



**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**



**ANNUAL REPORT  
2011**

NATIONAL BANK OF THE KYRGYZ REPUBLIC

# ANNUAL REPORT

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Bishkek - 2012

## *Annual Report of the National Bank of the Kyrgyz Republic for 2011*

Annual Report of the National Bank of the Kyrgyz Republic for 2011 was prepared 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 2011 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No 12/1 dated March 22, 2012.

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# CONTENTS

Foreword of the Governor of the National Bank of the Kyrgyz Republic .....	5
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## I. ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC IN 2011

CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2011 .....	8
1.1. Real Sector of Economy .....	8
1.2. Public Finance Sector .....	9
1.3. Balance of Payments .....	12
1.4. Banking Sector .....	14
1.5. Sector of Nonbank Finance and Credit Institutions .....	19
1.6. Financial Markets .....	21
1.6.1. Foreign Exchange Market .....	21
1.6.2. Interbank Credit Market .....	24
1.6.3. Securities Market .....	25
1.6.4. Deposit and Credit Market .....	25

## II. ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC IN 2011

CHAPTER 2. MONETARY POLICY .....	36
2.1. Monetary Policy Development .....	36
2.2. Monetary Policy Implementation .....	39
2.2.1. Domestic Foreign Exchange Market Operations .....	39
2.2.2. Operations with NBKR Notes and NBKR Discount Rate .....	42
2.2.3. REPO Operations .....	42
2.2.4. Refinancing of Banks .....	43
2.2.5. Reserve Requirements .....	44
2.3. International Reserves Management .....	45
2.4. Monetary Policy Results .....	47

## CHAPTER 3. SUPERVISION AND REGULATION OF ACTIVITIES OF FINANCE AND CREDIT INSTITUTIONS .....

3.1. Banking Supervision .....	50
3.1.1. Licensing .....	50
3.1.2. Off-Site Supervision .....	51
3.1.3. On-Site inspection .....	53
3.1.4. Enforcement Measures .....	54
3.2. Supervision of Nonbank Finance and Credit Institutions .....	55
3.3. Supervision and Regulation Methodology .....	56

## CHAPTER 4. PAYMENT SYSTEM .....

4.1. Payment System Development .....	56
4.1.1. Noncash Settlements .....	58

4.1.2. Oversight of the Payment System .....	60
4.1.3. Activities to Increase the Share of Noncash Payments .....	62
4.2. Cash Turnover .....	62

## CHAPTER 5. FOREIGN ECONOMIC RELATIONS .. 65

5.1. Cooperation with International Organizations .....	65
5.2. Cooperation with Central (National) Banks .....	68

## 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 .....	70
6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2011 .....	77