity of FCSDCU LLC; – “On Conducting Direct Swap Operations”.
May 31– June 11	<p>The Board of the NBKR adopted a number of resolutions related to the OJSC “AsiaUniversalBank”, specifically: on recognizing it as a systemic bank (having systemic importance); on introducing limitations to perform banking and payment operations with legal entities, its clients and to take deposits; on conducting some banking operations; on removing limitations to conduct some operations, to discontinue the temporary management regime and to introduce the conservation regime starting 6:00 p.m. on June 4, 2010 until 6:00 p.m. on September 6, 2010. In addition, the Plan for Rehabilitation of OJSC “AsiaUniversalBank” was approved and presented to the Ministry of Finance of the Kyrgyz Republic.</p>
June 16	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 5/1 of January 31, 2007 “Regulation on Licensing, Reorganization and Liquidation of Microfinance Companies in the Kyrgyz Republic”; – “On Amendments to the Resolution of the Board of the NBKR No 54/1 of November 30, 2007 “On Approval of the State Payment Turnover Classifier”.

Date	Contents
June 30	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Registration Rules of Collateral in the Form of Government Securities Placed through the NBKR”; – “On Collateral for Overnight and Intraday Credits”; – “On Approval of the Regulation “On Periodic Regulatory Consolidated Reporting”; – “On Regulation “On Minimal Requirements to Internal Controls in Exchange Bureaus of the Kyrgyz Republic for Purposes of Combating the Financing of Terrorism (Extremism) and Anti-Money Laundering”; – “On the New Edition of the Regulation “On Minimal Requirements to the Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.
July 8-15	<p>The IMF review mission visited the Kyrgyz Republic to assess the economic situation in the Kyrgyz Republic as a consequence of April and June events in the country.</p>
July 20	<ul style="list-style-type: none"> • The management of the NBKR, the managers of commercial banks and microfinance companies, the Union of Banks of Kyrgyzstan and the Association of Microfinance Organizations met with the borrowers of commercial banks in the National Bank. The objective of the meeting was to discuss the restructuring of borrowers’ loans, the refinancing of problem debts and collateral foreclosure. • The press conference was held in the National Bank with the Acting Chairman of the NBKR on the monetary policy results for the first half of 2010.
July 27	<p>An international donor conference “Emergency Assistance to the KR: Recovery and Consent” was held in the Kyrgyz Republic. Based on the conference results it was agreed to allocate funds to Kyrgyzstan for restoration of the country.</p>
July 28 – August 7	<p>The IMF review mission was on a visit in the Kyrgyz Republic with the objective to develop a joint cooperation program between Kyrgyzstan and the IMF. Based on the results of a joint work of the IMF mission with the National Bank and the Government of the Kyrgyz Republic, the new program was developed and stated in the “Memorandum of Economic Policy for September-December 2010” within the framework of the Rapid Credit Facility (RCF)”.</p>
August 5	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> • “On Insolvency of OJSC “AsiaUniversalBank”; • “On Initiation of Bankruptcy Proceedings against OJSC “AsiaUniversalBank”.
August 6	<ul style="list-style-type: none"> • The 20th meeting of the working group on monitoring of implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010 was held. • The National Bank filed a law suit to the Inter-regional Court of Bishkek to declare OJSC “AsiaUniversalBank” bankrupt.
August 10	<p>Acting Chairman of the NBKR took part in a meeting of the Security Council of the Kyrgyz Republic, where the parties considered the current status of the banking system, the decisions made by the NBKR to stabilize the banking sector, the monetary policy implementation and the objectives for the second half of 2010.</p>
August 11	<p>The Board of the NBKR adopted the resolution “On the Monetary Policy Report for the First Half of 2010 and the Monetary Program for the Forthcoming Period”.</p>

Date	Contents
August 25	The Board of the NBKR adopted the resolution to remove limitations in the license of the OJSC “Ayil Bank” to perform banking operations in foreign currency related to the operations with the letters of credit.
August 26	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of June 30, 2010”; – “On the Report of the Current Status of the Payment System for the Second Quarter 2010”.
September 8	According to the order of the Government of the Kyrgyz Republic, an interdepartmental working group was established with the participation of the National Bank representatives to elaborate proposals on restructuring mutual obligations of the microfinance sector and the OJSC “AsiaUniversalBank”.
September 14	The management of the NBKR had a meeting in the National Bank with the delegation of the Swiss Cooperation Office in the Kyrgyz Republic. During the meeting, the parties discussed cooperation on certain projects: strengthening the structure of combating the financing of terrorism and anti-money laundering; the development of the government securities market; the survey of the frontier border trade and re-export of goods not covered by the official statistics.
September 15	<ul style="list-style-type: none"> • The IMF Executive Board approved the economic program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for September-December 2010 within the framework of the Rapid Credit Facility (RCF). The peculiarity of this IMF financial assistance is in that the credit funds are served to support the state budget. • The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> – “On Approval of the List of Liabilities to Calculate Required Reserves”; – “On Extension of the Term for Complying with the Economic Ratio on the Minimum Capital (Own Funds) at the Rate of KGS 200 million for Banks until December 31, 2010”.
September 17	The press conference was held at the KABAR Kyrgyz National News Agency with the Deputy Chairman of the NBKR on the monetary policy results for eight months of 2010.
September 21	<ul style="list-style-type: none"> • The management of the NBKR met with the borrowers of commercial banks of the republic to discuss the restructuring of their loans. • An annual round table with the managers of commercial banks was jointly organized with the Union of Banks of Kyrgyzstan in the National Bank, where, the parties discussed the current issues concerning the banking sphere as a whole.
September 22	The management of the NBKR met with the Acting Director of the USAID Representative Office in the Kyrgyz Republic and an Economic Advisor to the Political and Economic Section of the US Embassy in the Kyrgyz Republic. In the course of the visit, the parties discussed cooperation issues, exchanged opinions concerning implementation of projects and programs aimed at increasing economic growth in the Kyrgyz Republic and stabilization of the banking system.

Date	Contents
September 23	The judicial collegium for civil cases of the Supreme Court of the Kyrgyz Republic in its decision rejected the suit to the former shareholders of the OJSC “Kyrgyzpromstroibank” to invalidate the purchase and sale agreement of the shares of the OJSC “Kyrgyzpromstroibank”. The decision enters into force on the date of its reading, is final and shall not be appealed.
September 23-26	The regular 24 th session of the Club of Governors of Central Banks of Central Asian, Black Sea, and the Balkan countries was held in Dushanbe. During the session, the parties discussed the global and regional economic and financial development, strengthening of banking supervision in the post-crisis period, and also, considered the issues of developing existing relationships and future regional collaboration of central banks.
September 24	The management of the NBKR held the meeting with the EBRD delegation, in the course of which, they discussed the economic situation in the country and the problems of the banking sector development, and also the issues related to conducting a legal audit of OJSC “AsiaUniversalBank”.
September 27	The management of the National Bank met with the delegation of the China Development Bank. The main objective of the delegation visit to the republic was to familiarize with the current situation in the banking sector and discuss the perspectives of future cooperation, also provide financial support in implementation of social projects, construction, development of small and medium size businesses.
September 28	The management of the NBKR held a meeting with the delegation of foreign investors representing companies from the following countries: Bahrain, Dubai, Iran, Canada and Japan. During the meeting, the parties discussed the economic cooperation issues, specifically, the possibility for capital investment in the economic development of Kyrgyzstan, also touched on the situation in the banking services market.
September 29	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Draft Law of the Kyrgyz Republic “On the Development Bank of the Kyrgyz Republic”; – “On Amendments to the Temporary Rules of Regulating the Activity of the MFC”.
October 6-8	The NBKR representatives delivered their reports at the Fifth Krakow Political Forum in Kiev on the “Protection of Rights of Financial Service Consumers in the Kyrgyz Republic” and the “Financial Cooperatives in Kyrgyzstan: Development, Regulation and Supervision Issues”. The forum was devoted to the legislative support and financial system regulation with participation of representatives of Armenia, Belarus, Kazakhstan, Moldova, Russia, Tajikistan and Ukraine.
October 8	The Board of the NBKR adopted the resolution, according to which, the Temporary management regime was introduced in the OJSC “KyrgyzCredit Bank”, OJSC “Akylinvestbank” and CJSC “Manas Bank” for the term of up to six months.

Date	Contents
October 21	<p>At the KABAR Kyrgyz National News Agency the following events were held:</p> <ul style="list-style-type: none"> – The press conference with the managers of the NBKR, the Ministry of Finance and the Ministry of Economic Regulation on the results of participation of the delegation of the Kyrgyz Republic in the IMF and World Bank Annual Meeting held in Washington on October 6-11, 2010; – The press conference with the Acting Chairman of the NBKR on the monetary policy results for nine months of 2010.
October 27	<p>Bishkek City Court recognized the bankruptcy of OJSC “AsiaUniversalBank”. The Agency for Bank Reorganization and Debt Restructuring (DEBRA) under the National Bank of the Kyrgyz Republic was appointed as the special Administrator of the OJSC “AsiaUniversalBank”.</p>
October 28	<p>The Board of the NBKR adopted the resolution “On Revocation of the License of the OJSC “AsiaUniversalBank”.</p>
November 18	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the NBKR No 5/7 of March 2, 2006 “On Approval of the Regulation “On Licensing of Banks”; – “On Amendments and Addenda to Some Regulatory and Legal Acts of the NBKR”, according to which, the addenda to the Regulation on Periodic Regulatory Bank Report were approved.
November 25	<p>The regular meeting of the Council of prime-ministers of the Shanghai Cooperation Organization (SCO) member states was held in Dushanbe, at which the management of the NBKR participated. Delegations of the SCO member states discussed current issues of trade and economic development and humanitarian cooperation, peace building, stability and security in the region.</p>
November 26	<p>The Board of the NBKR adopted the resolution “Regulation on the Procedure of Conducting Deposit Operations in Foreign Currency by the National Bank of the Kyrgyz Republic”.</p>
December 1	<ul style="list-style-type: none"> • The banknotes of the fourth series at the nominal value of KGS 200, 500 and 1,000 were issued into circulation in the whole territory of the Kyrgyz Republic. • The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> – “On Monetary Policy Report for Nine Months of 2010”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of September 30, 2010”; – “On the Current Status of the Payment System for the Third Quarter of 2010”.
December 14	<p>The Inter-regional Court of Bishkek satisfied the request of the National Bank to restructure the OJSC “AsiaUniversalBank” by establishing a new bank. The Court determined the restructuring method of the OJSC “AsiaUniversalBank” on the conditions of establishing a legal entity that is a new bank in the form of an open joint stock company. The special administrator was given all authorities required to establish a new bank. The method of restructuring the OJSC “AsiaUniversalBank” by creating a new bank was aimed at soundness of its assets to satisfy claims of the depositors and other creditors of the bank.</p>

Date	Contents
December 16	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On the Issue of a Prior Consent to Open the OJSC “Zalkar Bank” and Obtain Licenses to Conduct Banking Operations in National and Foreign Currencies”; – “Concerning Partial Removal of Limitations in the License of the OJSC “Aiyl Bank” to Conduct Banking Operations in National and Foreign Currencies under the Paragraph “mobilization of deposits on its behalf on the conditions agreed with the depositor”, according to which, the deposit base of the OJSC “Aiyl Bank” shall not exceed 50 percent of its capital (own funds).
December 20	<p>The Board of the NBKR adopted the resolution “On the Statement of the National Bank of the Kyrgyz Republic about Monetary Policy for 2011”.</p>
December 24	<p>The National Bank issued licenses to the OJSC “Zalkar Bank” No 049 and No 049/1 to perform banking operations in national and foreign currencies. This bank was established according to the Law of the KR “On Conservation, Liquidation and Bankruptcy of Banks” by restructuring the bankrupt bank OJSC “AsiaUniversalBank” and is not a successor of the OJSC “AsiaUniversalBank”.</p>
December 27	<ul style="list-style-type: none"> • The Board of the NBKR made a decision to discontinue the temporary management in OJSC Investbank “Issyk-Kul” and introduce the conservation regime. • The second meeting of the Scientific and Expert Council of the NBKR was held in the National Bank with the participation of the invited experts. The following issues were considered at the meeting: <ul style="list-style-type: none"> – The results of the scientific and research activity on the subject of the “Survey of the frontier trade and re-export of goods not covered by the official statistics”, which was successfully completed in 2010 with the financial support from the Swiss Cooperation office in the Kyrgyz Republic; – The interim results of the work on the subject of “Building a macroeconomic model of the Kyrgyz Republic”; – The draft paper “Communication policy in the National Bank of the Kyrgyz Republic as the monetary policy element”.
December 28	<p>The Board of the NBKR adopted the resolution of the NBKR “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 37/2 of September 11, 2009 “On the Regulation “On Creation of Microcredit Companies and Microcredit Agencies”.</p>
December 29	<p>The Board of the NBKR adopted the following resolutions:</p> <ul style="list-style-type: none"> – “On Main Monetary Policy Guidelines for 2011-2013”. – “On Approval of the New Edition of the Regulation “On Minimal Requirements to Internal Controls in Commercial Banks to Combat the Financing of Terrorism (Extremism) and Anti-Money Laundering”.

Appendix 2

to the NBKR Report for 2010

Statistical Information (tables and charts)

Titles of Tables	
Table 1.	Macroeconomic Indicators
Table 2.	GDP Structure
Table 3.	Structure of Capital Investments by Sources of Financing
Table 4.	Monetary Base and Monetary Aggregates (as of the end of period)
Table 5.	Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (as of the end of period)
Table 6.	External Economic Indicators
Table 7.	Monetary Policy Instruments
Table 8.	Interest Rates of Deposits in National Currency (for the period)
Table 9.	Interest Rates of Deposits in Foreign Currency (for the period)
Table 10.	Interest Rates on Credits of Commercial Banks in National Currency (for the period)
Table 11.	Interest Rates on Credits of Commercial Banks in Foreign Currency (for the period)
Table 12.	Annual Average Interest Rate of Interbank Credits (excluding transactions with non-residents)
Table 13.	Balance of Payments of the Kyrgyz Republic
Table 14.	Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors
Table 15.	Information on Authorized (Shareholders') Capital of Commercial Banks (as of the end of period)
Table 16.	Consolidated Indicators of Commercial Banks (as of the end of period)
Table 17.	Information on Head Offices and Branches of Commercial Banks as of end-2010
Table 18.	Movement of Cash in Commercial Banks and its Collectibility in 2010
Table 19.	Pattern of Payments in the Gross System of Settlements
Table 20.	Volume and Number of Clearing Transactions by Oblasts
Table 21.	Information on Transactions with Plastic Cards in Sales Outlets
Titles of Charts	
Chart 1.	Rates of Growth of Real Gross Domestic Product
Chart 2.	Rates of Growth of Consumer and Producer Prices
Chart 3.	Monetary Aggregate M2X Structure
Chart 4.	Rates of Growth of Money Supply and Inflation
Chart 5.	Balances of Deposits in Commercial Banks (as of the end of period)
Chart 6.	Dynamics of the Deposit Base of Commercial Banks (as of the end of period)
Chart 7.	Structure of the Deposit Base of Commercial Banks (as of the end of period)
Chart 8.	Interest Rates of Credits Extended by Commercial Banks
Chart 9.	Interest Rates of Deposits and Yield of GT-Bills
Chart 10.	Nominal and Real Discount Rate Developments
Chart 11.	Nominal and Real Effective Exchange Rates

Table 1.**Macroeconomic Indicators**

	Unit of Measurement	2006	2007	2008	2009	2010
Real Sector¹						
Nominal GDP	<i>som million</i>	113,800.1	141,897.7	187,991.9	201,222.9	212,177.4*
Rate of Growth of Real GDP	<i>percent</i>	3.1	8.5	8.4	2.9	-1.4*
Rate of Growth of Industrial Output	<i>percent</i>	-10.2	7.3	14.9	-6.4	9.8*
Rate of Growth of Gross Agricultural Output	<i>percent</i>	1.7	1.5	0.8	7.0	-2.8*
Retail Turnover	<i>som million</i>	70,875.6	85,896.2	123,262.0	129,487.4	135,815.6
Paid Services ²	<i>som million</i>	19,691.8	24,671.0	-	-	-
Rendered Market Services ²	<i>som million</i>	-	-	248,432.9	258,156.8	267,633.0
Consumer Prices (in % to the previous period)		5.1	20.1	20.0	0.0	19.2
- food products		6.7	31.5	20.9	-7.4	27.0
- alcoholic beverages and tobacco products		2.5	9.1	13.0	5.2	12.9
- non-food products		4.6	9.8	16.0	10.4	14.2
- services		7.5	10.6	34.4	4.4	11.9
Producer's Prices (in % to the previous period)		15.3	11.9	26.4	12.0	22.9
Unemployment Rate	<i>percent</i>	3.5	3.3	2.9	2.6	2.6
Average Nominal Wage	<i>som</i>	3,270.0	3,990.4	5,422.0	6,253.0	7,142.0
Estimated Minimal Consumer Budget	<i>som</i>	2,377.2	2,795.9	3,571.0	3,263.2	3,502.7
Financial Sector³						
NBKR Discount Rate (end of period)	<i>percent</i>	3.2	8.8	15.2	0.9	5.5
Government Treasury Bills Market (average yield for the period)	<i>percent</i>					
Maturity Period:						
- 3 months		4.8	4.8	12.7	10.9	4.6
- 6 months		5.7	5.7	14.3	12.3	7.4
- 12 months		7.0	7.0	15.2	13.6	12.1
- 18 months		9.9	9.6	15.2	-	-
- 24 months		13.2	11.4	16.4	-	-
Interbank Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	3,109.6	1,644.7	2,372.0	2,193.7	451.1
- interest rate (average for the period)	<i>percent</i>	2.8	3.2	7.6	7.8	4.5
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	862.7	824.4	1,088.7	711.2	131.3
- interest rate (average for the period)	<i>percent</i>	5.7	6.7	5.7	6.0	2.9
REPO Transactions						
- turnover volume	<i>som million</i>	7,465.9	6,988.9	6,864.1	8,613.1	4,597.9
- interest rate (average for the period)	<i>percent</i>	3.3	3.9	8.9	8.3	3.7
Foreign Exchange Market						
Transactionis at Interbank Foreign Exchange Auctions	<i>US\$ thousand</i>	351,060.0	614,645.0	883,183.6	657,140.0	648,340.0
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	4,671.3	8,367.2	9,082.7	9,993.5	11,947.3
- interest rate (average for the period)	<i>percent</i>	25.6	23.2	25.9	26.7	23.7
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	11,547.2	16,145.2	15,280.9	12,005.4	10,872.1
- interest rate (average for the period)	<i>percent</i>	17.3	18.5	20.3	21.5	19.8
Deposits in National Currency:						
- volume (for the period)	<i>som million</i>	12,647.1	21,973.3	23,568.7	33,842.4	56,034.1
- interest rate (average for the period)	<i>percent</i>	1.9	2.1	2.5	2.8	2.0
Deposits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	62,944.7	51,600.9	51,678.1	49,761.5	73,429.2
- interest rate (average for the period)	<i>percent</i>	0.5	0.9	0.9	1.7	1.1
State Budget⁴						
Revenues	<i>som million</i>	25,081.3	35,529.6	45,479.5	55,322.1	57,384.5
including taxes	<i>percent</i>	79.7	74.7	79.0	65.3	63.4
Expenditures	<i>som million</i>	25,297.8	29,480.7	36,944.0	50,034.3	61,583.2
Net purchase of nonfinancial assets	<i>som million</i>	-	5,918.9	6,970.9	8,211.1	6,569.2
Deficit (-) / Surplus (+)	<i>som million</i>	-216.5	130.0	1,564.7	-2,923.3	-10,767.9
in percent of GDP	<i>percent of GDP</i>	-0.2	0.1	0.8	-1.5	-5.1
External Economic Sector						
Export of Goods and Services	<i>percent of GDP</i>	45.1	52.8	53.9	56.1	52.3*
Import of Goods and Services	<i>percent of GDP</i>	79.0	84.1	92.4	80.9	89.9*
Current Account Balance (including transfers)	<i>percent of GDP</i>	-10.0	-5.9	-13.6	-2.4	-10.8*
Reserve Assets	<i>months of imports of goods and services of the following year</i>	3.0	3.0	4.0	4.6	4.3*

* preliminary data

1 NSC KR data

2 Due to introduction of the new classifier of services by the NSC KR, publication of data on paid services was discontinued starting 2008. From this period the data are published on rendered market services, which includes a more expanded list of services.

3 NBKR data

4 CT MF KR data

5 - positive balance - "+"; negative balance - "-"

From 2007 the data are given according to the new Budget Classification (the MoF KR order No 254-P of December 27, 2006, registration number of the MoJ KR No 4 of January 11, 2007).

From 2009 the data is given inclusive of PIP

"- " - no transactions

Table 2.GDP Structure
(in percent)

	2006	2007	2008	2009	2010*
Total	100.0	100.0	100.0	100.0	100.0
Agriculture, hunting and forestry	28.7	26.9	23.5	18.8	18.5
Mineral resource industry	0.4	0.5	0.5	0.5	0.7
Processing industry	11.0	9.9	13.2	14.2	15.9
Production and distribution of electricity, gas and water	3.5	2.7	1.4	2.2	2.7
Construction	2.7	3.6	5.3	6.7	5.7
Trade, repair of motor vehicles, household goods and personal use items	18.4	17.9	16.3	16.8	16.1
Hotels and restaurants	1.4	1.2	1.3	1.3	1.2
Transportation and communication	6.1	7.4	7.9	8.8	9.1
Other	15.5	16.4	17.4	19.7	19.4
Net taxes on products	12.5	13.5	13.1	11.0	10.5

NSC KR data

* preliminary data

Table 3.Structure of Capital Investments by Sources of Financing
(in percent)

	2006	2007	2008	2009	2010*
Total	100.0	100.0	100.0	100.0	100.0
Domestic investments	75.8	78.5	64.0	70.6	76.6
including those financed by:					
Republican budget	5.4	8.8	10.9	13.1	7.3
Local budget	1.3	2.4	1.8	2.1	1.5
Funds of enterprises and organizations	47.1	40.8	22.9	18.7	36.3
Credit to banks	-	0.6	0.8	5.9	7.0
Funds of the population and others	22.0	25.9	27.6	30.8	24.5
Charitable aid	-	-	-	-	0.02
Foreign investments	24.2	21.5	36.0	29.4	23.4
including those financed by:					
Foreign credits	14.6	10.7	12.7	17.5	12.6
Foreign direct investments	8.0	7.0	19.7	9.3	7.3
Foreign grants and humanitarian aid	1.6	3.9	3.6	2.6	3.5

NSC KR data

* preliminary data

"- " - no transactions

Table 4.

Monetary Base and Monetary Aggregates (end of period)
(in millions of soms)

	2006	2007	2008	2009	2010
Base money	22,798.8	31,575.9	35,150.8	41,587.7	48,597.3
Currency in circulation	19,909.7	27,561.9	30,803.3	35,738.7	43,290.3
Currency outside banks (M0)	19,410.0	26,674.7	29,385.1	33,882.3	41,471.2
Monetary aggregate (M1)	22,690.0	31,555.2	34,270.2	40,181.7	50,092.8
Broad money (M2)	24,108.1	34,766.2	38,209.3	43,490.0	53,745.4
Monetary aggregate (M2X)	32,280.9	43,018.0	48,453.2	57,126.4	69,207.7
Multiplier M1	1.00	1.00	0.97	0.97	1.03
Multiplier M2	1.06	1.10	1.09	1.05	1.11
Multiplier M2X	1.42	1.36	1.38	1.37	1.42
M1 Velocity	6.37	5.52	5.80	5.97	4.94
M2 Velocity	5.98	5.06	5.13	5.52	4.57
M2X Velocity	4.49	4.01	4.14	4.27	3.57
Currency outside banks/Deposits	1.51	1.63	1.54	1.46	1.50
Deposits/Broad money (M2X)	0.40	0.38	0.39	0.41	0.40

Prior to January 1, 2010 Base money = Currency in circulation+Reserves and Deposits of other depository corporations in NBKR in national and foreign currencies+deposits of financial institutions in NBKR in national and foreign currencies;

Starting January 1, 2010 Base money = Currency in circulation+Reserves of other depository corporations in NBKR in national currency;

Currency in circulation = notes and coins issued by NBKR less held as vault cash in NBKR;

Money outside banks (M0) = currency in circulation less notes and coins in vaults of commercial banks in national currency;

Monetary aggregate (M1) = M0 + settlement (current) accounts and demand deposits in national currency;

Money supply (M2) = M1 + time deposits in national currency;

Money supply (M2X) = M2 + settlement (current) accounts and deposits in foreign currency;

Multiplier = ratio of monetary aggregate to the base money;

Velocity = ratio of nominal GDP to the volume of monetary aggregate.

Table 5.

External Economic Indicators

	2006	2007	2008	2009	2010
Net foreign assets	22,586.6	34 438.5	39,675.7	54,308.5	65,126.7
Net international reserves	24,814.9	36 381.6	41,660.6	62,329.4	73,474.9
Gold	2,013.7	2 468.0	2,837.4	4,002.5	5,500.4
Foreign currency (assets)	29,036.1	39 188.7	45,322.6	65,847.9	75,315.7
Foreign currency (liabilities)	-6,235.0	-5 275.1	-6,499.4	-7,521.0	-7,341.3
Other external assets	94.8	85.2	116.0	133.3	134.3
Allocation of SDRs	0.0	0.0	0.0	-5,863.2	-6,096.4
Long-term external liabilities	-2,323.1	-2 028.4	-2,100.9	-2,291.1	-2,386.1
Net domestic assets	93.1	-2 949.7	-5,133.9	-13,247.8	-16,529.4
Net domestic credit	1,289.0	-1 088.8	-1,410.9	-4,383.8	-2,489.2
Net claims on General Government	1,664.5	328.8	569.4	-1,644.2	-2,052.6
Net claims on government	1,664.5	328.8	569.4	1,001.3	-1,982.5
Securities	4,302.3	4 123.6	3,505.1	2,907.5	3,026.8
Credits in foreign currency to the Government	1,845.5	1 750.8	1,972.9	2,196.1	2,333.1
Deposits	-4,479.8	-5 420.3	-4,769.8	-3,975.5	-7,242.5
Budgetary accounts	-876.8	-1 834.1	-2,488.6	-1,583.1	-2,725.4
Counterpart funds	0.0	0.0	0.0	0.0	0.0
Other Government accounts	-200.9	-307.4	-412.4	-493.2	-493.8
Government deposits in foreign currency	-3,402.1	-3 278.8	-1,868.8	-1,899.2	-4,023.3
Government credit	-3.5	-125.4	-138.8	-126.8	-99.8
Net claims on special funds	0.0	0.0	0.0	-2,645.5	-70.2
Net claims on other depository corporations	-375.5	-1 417.6	-1,946.1	-1,264.0	86.8
Loans	312.7	291.5	304.7	322.6	342.7
including: overnight loans	0.0	0.0	0.0	0.0	0.0
loans in foreign currency	198.3	177.1	190.4	208.3	228.4
Securities	-569.0	-1 622.0	-1,641.8	-1,059.5	-738.7
including: NBKR issued notes	-63.9	-1 426.5	-1,641.8	-1,059.5	-667.9
Securities on REPO agreements	-505.1	-195.5	0.0	0.0	-70.8
Deposits	-119.2	-87.1	-609.0	-527.0	-207.2
including: deposits in foreign currency	-69.2	-87.1	-609.0	-527.0	-207.2
Derivatives	0.0	0.0	0.0	0.0	690.0
Net claims on other financial institutions	0.0	0.0	-34.3	-1,475.5	-523.3
Capital account	-1,528.5	-2 405.4	-3,892.6	-11,243.2	-16,582.8
Other items	332.6	544.5	169.6	2,379.1	2,542.5
Monetary Base	22,679.7	31 488.8	34,541.8	41,060.7	48,597.3
Currency in circulation	19,909.7	27 561.9	30,803.3	35,738.7	43,290.3
Reserves of other depository corporations in national currency	2,769.9	3 927.0	3,738.5	5,322.0	5,307.0
<i>For reference only:</i>					
Monetary Base - broad definition	22,748.8	31 575.9	35,150.8	41,587.7	48,804.5
Currency in circulation	19,909.7	27 561.9	30,803.3	35,738.7	43,290.3
Reserves of other depository corporations	2,839.1	4 014.0	3,835.1	5,446.7	5,514.2
Reserves of other depository corporations in national currency	2,769.9	3,927.0	3,738.5	5,322.0	5,307.0
Reserves of other depository corporations in foreign currency	69.2	87.1	96.6	124.8	207.2
Deposits in foreign currency	0.0	0.0	512.4	402.3	0.0

Source: NBKR general ledger.

Note: 1. Methodology of the analytic balance sheet preparation complies with the concept and principles of the IMF Monetary and Financial Statistics Manual 2000.

2. Starting January 1, 2010, the changes were made to the structure and methodology of calculating some indicators due to the approval of the new Regulation "On the Analytic Balance Sheet of the NBKR".

3. Data for 2006-2009 are given according to the new structure of the Analytic Balance Sheet of the NBKR.

Table 6.

Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (end of period)
(in millions of soms)

	Unit of Measurement	2006	2007	2008	2009	2010*
Balance of Payments Indicators						
Total balance	<i>US\$ million</i>	183.7	308.2	83.2	221.9	56.3
	<i>in percent of GDP</i>	6.4	8.1	1.6	4.9	1.2
Current account balance ¹	<i>US\$ million</i>	-286.1	-226.9	-700.9	-110.8	-497.5
	<i>in percent of GDP</i>	-10.0	-5.9	-13.6	-2.4	-10.8
Export of goods (FOB)	<i>US\$ million</i>	906.0	1,337.8	1,874.4	1,693.8	1,720.7
	<i>in percent of GDP</i>	31.8	35.0	36.5	37.2	37.4
Import of goods (FOB)	<i>US\$ million</i>	1,792.4	2,613.6	3,753.5	2,813.6	3,125.6
	<i>in percent of GDP</i>	62.9	68.3	73.1	61.8	68.0
Reserve assets	<i>months of import of goods and services of the following year</i>	3.0	3.0	4.0	4.6	4.3
Public External Debt						
Public external debt ²	<i>US\$ million</i>	1,976.9	2,079.5	2,083.8	2,502.9	2,643.6
	<i>in percent of GDP</i>	69.4	54.3	40.6	55.0	57.5
	<i>months of import of goods and services of the following year</i>	153.9	102.8	75.2	98.0	109.9
Public external debt servicing (schedule) ³	<i>US\$ million</i>	69.3	69.1	80.2	85.2	91.8
	<i>in percent of GDP</i>	2.4	1.8	1.6	1.9	2.0
	<i>months of import of goods and services of the following year</i>	5.4	3.4	2.9	3.3	3.8
Public external debt servicing (fact)	<i>US\$ million</i>	62.7	66.3	76.8	77.5	85.4
	<i>in percent of GDP</i>	2.2	1.7	1.5	1.7	1.9
	<i>months of import of goods and services of the following year</i>	4.9	3.3	2.8	3.0	3.6

* - preliminary data

1 - positive balance – “+”; negative balance – “-”

2 - including IMF loans

3 - excluding bilateral debt restructuring by the Paris Club of Creditors in 2002 and 2005.

Table 7.

Monetary Policy Instruments (for the period, unless otherwise stated)

	unit of measurement	2006	2007	2008	2009	2010
NBKR Credits						
Credits (overnight)	<i>som million</i>	-	-	1,284.5	635.8	2,656.0
Last resort credits	<i>som million</i>	-	-	-	-	-
NBKR Discount Rate (end of period)	<i>in percent</i>	3.2	8.8	15.2	0.9	5.5
NBKR Notes						
maturity:	<i>som million</i>					
7 days						
sales	<i>som million</i>	-	-	2,504.8	4,987.6	1,772.5
average yield	<i>in percent</i>	-	-	9.2	4.8	1.9
14 days						
sales	<i>som million</i>	72.0	1,773.7	8,323.5	7,182.0	1,871.7
average yield	<i>in percent</i>	3.8	5.0	10.2	6.9	2.3
28 days						
sales	<i>som million</i>	100.0	2,417.4	7,794.1	8,346.1	5,279.8
average yield	<i>in percent</i>	3.9	5.8	11.6	7.6	2.8
91 days						
sales	<i>som million</i>	-	38.1	482.2	156.0	-
average yield	<i>in percent</i>	-	9.6	11.8	18.4	-
182 days						
sales	<i>som million</i>	-	-	20.0	-	-
average yield	<i>in percent</i>	-	-	10.5	-	-
Open Market Transactions						
Direct REPO	<i>som million</i>	-	-	-	-	-
Reverse REPO	<i>som million</i>	1,795.9	3,562.6	1,751.3	556.8	70.8
NBKR Deposit Transactions in National Currency						
volume	<i>som million</i>	50.0	1,664.0	-	-	-
average interest rate	<i>in percent</i>	2.0	1.9	-	-	-
NBKR Deposit Transactions in Foreign Currency						
volume	<i>US\$ million</i>	-	-	13.0	21.5	11.0
NBKR Foreign Exchange Interventions						
Purchase	<i>US\$ million</i>	186.2	282.3	228.5	66.8	28.9
Sale	<i>US\$ million</i>	-	43.0	175.6	221.9	263.7
NBKR SWAP Foreign Exchange Transactions						
Purchase	<i>US\$ million</i>	-	-	-	-	14.7
Sale	<i>US\$ million</i>	8.4	48.9	69.0	-	-
Reserve Requirements						
Reserve requirement ratio (end of period)	<i>in percent</i>	10.0	10.0	10.0	9.5	8.0
Required reserves (annual average)	<i>som million</i>	1,366.7	1,779.4	2,290.1	2,904.9	2,744.7
Excess reserves (annual average)	<i>som million</i>	711.2	961.4	1,449.9	1,341.8	1,720.0

"- " - no transactions

Table 8.

Interest Rates of Deposits in National Currency (for the period)
(in percent)

	2006	2007	2008	2009	2010
Deposits of Legal Entities					
demand deposits ¹					0.88
time deposits:	5.30	4.71	4.95	7.69	8.83
<i>of which:</i>					
up to 1 month	1.24	0.97	3.29	1.78	4.34
1-3 months	4.90	4.59	5.21	4.90	4.60
3-6 months	7.26	7.95	7.65	8.00	8.42
6-12 months	9.81	8.41	7.62	10.17	10.93
over 1 year	10.32	9.31	8.06	10.25	13.59
Deposits of Individuals					
demand deposits	0.22	0.21	0.46	0.44	0.79
time deposits:	9.73	9.70	10.28	11.24	11.10
<i>of which:</i>					
up to 1 month	3.00	3.01	3.20	4.23	4.75
1-3 months	5.90	5.73	5.88	6.39	5.74
3-6 months	8.86	8.31	8.79	9.50	9.52
6-12 months	10.07	10.44	11.11	12.38	12.28
over 1 year	12.47	11.85	12.65	14.03	13.98
Deposits of Non-Residents ²					
demand deposits					0.02
time deposits:					10.58
<i>of which:</i>					
up to 1 month					6.07
1-3 months					6.24
3-6 months					8.98
6-12 months					11.68
over 1 year					13.93
Average Weighted Rate	1.88	2.13	2.45	2.81	1.96

¹ Starting January 1, 2010 demand deposits are shown as a separate category of the deposits of legal entities.

² Starting January 1, 2010 deposits of non residents are shown as a separate item of the deposits of legal entities and individuals.

Table 9.

Interest Rates of Deposits in Foreign Currency (for the period)
(in percent)

	2006	2007	2008	2009	2010
Deposits of Legal Entities					
demand deposits ¹					0.32
time deposits:	3.69	4.91	3.61	6.21	4.77
<i>of which:</i>					
up to 1 month	1.76	2.51	2.38	1.38	3.18
1-3 months	3.29	4.88	3.83	3.66	2.99
3-6 months	4.38	4.55	3.79	6.27	4.45
6-12 months	7.29	7.59	5.38	9.58	6.68
over 1 year	5.99	6.05	5.17	9.91	8.26
Deposits of Individuals					
demand deposits	0.04	0.02	0.02	0.04	0.03
time deposits:	6.72	6.14	8.31	9.36	8.05
<i>of which:</i>					
up to 1 month	1.41	2.15	1.58	2.16	1.99
1-3 months	3.80	4.29	4.40	5.10	4.30
3-6 months	6.52	6.63	7.21	8.64	6.96
6-12 months	8.71	8.93	9.51	11.13	9.85
over 1 year	9.13	7.11	10.93	12.62	11.21
Deposits of Non-Residents ²					
demand deposits					0.01
time deposits:					8.58
<i>of which:</i>					
up to 1 month					2.12
1-3 months					4.50
3-6 months					6.95
6-12 months					9.76
over 1 year					11.31
Average Weighted Rate	0.45	0.87	0.92	1.67	1.13

¹ Starting January 1, 2010 demand deposits are shown as a separate category of the deposits of legal entities.

² Starting January 1, 2010 deposits of non residents are shown as a separate item of the deposits of legal entities and individuals.

Table 10.

Interest Rates on Credits of Commercial Banks in National Currency (for the period)
(in percent)

	2006	2007	2008	2009	2010
Average Weighted Rate	25.6	23.2	25.9	26.7	23.7
Industry	24.7	22.7	24.8	25.4	24.8
Agriculture	28.9	19.9	25.4	26.8	23.0
Transportation and communication	22.2	24.6	25.3	27.8	26.0
Trade	27.3	25.8	26.6	27.8	23.9
Procurement and processing	26.9	16.8	23.0	27.0	21.3
Construction	22.1	19.1	22.2	22.5	22.9
Mortgage	17.9	18.3	19.2	20.5	20.7
To individuals	27.1	27.1	28.9	29.3	26.8
Other	22.1	21.8	25.6	24.0	23.7
<i>of which:</i>					
up to 1 month	24.7	23.7	27.5	27.5	29.1
Industry	25.3	24.5	22.0	19.6	-
Agriculture	28.5	29.0	26.0	26.3	-
Transportation and communication	-	25.0	-	29.4	-
Trade	23.3	21.6	25.7	30.7	32.0
Procurement and processing	-	-	-	27.0	-
Construction	30.1	22.3	13.0	22.8	32.5
Mortgage	-	-	-	-	-
To individuals	30.5	29.9	32.7	31.9	30.5
Other	32.0	26.0	29.6	25.2	26.6
1-3 months	23.3	24.6	23.3	21.7	29.4
Industry	25.9	21.6	21.9	17.6	27.7
Agriculture	31.3	32.3	33.5	31.0	31.5
Transportation and communication	32.7	15.5	32.0	31.5	30.5
Trade	24.8	24.3	24.9	25.9	29.4
Procurement and processing	-	-	20.0	-	-
Construction	29.0	19.7	27.6	17.0	25.0
Mortgage	24.0	24.0	25.0	-	-
To individuals	28.7	32.1	26.0	31.9	33.7
Other	22.6	29.7	30.5	29.9	26.1
3-6 months	24.0	23.7	24.1	26.0	31.2
Industry	29.1	26.9	24.9	28.4	28.5
Agriculture	31.9	31.0	32.9	31.7	31.3
Transportation and communication	28.0	25.2	26.6	25.9	31.4
Trade	25.8	23.7	24.6	26.5	30.5
Procurement and processing	22.2	22.5	23.0	27.0	30.2
Construction	25.5	24.0	24.0	19.9	28.9
Mortgage	-	30.0	-	32.3	28.0
To individuals	27.7	28.3	35.5	38.4	40.5
Other	24.2	28.8	31.7	25.5	25.5
6-12 months	29.0	27.0	28.8	28.8	27.5
Industry	26.7	25.5	27.2	31.1	27.2
Agriculture	30.2	29.7	30.2	31.8	29.4
Transportation and communication	30.9	31.5	30.3	30.1	30.5
Trade	29.8	27.7	28.7	29.7	27.4
Procurement and processing	29.0	24.2	20.8	26.9	23.6
Construction	24.7	22.6	24.4	24.4	27.4
Mortgage	24.2	22.2	23.8	25.4	24.0
To individuals	28.9	29.7	31.1	30.2	29.6
Other	25.4	23.5	27.8	26.7	24.6
over 1 year	22.1	20.8	24.4	26.2	22.4
Industry	25.1	22.4	26.1	28.8	24.6
Agriculture	26.4	16.6	23.7	25.8	21.6
Transportation and communication	22.4	25.8	26.9	30.1	24.8
Trade	23.9	24.7	25.6	27.3	22.6
Procurement and processing	23.4	15.7	23.1	26.9	21.1
Construction	21.3	17.8	21.1	25.0	22.5
Mortgage	17.8	18.2	19.1	20.3	20.7
To individuals	25.0	24.2	26.2	28.2	24.2
Other	21.7	21.7	25.0	25.1	23.9

"-" - no transactions

Table 11.

Interest Rates on Credits of Commercial Banks in Foreign Currency (for the period)
(in percent)

	2006	2007	2008	2009	2010
Average Weighted Rate	17.3	18.5	20.3	21.5	19.8
Industry	14.6	16.6	18.5	19.1	18.1
Agriculture	20.8	20.5	21.7	26.5	21.9
Transportation and communication	20.1	20.2	21.8	24.5	21.6
Trade	19.5	19.2	20.9	21.6	20.0
Procurement and processing	18.5	17.9	18.0	18.0	21.4
Construction	13.7	16.2	17.8	18.2	19.1
Mortgage	16.4	16.7	18.2	20.1	19.9
To individuals	23.4	23.2	25.5	28.0	25.5
Other	14.0	17.9	19.6	20.2	18.4
<i>of which:</i>					
up to 1 month	14.6	21.8	25.1	26.5	29.9
Industry	12.9	15.0	19.1	20.0	14.3
Agriculture	18.0	20.0	-	-	-
Transportation and communication	-	-	-	-	-
Trade	20.7	18.5	22.1	22.6	27.5
Procurement and processing	-	-	-	-	-
Construction	9.6	20.0	20.0	-	-
Mortgage	-	-	-	-	-
To individuals	30.5	31.4	31.5	34.0	33.4
Other	11.5	18.4	18.5	18.6	22.2
1-3 months	17.0	18.0	21.0	21.7	21.9
Industry	20.9	17.7	20.8	19.3	21.6
Agriculture	21.0	27.5	16.0	31.5	31.8
Transportation and communication	22.5	5.0	-	-	-
Trade	20.1	17.9	20.9	21.4	24.1
Procurement and processing	19.0	20.0	-	-	-
Construction	17.2	18.7	19.0	-	14.0
Mortgage	22.3	21.0	18.0	-	17.3
To individuals	25.3	20.9	21.8	20.0	32.3
Other	16.8	19.6	21.0	37.7	26.2
3-6 months	17.4	16.8	18.8	18.2	19.4
Industry	17.4	18.7	18.6	16.7	21.3
Agriculture	21.3	24.0	26.2	29.9	26.5
Transportation and communication	21.5	22.0	-	30.2	22.0
Trade	17.3	16.7	18.9	18.0	19.1
Procurement and processing	22.0	20.0	0.0	-	30.2
Construction	18.4	16.8	17.6	20.0	14.0
Mortgage	17.0	17.5	26.0	-	-
To individuals	24.1	22.1	21.3	22.6	28.1
Other	21.0	20.4	21.6	24.6	23.3
6-12 months	20.6	20.1	20.8	21.9	19.4
Industry	16.0	16.3	17.8	19.3	18.0
Agriculture	23.2	23.5	23.2	29.2	26.8
Transportation and communication	24.3	24.0	26.7	28.6	26.1
Trade	20.8	20.3	21.3	21.8	20.1
Procurement and processing	19.9	18.7	-	18.0	-
Construction	19.8	18.1	19.7	22.9	24.3
Mortgage	18.1	19.7	21.7	24.5	20.6
To individuals	24.3	24.4	27.1	28.3	23.5
Other	22.1	19.1	20.4	20.8	18.9
over 1 year	17.9	18.3	20.2	22.0	19.8
Industry	16.4	17.1	18.5	19.1	19.1
Agriculture	20.1	19.7	23.0	25.2	20.8
Transportation and communication	20.5	20.6	21.6	23.8	20.9
Trade	19.1	19.9	21.6	22.6	20.1
Procurement and processing	18.1	18.0	18.0	18.0	19.7
Construction	16.2	15.8	17.6	18.1	19.4
Mortgage	16.5	16.7	18.1	19.8	20.0
To individuals	20.4	20.2	23.1	26.1	23.4
Other	18.5	17.6	19.4	20.2	18.6

"-" - no transactions

Table 12.

Annual Average Interest Rate of Interbank Credits (excluding transactions with non-residents)
(in percent)

	2006	2007	2008	2009	2010
Interbank REPO Transactions	3.3	3.9	8.9	8.3	3.7
up to 1 day	3.3	4.2	8.8	10.4	3.9
2 - 7 days	3.3	3.8	8.9	8.3	3.7
8 - 14 days	3.5	4.9	9.7	7.8	3.7
15 - 30 days	3.3	4.2	11.7	4.8	-
31 - 60 days	4.0	6.8	6.6	-	-
61 - 90 days	-	-	6.3	7.0	-
91 - 180 days	-	-	7.1	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	9.5	-	-	-
Interbank Credits in National Currency	2.8	3.2	7.6	7.8	4.5
up to 1 day	3.0	4.5	8.8	11.6	-
2 - 7 days	2.7	3.3	8.1	9.1	4.8
8 - 14 days	2.8	3.5	8.4	7.8	4.2
15 - 30 days	3.6	3.0	6.9	3.9	5.0
31 - 60 days	-	2.4	8.6	13.0	-
61 - 90 days	-	2.8	5.7	5.5	-
91 - 180 days	-	-	6.8	4.7	-
181 - 360 days	7.0	-	6.1	-	-
over 360 days	-	-	-	-	-
Interbank Credits in Foreign Currency	5.7	6.7	5.7	6.0	2.9
up to 1 day	5.1	7.0	5.8	3.8	-
2 - 7 days	4.7	5.5	3.9	6.3	2.9
8 - 14 days	4.7	3.5	6.1	1.8	-
15 - 30 days	6.4	5.5	3.9	4.3	-
31 - 60 days	6.9	6.1	4.3	-	3.5
61 - 90 days	5.0	6.8	3.9	-	-
91 - 180 days	7.8	8.5	10.2	9.7	-
181 - 360 days	7.8	8.2	4.4	-	-
over 360 days	-	-	-	-	-

"-" - no transactions

Table 13.

Balance of Payments of the Kyrgyz Republic
(in millions of US dollars)

	2006	2007	2008	2009	2010*
Current Account	-286.1	-226.9	-700.9	-110.8	-497.5
Goods and services	-967.4	-1,195.5	-1,975.9	-1,128.8	-1,730.0
Trade balance ¹	-886.5	-1,275.8	-1,879.2	-1,119.8	-1,404.9
Export (FOB)	906.0	1,337.8	1,874.4	1,693.8	1,720.7
CIS	476.1	753.9	1,011.7	752.8	746.0
Non-CIS	429.9	583.9	862.7	941.0	974.7
Import (FOB)	1,792.4	2,613.6	3,753.5	2,813.6	3,125.6
CIS	925.8	1,420.7	2,025.4	1,593.7	1,712.8
Non-CIS	866.6	1,192.9	1,728.1	1,219.9	1,412.8
Balance of services	-81.0	80.3	-96.8	-9.1	-325.2
Transportation services	-121.4	-197.8	-342.4	-277.5	-272.6
Travels	75.3	233.6	210.1	191.9	-4.9
Construction	16.4	5.0	10.4	0.5	6.0
Other services	-31.3	59.4	45.1	96.6	-32.9
Technical assistance	-20.0	-20.0	-20.0	-20.5	-20.7
Income	-48.2	-51.9	-201.6	-189.9	-150.0
Income from direct investment	-39.8	-39.5	-172.8	-126.0	-92.5
Income from portfolio investment	0.1	0.2	0.5	4.2	0.2
Income from other investment	15.8	8.2	-7.1	-41.0	-25.8
Interests on credits	-19.9	-25.3	-30.4	-44.2	-36.4
Other income from other investment	35.6	33.4	23.4	3.2	10.5
Remuneration of labor	-24.2	-20.8	-22.3	-27.0	-31.9
Current transfers	729.5	1,020.5	1,476.7	1,207.9	1,382.6
Official transfers	12.4	30.9	45.9	194.9	122.1
Private transfers	717.1	989.6	1,430.8	1,012.9	1,260.5
Capital and Financial Account	285.9	274.0	-49.8	572.7	168.7
Capital account	-43.9	-74.9	-44.9	-14.0	-27.6
Capital transfers	-43.9	-74.9	-44.9	-14.0	-27.6
Financial account	329.7	348.8	-4.9	586.7	196.3
Direct investment ¹	182.0	208.9	377.1	189.6	174.5
Portfolio investment ²	-3.0	-14.3	-230.0	161.9	103.1
Financial derivatives	0.0	0.0	0.0	0.0	0.0
Other investment	150.7	154.2	-152.0	235.2	-81.3
Assets ("-") increase)	-24.0	19.4	-362.7	-217.2	122.3
Commercial banks	-17.0	37.7	-115.9	-157.9	194.4
Accounts receivable	-13.5	-27.6	-224.0	-7.5	-62.1
Accounts of enterprises abroad	5.2	-10.9	-3.4	-49.5	-9.9
Other assets	1.3	20.3	-19.3	-2.3	0.0
Liabilities ("+" increase)	174.7	134.8	210.6	452.3	-203.6
Commercial banks	-26.6	66.6	48.4	50.4	-204.0
Credits	68.6	54.9	40.7	310.8	64.5
Credits to public sector	56.5	38.5	12.9	332.9	118.3
Credits to private sector	12.1	16.4	27.8	-22.1	-53.7
Accounts payable	132.7	13.3	121.6	-41.0	-64.2
Other liabilities	0.0	0.0	0.0	132.2	0.0
Errors and omissions	184.0	261.2	833.8	-239.9	385.1
Total Balance	183.7	308.2	83.2	221.9	56.3
Financing	-183.7	-308.2	-83.2	-221.9	-56.3
NBKR reserves	-169.9	-306.8	-121.3	-267.7	-112.3
NBKR foreign liabilities	-23.5	-20.7	18.7	3.5	9.1
Financing gap	0.0	0.0	0.0	0.0	0.0

* - preliminary data

¹ - including NBKR estimates

² - including NBKR data

Table 14.

Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors
(in millions of US dollars)

	2006	2007	2008	2009	2010*
External Public and Government Guaranteed Debt (1+2+3):	1,976.9	2,079.5	2,083.8	2,502.9	2,643.6
1. Multilateral debt:	1,378.5	1,461.7	1,462.1	1,490.8	1,485.6
World Bank	612.8	656.5	648.2	656.0	649.2
Asian Development Bank	532.2	586.2	586.7	610.1	590.7
International Monetary Fund	163.1	149.8	164.5	167.1	176.7
Islamic Bank of Reconstruction and Development	31.5	36.3	35.2	34.9	44.4
European Bank for Reconstruction and Development	16.6	10.4	6.0	2.1	5.7
International Fund for Agricultural Development	10.0	10.3	10.3	10.1	9.6
Nordic Development Fund	6.7	7.4	6.8	6.9	6.6
OPEC	5.6	4.9	4.2	3.5	2.8
2. Bilateral debt:	596.0	616.1	620.7	1,011.8	1,158.0
2.1. CIS countries:	200.0	200.1	196.4	493.6	505.3
Russia	188.9	191.5	193.6	493.6	505.3
Uzbekistan	11.1	8.6	2.9	-	-
2.2. other:	396.1	416.0	424.3	518.2	652.7
Japan	230.5	242.8	251.2	302.5	344.8
Germany	58.8	69.6	74.3	76.8	67.3
Turkey	48.4	49.3	50.1	49.8	49.5
Korea	18.4	18.2	13.6	14.6	15.0
Kuwait Fund	15.8	16.8	16.6	17.9	16.1
China	14.4	8.6	9.1	46.8	150.8
France	5.7	6.5	6.2	6.4	5.9
Denmark	3.0	3.2	3.3	3.4	3.3
India	1.0	1.0	-	-	-
3. Government guaranteed external debt	2.4	1.7	1.0	0.3	-

* - preliminary data

"-" - no transactions

Table 15.
Information on Authorized (Shareholders') Capital of Commercial Banks (as of the end of period)
(in millions of soms)

Bank	2006			2007			2008			2009			2010		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	3,962.8	3,598.5	2,336.7	6,105.5	5,805.8	3,566.9	7,850.4	7,813.4	4,540.8	8,903.0	8,666.0	4,588.1	7,774.7	7,518.6	2,634.3
OJSC "AsiaUniversalBank"	400.0	300.0	218.9	700.0	700.0	671.1	1,337.5	1,337.5	1,290.5	1,422.4	1,422.4	1,375.8	-	-	-
OJSC "Ayil Bank"	-	-	-	400.0	300.0	-	480.0	480.0	0.0	560.0	560.0	0.0	560.0	560.0	0.0
OJSC Investment Joint Stock Commercial Bank "Akyl" ¹	-	-	-	-	-	-	-	-	-	100.0	100.0	100.0	100.0	100.0	100.0
OJSC Russia-Kyrgyz "Amanbank"	263.0	63.0	11.9	263.0	263.0	43.9	300.0	263.0	0.2	300.0	263.0	0.2	300.0	300.0	0.2
OJSC "UniCredit Bank"	500.0	500.0	470.9	500.0	500.0	470.9	700.0	700.0	670.9	700.0	700.0	680.0	700.0	700.0	680.0
CJSC "Bank of Asia"	79.8	79.8	79.8	79.8	79.8	-	126.0	126.0	0.0	146.0	146.0	108.8	202.1	146.0	108.8
OJSC "BAKAI BANK"	100.0	100.0	-	125.0	125.0	-	160.0	160.0	0.0	200.0	200.0	0.0	216.0	216.0	0.0
CJSC "BTA Bank"	480.0	480.0	340.8	800.0	800.0	568.0	1,000.0	1,000.0	710.0	1,000.0	1,000.0	710.0	1,000.0	1,000.0	0.0
CJSC "Demir Kyrgyz International Bank"	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5
OJSC "Dos-Credobank"	130.0	130.0	-	180.0	180.0	-	200.0	200.0	0.0	242.0	242.0	0.0	270.7	270.7	0.0
OJSC "Zalkar Bank"	-	-	-	-	-	-	-	-	-	-	-	-	40.9	40.9	0.0
OJSC Investment Bank "Issyk-Kul"	60.0	60.0	3.7	271.0	71.3	0.3	271.0	271.0	0.3	271.0	271.0	0.1	271.0	271.0	0.3
OJSC "Kazkommertsbank Kyrgyzstan"	100.0	100.0	93.6	100.0	100.0	93.7	120.5	120.5	114.2	120.5	120.5	114.0	153.5	153.5	147.0
CJSC "Kyrgyz Investment Credit Bank"	266.9	266.9	240.2	355.0	355.0	319.5	394.2	394.2	354.8	440.9	440.9	396.8	471.0	471.0	423.9
OJSC "KyrgyzCreditBank"	110.0	110.0	-	200.0	200.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1
OJSC "Kyrgyzpromstroibank" ²	100.0	100.0	-	110.0	110.0	-	-	-	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	160.9	138.9	-	160.9	160.9	-	160.9	160.9	0.0	160.9	160.9	2.2	160.9	160.9	3.3
CJSC "Manas Bank"	-	-	-	300.0	300.0	300.0	300.0	300.0	300.0	500.0	300.0	300.0	500.0	300.0	300.0
OJSC "SSC Bank" ³	108.8	108.8	-	116.2	116.2	-	425.0	425.0	0.0	844.0	844.0	0.0	844.0	844.0	0.0
CJSC JSCB "Tolubai"	63.0	63.0	1.2	88.0	88.0	1.7	105.0	105.0	2.0	125.0	125.0	2.3	144.0	144.0	2.5
OJSC "FinanceCreditBank KAB"	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	0.0	300.0	300.0	0.0
OJSC "Halyk Bank Kyrgyzstan"	334.2	334.2	334.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
OJSC "Ecobank"	168.3	126.0	3.7	258.7	258.7	-	372.4	372.4	0.0	372.4	372.4	0.0	372.4	372.4	0.0
Bishkek Branch of the National Bank of Pakistan	105.4	105.4	105.4	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1	201.5	201.5	201.5

Data of commercial banks

Note: a - announced paid-in authorized capital, b - paid-in authorized capital, c - including the share of foreign investors

¹ Since May 31, 2009 Investment Joint Stock Commercial Bank "Akyl" OJSC (former Investment Joint Stock Commercial Bank "Akyl" was included in the banking system,

² Since November 1, 2008 OJSC "Kyrgyzpromstroibank" was merged with OJSC "AsiaUniversalBank"

³ Since October 3, 2008 "The Settlement and Savings Company" OJSC was renamed as "SSC Bank" OJSC.

Table 16.

Consolidated Indicators of Commercial Banks (as of the end of period)
(in millions of soms)

	2006	2007	2008	2009*	2010
ASSETS					
Cash assets	2,006.6	2,088.1	2,967.2	3,738.7	3,870.5
Correspondent account with NBKR	2,889.0	4,014.0	3,835.0	5,446.1	5,513.7
Correspondent accounts with other banks	5,638.4	3,694.8	8,280.0	16,777.9	7,389.8
Deposits with other banks	884.4	1,374.3	1,655.1	1,834.2	3,102.1
Securities portfolio	1,953.4	4,899.0	5,727.4	7,662.8	4,142.5
Short-term placements	323.1	149.1	684.2	739.1	1,004.2
Securities purchased on REPO agreements	505.4	334.2	257.7	300.1	101.8
Net credit and financial lease ¹	11,646.9	21,868.6	26,584.8	24,709.2	24,554.7
Credits and financial lease to finance and credit institutions	718.3	1,515.3	1,770.3	797.2	1,064.5
Credits and financial lease to clients ²	11,298.7	20,797.6	25,573.6	25,117.0	26,310.8
(less) Special LLP on credits and financial lease	370.1	444.2	759.2	1,204.9	2,820.6
Fixed assets	1,493.1	2,250.1	3,427.6	3,781.6	3,954.8
Borrower's real assets accepted as asset paydown	30.4	37.2	34.6	188.0	323.9
Other borrower's property accepted as asset paydown	2.2	15.1	46.9	78.0	56.3
Investment in nonconsolidated companies	6.1	1.1	115.0	127.2	77.2
Other assets	890.3	1,408.8	1,310.7	2,600.5	4,517.3
TOTAL: ASSETS	28,269.3	42,134.3	54,926.1	67,983.3	58,608.8
LIABILITIES					
Demand deposits of legal entities ³	9,717.6	10,244.8	13,946.9	21,147.5	14,048.9
Deposits of individuals ⁴	4,135.1	6,235.2	6,882.0	9,606.9	12,106.4
Time deposits of legal entities	1,122.9	2,563.4	2,371.6	2,413.7	1,442.8
Liabilities to the NBKR	20.1	13.3	8.2	4.0	0.7
Correspondent accounts	107.3	225.9	39.8	531.7	443.2
Deposits of other banks ⁵	2,293.2	3,619.7	4,878.6	4,539.3	4,197.4
Short-term placements	0.0	284.0	142.6	62.7	0.0
Government deposits and credits	1,492.6	3,781.6	4,931.1	6,559.0	5,129.1
Securities sold on REPO agreements	1.2	140.8	170.3	300.1	231.0
Received credits	2,673.6	3,756.4	6,619.9	4,368.8	3,690.1
Subordinated bonds	376.8	324.9	127.5	132.6	129.0
Other liabilities	1,282.3	1,946.6	1,985.3	3,392.2	4,605.9
TOTAL: LIABILITIES	23,222.8	33,136.6	42,103.8	53,058.5	46,024.5
CAPITAL					
Stock capital	4,669.4	8,464.3	11,694.0	13,644.3	11,320.5
a) common shares	3,594.7	5,801.8	7,809.6	8,663.4	7,516.1
b) privileged shares	3.8	3.8	2.6	2.6	2.6
c) capital above the par	4.4	130.1	121.8	173.9	482.2
d) retained profit, total	1,066.6	2,528.7	3,760.1	4,804.4	3,319.8
Total reserves	377.0	533.4	1,128.3	1,280.4	1,263.7
a) reserve for revaluation of fixed assets	101.5	101.2	574.9	713.3	701.9
b) reserve for revaluation of marketable securities	1.5	4.6	-5.8	20.5	0.6
c) general LLP on credits and financial lease	271.9	427.1	557.6	544.0	560.2
d) general LLP on other classified assets	2.2	0.6	1.7	2.6	1.1
e) other general reserves	0.0	0.0	0.0	0.0	0.0
TOTAL: CAPITAL	5,046.5	8,997.7	12,822.3	14,924.8	12,584.3
TOTAL: LIABILITIES AND CAPITAL	28,269.3	42,134.3	54,926.1	67,983.3	58,608.8

* updated data due to adjustments of data for 2009 and without adjustments to indicators of OJSC "AsiaUniversalBank"

¹ Reduced by the amount of the discount and special LLP on credits.

² Includes loans to legal entities and individuals.

³ Includes settlement (current) accounts and demand deposits of legal entities.

⁴ Includes settlement (current) accounts, demand deposits and time deposits of individuals.

⁵ Includes settlement (current) accounts, demand deposits and time deposits of banks and other finance and credit institutions.

Table 17.

Information on Head Offices and Branches of Commercial Banks as of end-2010

Bank	Head Office Location	Total Branches	Bishkek Oblast	Batken Oblast	Jalal-Abad Oblast	Issyk-Kul Oblast	Naryn Oblast	Osh Oblast	Talas Oblast	Chui Oblast
Total branches		211	46	11	33	30	14	39	9	29
Branches of resident banks										
OJSC "Ayil Bank"	Бишкек ш.	22	1	2	5	2	2	5	2	3
OJSC "Akylinvestbank"	Бишкек ш.	-	-	-	-	-	-	-	-	-
OJSC Russia-Kyrgyz "Amanbank"	Бишкек ш.	7	1	-	1	2	-	1	1	1
CJSC "Bank of Asia"	Бишкек ш.	5	3	-	-	1	-	1	-	-
OJSC "BAKAI BANK"	Бишкек ш.	5	-	-	1	1	-	1	-	2
CJSC "BTA Bank"	Бишкек ш.	14	2	1	2	3	-	4	-	2
CJSC "Demir Kyrgyz International Bank"	Бишкек ш.	5	4	-	-	-	-	1	-	-
OJSC "Dos-Credobank"	Бишкек ш.	9	1	-	1	2	2	1	-	2
OJSC "Zalkar Bank" ¹	Бишкек ш.	1	1	-	-	-	-	-	-	-
OJSC Investment Bank "Issyk-Kul"	Бишкек ш.	6	2	-	1	2	-	1	-	-
OJSC "Kazkommertsbank Kyrgyzstan"	Бишкек ш.	2	1	-	-	-	-	1	-	-
CJSC "Kyrgyz Investment Credit Bank"	Бишкек ш.	8	2	-	2	1	1	2	-	-
OJSC "KyrgyzCredit Bank"	Бишкек ш.	3	3	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	Бишкек ш.	30	6	2	6	3	3	5	1	4
CJSC "Manas Bank"	Бишкек ш.	1	-	-	-	-	-	1	-	-
OJSC "SSC Bank"	Бишкек ш.	51	3	5	10	7	5	9	4	8
CJSC JSCB "Tolubai"	Бишкек ш.	2	2	-	-	-	-	-	-	-
OJSC "FinanceCreditBank KAB"	Бишкек ш.	8	1	-	1	1	1	2	-	2
OJSC "Halyk Bank Kyrgyzstan"	Бишкек ш.	7	3	-	1	1	-	1	-	1
OJSC "Ecobank"	Бишкек ш.	11	4	1	1	1	-	2	-	2
OJSC "UniCreditBank"	Бишкек ш.	14	6	-	1	3	-	1	1	2
Non-resident bank branches										
CABCD Bishkek branch ²	Алматы ш.	-	-	-	-	-	-	-	-	-
Bishkek Branch of the National Bank of Pakistan ³	Карачи ш.	1	1	-	-	-	-	-	-	-

¹ As of December 31, 2010, 35 branches of OJSC "Zalkar Bank" were in the process of re-registration.² The temporary administration regime was introduced on July 31, 2002 in Bishkek branch of CABCD. On July 15, 2002, the CABCD banking license was withdrawn in the city of Almaty.³ A branch of a non-resident bank was included in the Register of Issued Banking Licenses on April 24, 2000 authorizing to perform banking operations.

"- " - no branches

Table 18.

Movement of Cash in Commercial Banks and its Collectibility in 2010
(in millions of soms)

	Receipt				Issue				Excess of issue (receipt) over receipt (9-4) (issue) (+/-)	Collectibility (%) (4/9)	
	Taxes, customs duties and fees	Sales of forex	Other	Total	To Treasury for salary payments	For payments of pensions and benefits	For purchases of forex	For other expenditures			Total
	1	2	3	4	5	6	7	8	9	10	11
Total for the republic	13,654.0	48,589.6	236,409.1	298,652.7	15,684.4	15,411.0	64,485.2	206,661.7	302,242.3	3,589.6	98.8
Bishkek	3,625.5	37,739.7	136,206.5	177,571.7	3,310.1	1,368.5	34,308.0	122,492.9	161,479.5	-16,092.2	110.0
Batken Oblast	224.0	407.0	6,448.7	7,079.7	1,221.1	1,238.9	2,981.9	5,605.8	11,047.7	3,968.0	64.1
Jalal-Abad Oblast	835.2	1,410.1	28,167.6	30,412.9	2,789.7	2,637.1	9,182.8	22,492.1	37,101.7	6,688.8	82.0
Issyk-Kul Oblast	536.5	552.3	9,005.7	10,094.5	1,111.0	1,610.2	1,256.2	9,422.5	13,399.9	3,305.4	75.3
Naryn Oblast	128.1	55.6	3,295.8	3,479.5	614.1	1,385.7	165.4	3,720.5	5,885.7	2,406.2	59.1
Osh	2,546.8	7,073.0	31,432.3	41,052.1	1,848.7	1,057.2	10,948.9	24,367.5	38,222.3	-2,829.8	107.4
Osh Oblast	665.9	633.5	7,380.8	8,680.2	1,860.2	2,964.6	2,850.9	5,665.3	13,341.0	4,660.8	65.1
Talas Oblast	63.5	67.2	4,199.9	4,330.6	717.5	665.0	901.1	4,430.0	6,713.6	2,38.0	64.5
Chui Oblast	5,028.5	651.2	10,271.8	15,951.5	2,212.0	2 483.8	1,890.0	8,465.1	15,050.9	-900.6	106.0

NBKR data

Table 19. Pattern of Payments in the Gross System of Settlements

	2006		2007		2008		2009		2010	
	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number
payments below Som 1 thousand	1	3,492	1	3,944	2	7,443	3	9,881	3	9,780
from Som 1 to 100 thousand	628	23,293	722	27,246	1,028	34,995	1,264	43,624	1,333	47,662
from Som 100 thousand to Som 1 million	5,644	17,251	6,493	19,147	9,469	22,232	9,715	23,333	11,143	26,467
from Som 1 million to Som 10 million	41,565	11,708	63,693	20,291	79,867	24,002	80,121	24,545	84,306	25,878
from Som 10 million to Som 100 million	77,300	3,598	146,999	6,002	201,449	7,327	191,641	7,005	170,059	6,250
payments above Som 100 million	6,062	41	24,487	160	83,717	500	134,887	624	116,140	576
Total	131,200	59,383	242,395	76,790	375,532	96,499	417,632	109,012	382,985	116,613

NBKR data

Table 20. Volume and Number of Clearing Transactions by Oblasts

	2006		2007		2008		2009		2010	
	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number
Bishkek and Chui Oblast	40,943	1,012,923	37,486	1,203,584	44,009	1,667,187	42,279	2,095,196	40,712	1,028,101
Issyk-Kul Oblast	1,135	94,645	2,321	103,609	2,781	146,442	3,213	192,336	2,957	79,917
Talas Oblast	745	81,035	797	30,637	913	79,702	893	118,475	987	37,977
Naryn Oblast	2,124	50,454	1,004	37,197	1,116	51,893	1,316	67,195	1,356	37,379
Jalal-Abad Oblast	1,379	156,219	3,515	205,419	4,510	254,025	4,779	350,287	4,976	122,639
Osh Oblast and Osh	3,856	236,308	4,345	80,454	5,783	170,494	6,130	237,077	4,864	125,901
Batken Oblast	1,229	118,170	2,050	72,324	2,113	125,602	2,267	235,995	2,490	59,164
Total	51,410	1 749,754	51,518	1,733,224	61,225	2,495,345	60,877	3,296,561	58,341	1,491,078

NBKR data

Table 21. Information on Transactions with Plastic Cards in Sales Outlets

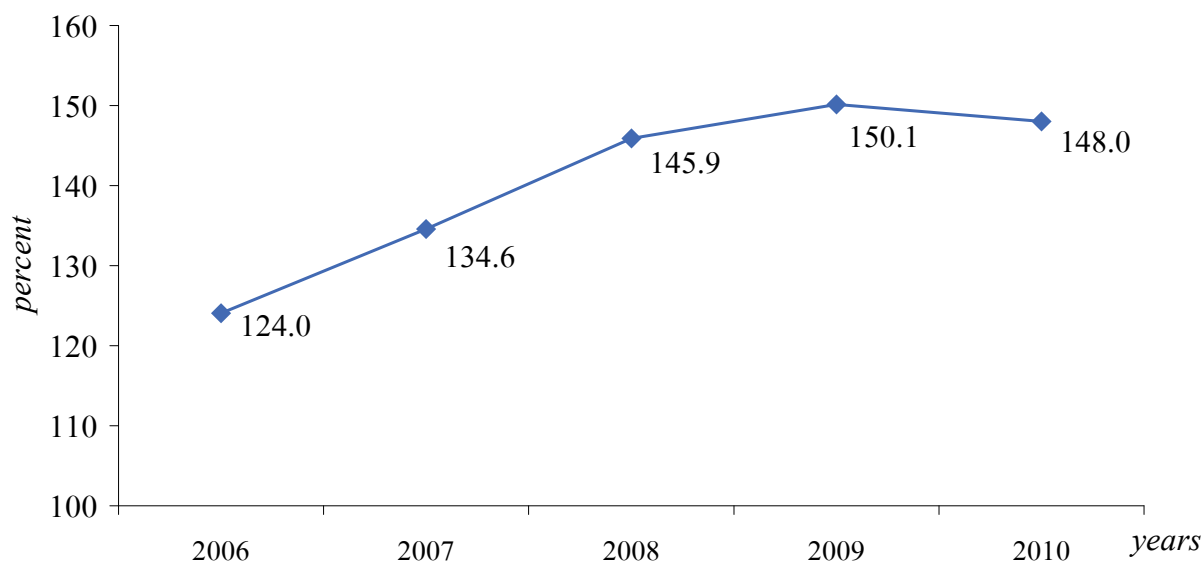
Types of Cards	2006		2007		2008		2009		2010	
	Number of transactions	Volume, thousand soms	Number of transactions	Volume, thousand soms	Number of transactions	Volume, thousand soms	Number of transactions	Volume, thousand soms	Number of transactions	Volume, thousand soms
Visa	33,879	112,871	33,506	134,865	35,495	174,271	48,508	148,033	66,935	345,435
Europay/Master Card	6,238	50,280	13,078	59,185	7,539	59,028	6,813	58,477	6,267	110,162
Alay-Card	37,849	11,539	38,991	17,076	36,205	17,911	38,272	42,164	28,442	15,009
Demir 24	12,413	5,065	17,467	6,866	8,114	4,683	3,442	1,918	-	-
Elkart	10	3	3,152	882	9,423	3,280	17,252	4,232	8,015	1,918
Union Card	-	-	-	-	-	-	-	-	-	-

Data of commercial banks

"- " - no transactions

Chart 1.

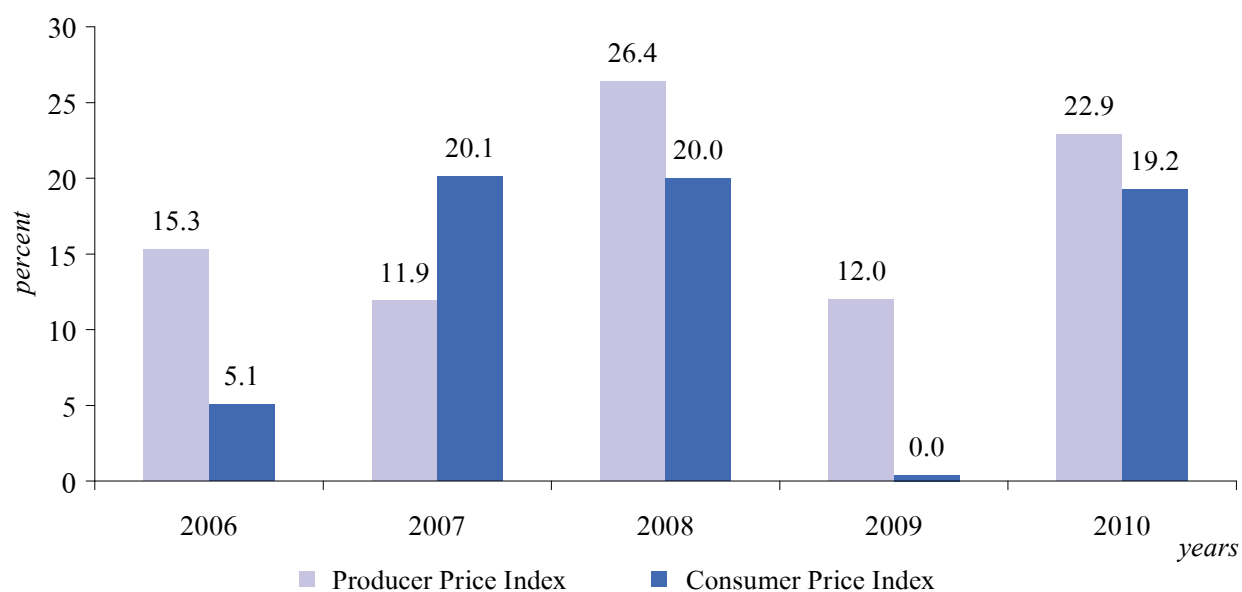
Rates of Growth of Real Gross Domestic Product
(2000 = 100 percent)



NSC KR data

Chart 2.

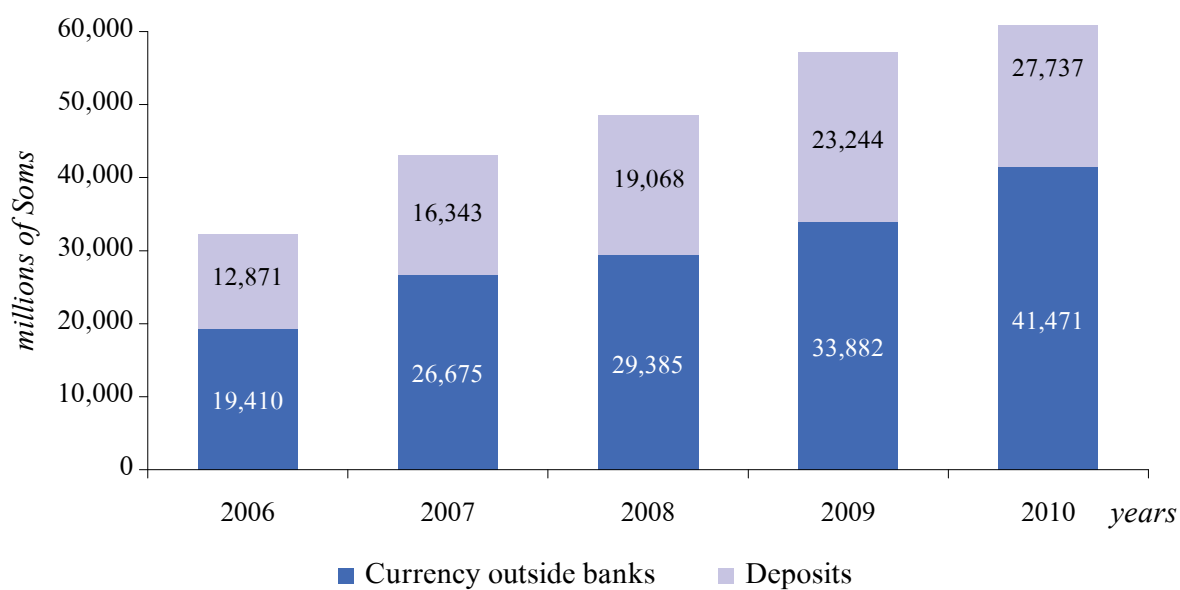
Rates of Growth of Consumer and Producer Prices



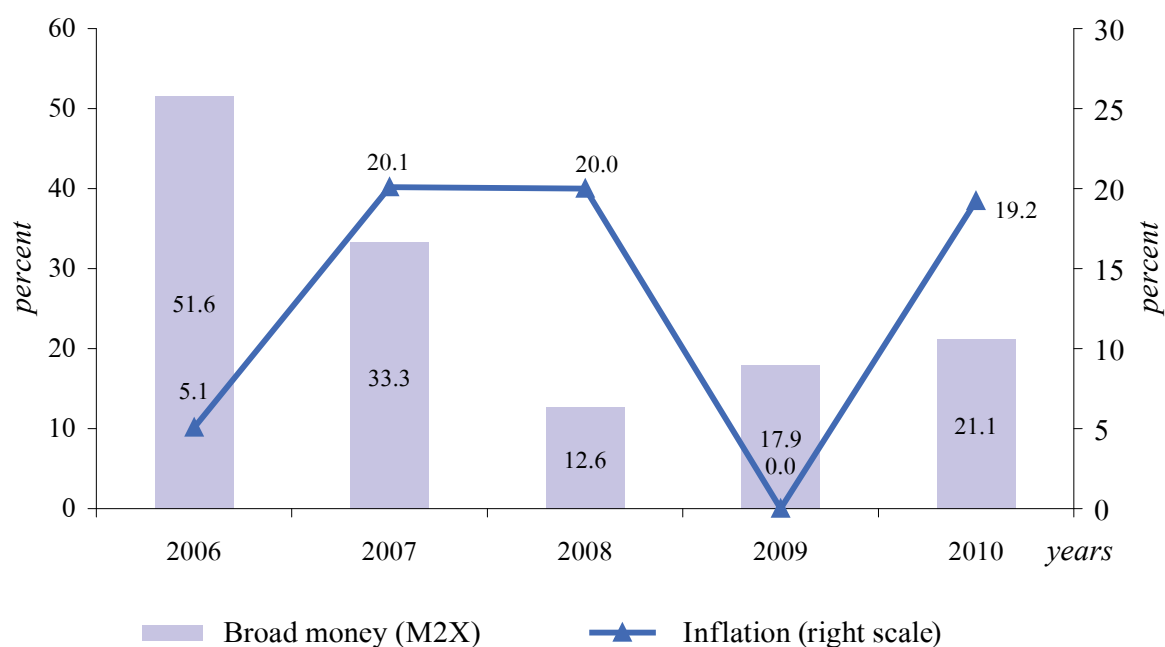
NSC KR data

Chart 3.

Monetary Aggregate M2X Structure

**Chart 4.**

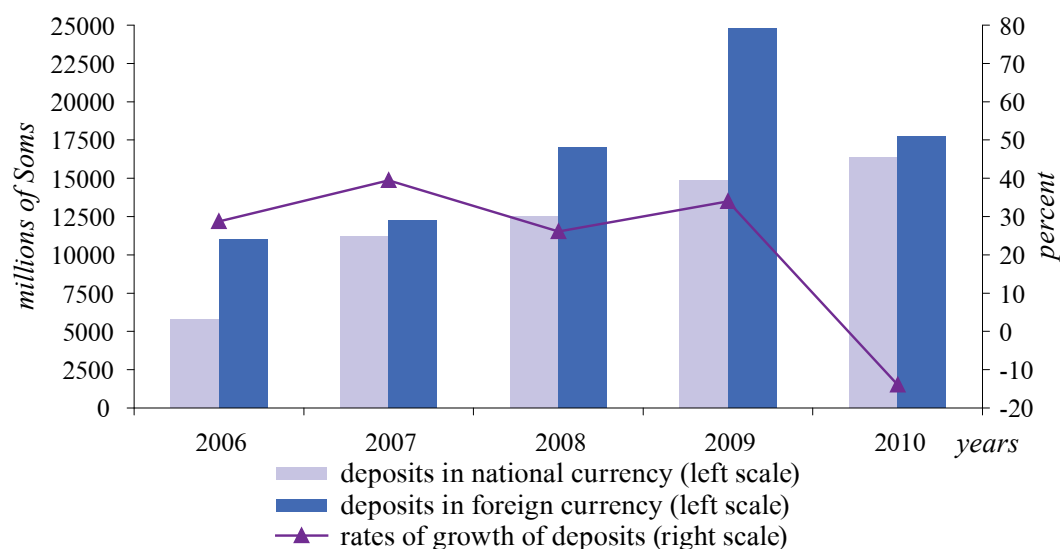
Rates of Growth of Money Supply and Inflation



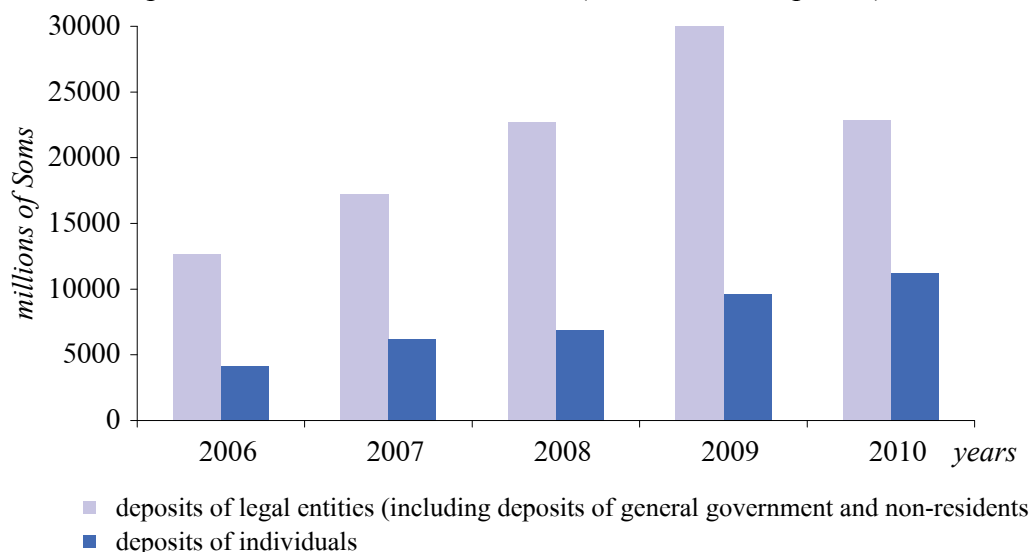
According to data of NSC KR, NBKR and commercial banks.

Chart 5.

Balances of Deposits in Commercial Banks (as of the end of period)

**Chart 6.**

Dynamics of the Deposit Base of Commercial Banks (as of the end of period)

**Chart 7.**

Structure of the Deposit Base of Commercial Banks (as of the end of period)

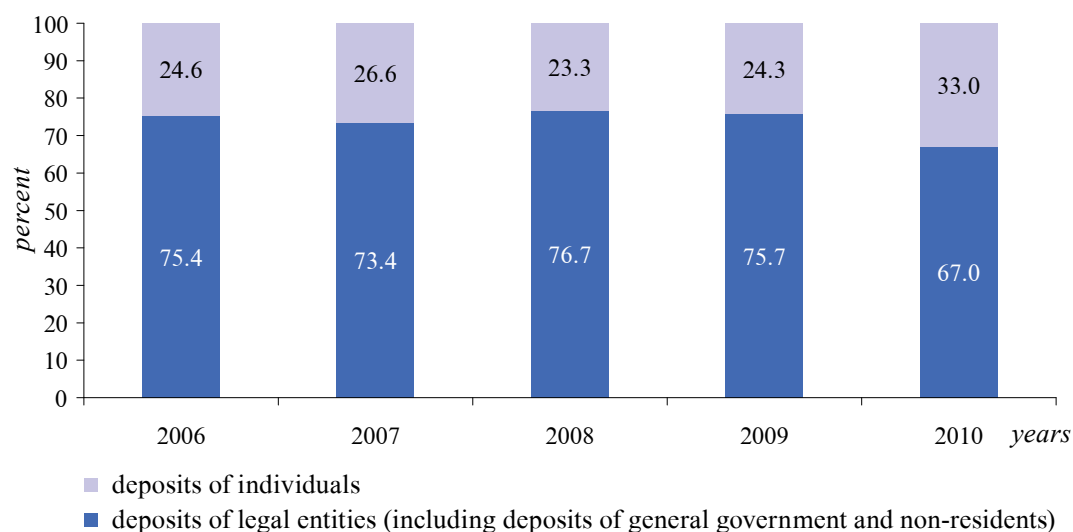
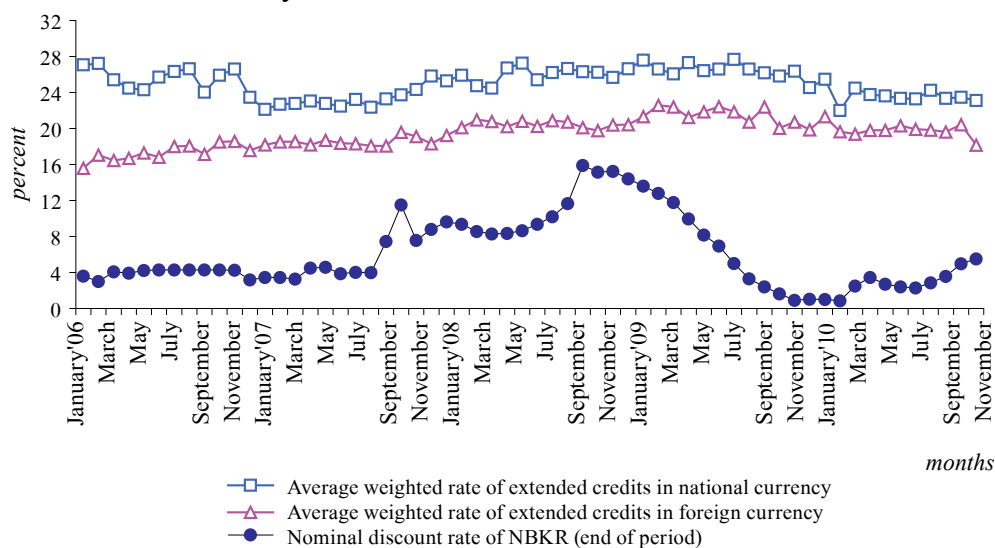
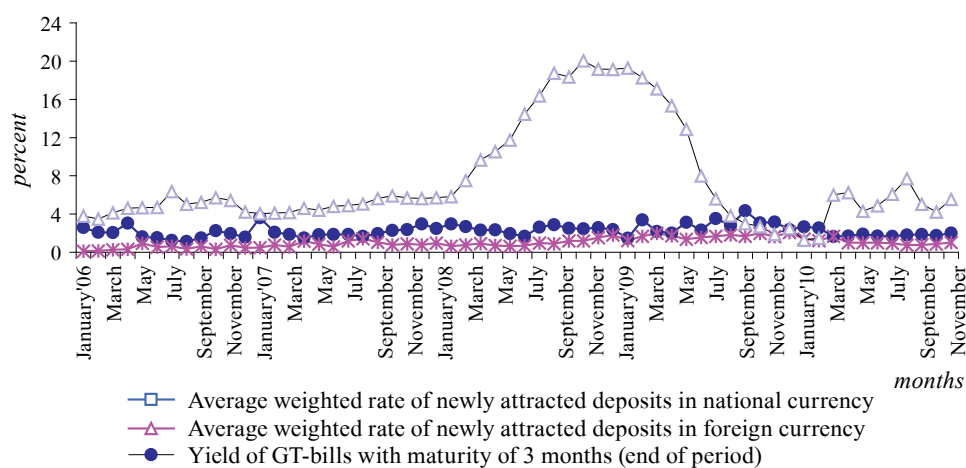
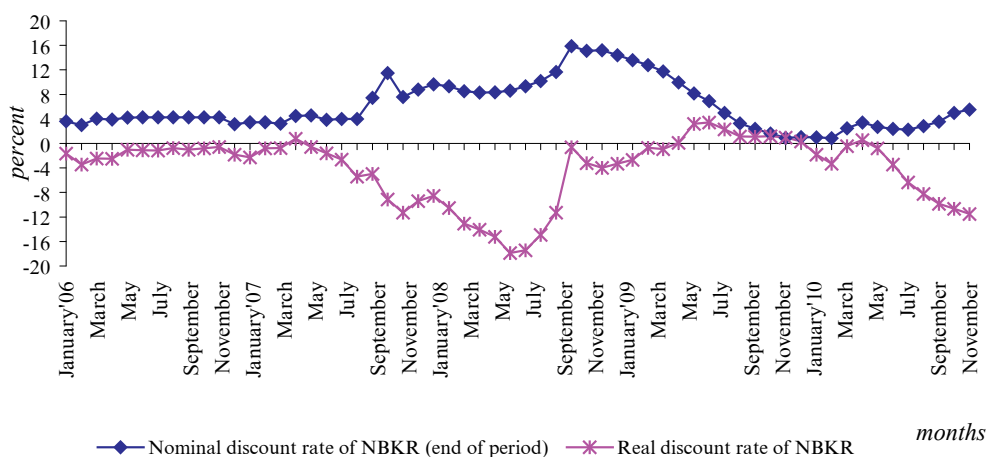
*Data from monthly regulatory reporting of commercial banks*

Chart 8.**Interest Rates of Credits Extended by Commercial Banks**

Data from monthly regulatory reporting of commercial banks

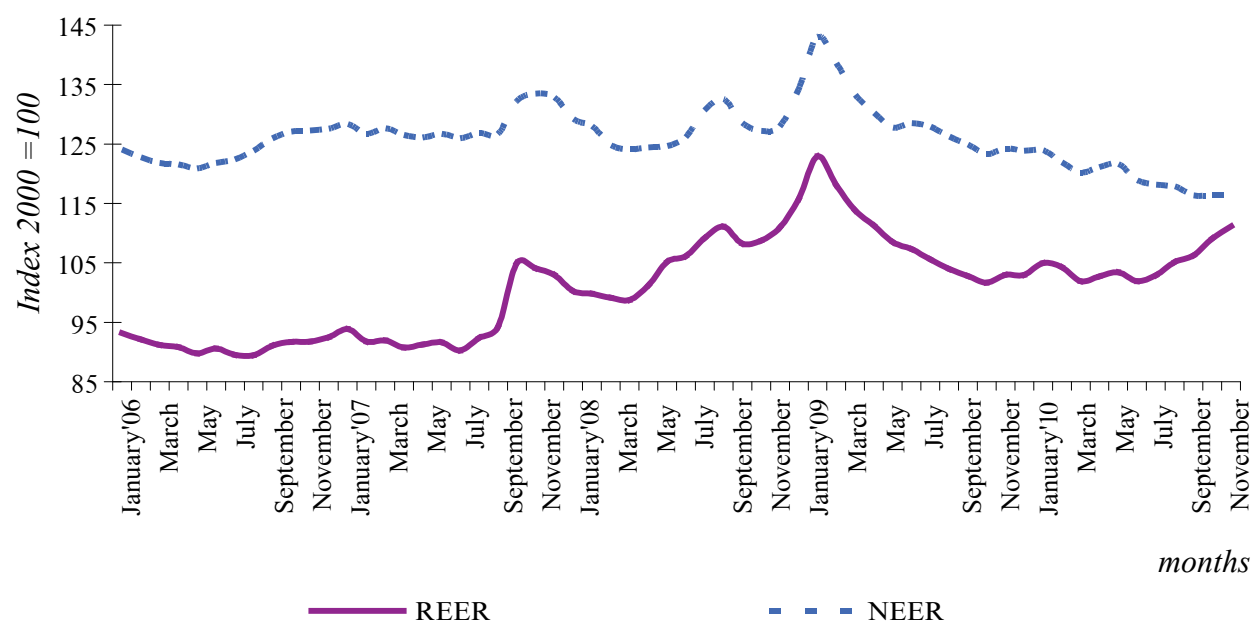
Chart 9.**Interest Rates of Deposits and Yield of GT-Bills**

NBKR data and monthly regulatory reporting of commercial banks

Chart 10.**Nominal and Real Discount Rate Developments**

NBKR data

Note: The following formula was applied to calculate the real interest rate
 $r = (i - p) / (p + 100) * 100$, with i being the nominal interest rate,
 r - real interest rate, p - annual rate of inflation.

Chart 11.**Nominal and Real Effective Exchange Rates**

NBKR data

NBKR Periodical Publications and Other Information Tools

№	Title ¹	Language of Publication	Frequency	Contents	Distribution
1	2	3	4	5	6
1.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Monthly	Statistical data on basic economic and financial indicators. The data of the National Statistic Committee, Ministry of Finance, commercial banks, Financial Market Supervision and Regulation Service of the Kyrgyz Republic and the NBKR were used to prepare this bulletin.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic, foreign partner central banks.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Annually	The comprehensive progress report of the National Bank for the reporting year containing the concise description of the outcome of developments in the real sector of the economy and the decisions and actions of the National Bank in the monetary sphere. The Report comprises the data on economic development, the monetary policy, the financial statements and general information about the National Bank, as well as the statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic, foreign partner central banks.
3.	Statutory Acts of the NBKR	Kyrgyz and Russian	Monthly	The regulations, instructions and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, commercial banks, courts of the Kyrgyz Republic, ministries and departments, higher educational institutions and libraries of the Kyrgyz Republic.

¹ the title of publications is given in an alphabetical order

1	2	3	4	5	6
4.	Inflation Report in the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The description of the consumer price behavior in the republic and its regions, and the analysis of basic inflation factors. The publication informs of the NBKR's monetary policy decisions, and presents the inflation forecast for the upcoming period.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic offices of international republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic, foreign partner central banks.
5.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The publication describes the recent external sector development trends and contains the statistical data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the meta-data and the information base used to compile the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, foreign partner central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz and Russian	Weekly	On-line information about the official exchange rates set by the National Bank of the Kyrgyz Republic, the results of inter-bank foreign exchange auctions, the situation in the market of GT-bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on the basic lines of NBKR activity, as well as the chronicle of events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, mass media.
7.	Banking System Development Trends	Kyrgyz, Russian and English	Semiannually	The banking system development analysis and assessment, as well as the evaluation of stability components in the banking system of Kyrgyzstan.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, ministries and departments, commercial banks, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, foreign partner central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.

1	2	3	4	5	6
8.	Discount Rates of Foreign Currencies vis-a-vis the Kyrgyz Som, and the NBKR's Discount Rate	Kyrgyz and Russian	Annually	Information on discount exchange rates of foreign currencies vis-a-vis the Som set by the National Bank of the Kyrgyz Republic, and the NBKR's discount rate for the year.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries, departments and financial organizations, commercial banks of the Kyrgyz Republic.
9.	Information Booklets and Instructions	Kyrgyz and Russian	Updated according to work plans of departments	Information brochures and methodological manuals are published covering the various lines of the NBKR activity.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks and nonbank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic.
10.	Official NBKR's Web-Site www.nbkr.kg	Kyrgyz, Russian and English	Updated online	Information on activity of the NBKR, including information on the banking legislation, regulatory and legal acts of the NBKR governing its monetary policy, activity of commercial banks and other FCIs, arrangement of the payment system and the cash and money turnover, as well as the draft documents for discussion. In addition, the regularly updated list of commercial banks and nonbank FCIs licensed by the National Bank, as well as the data on commercial banking service tariffs. The following data are posted on the web-site: the reviews of the commercial banking system and the nonbanking financial sector; the monetary survey statistical data, the data on foreign economic indicators, on the balance of payments, international reserves, external debt, and on the international investment position of the country; the data on the history of national currency; as well as information and analysis materials.	Free access to information

1	2	3	4	5	6
				<p>Internet versions of official publications of the National Bank: NBKR Bulletin, Annual Report, Inflation Review in the Kyrgyz Republic, The Balance of Payments of the Kyrgyz Republic, Press Release of the NBKR, and the Banking System Development Trends in the Kyrgyz Republic are updated according to periodicity of each publication.</p> <p>The forms of documents on employment, the opening of the bank, exchange bureaus and microfinance organizations are placed in a special section.</p> <p>Information about the transactions involving the NBKR, the official exchange rates of currencies and the discount rate set by the National Bank, and the chronicle of events taking place in the NBKR is updated online.</p>	
11.	Natsbank Soobshayet TV Program (National Bank Information)	Russian	Monthly	<p>Highlights of main events in the NBKR activity, the financial market review; information about the official exchange rates set by the National Bank of the Kyrgyz Republic and the overall macroeconomic indicators of the Republic; the interviews with the NBKR experts on the current issues of the monetary policy, banking and payment systems, the banking legislation; explanations are given on queries incoming from citizens in the section NBKR Public Chamber Answers Your Questions.</p>	Broadcast on the TV Channel "5 Kanal".

List of Abbreviations

ADB	Asian Development Bank
BCS	Bulk Clearing System
CJSC	Closed Joint Stock Company
CU	Credit Union
CIS	Commonwealth of Independent States
CFT/AML	Combating the Financing of Terrorism and Anti-Money Laundering
CT MoF	Central Treasury of the Ministry of Finance
CAP	Certified Accounting Practitioner
CPI	Consumer Price Index
CIPA	Certified International Professional Accountant
EBRD	European Bank for Reconstruction and Development
EurAsEC	Eurasian Economic Community
ESF	Exogenous Shock Facility
ETS	Exchange Trading System
FL	Fuels and Lubricants
FCI	Finance and Credit Institutions
FOB	Price at the Frontier of Country-Exporter (free on board)
FCSDCU	Financial Company for Support and Development of Credit Unions
GT-Bills	Government Treasury Bills
GT-Bills (s)	Government Treasury Bills for Settlement
GT-Bonds	Government Treasury Bonds
GT-Bonds (s)	Government Treasury Bonds for Settlement
GTO	Government Treasury Obligations
GDP	Gross Domestic Product
GTZ	German Technical Assistance Society
GS	Government Securities
HEI	Higher Educational Institution
IB	Investment Bank
IGKR	Interim Government of the Kyrgyz Republic
IJSCB	Investment Joint Stock Commercial Bank
ISB	Interstate Bank
IPC	Interbank Processing Center
IR	International Reserves
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund

KR	Kyrgyz Republic
Kfw	German Development Bank
KRJC	Kyrgyz Republic-Japan Center for Human Development
LLC	Limited Liability Company
LLP	Loan Loss Provisions
MAC	Multi-Access Center
MCA	Microcredit Agency
MCC	Microcredit Company
MFC	Microfinance Company
MFO	Microfinance Organization
MoJ	Ministry of Justice
MTMDS	Mid-Term Microfinance Development Strategy
MM	Mass Media
MP	Monetary Policy
MRR	Mandatory Reserve Requirement
NBS	National Bank of Switzerland
NBKR	National Bank of the Kyrgyz Republic
NEER	Nominal Effective Exchange Rate
NFCI	Nonbank Finance and Credit Institutions
NTRBC	National Television and Radio Broadcasting Corporation
NSC	National Statistics Committee
OJSC	Open Joint Stock Company
PLES	Prevention and Liquidation of Emergency Situations
RCF	Rapid Credit Facility
REER	Real Effective Exchange Rate
RLA	Regulatory Legal Act
ROA	Return on Assets
ROE	Return on Equity
RTGSS	Real Time Gross Settlement System
SBRF	Special Banks Refinancing Fund
SCNS	State Committee for National Security
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SECO	State Secretariat for Economic Affairs
SWIFT	Society For Worldwide Interbank Financial Telecommunication
UNO	United Nations Organization
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank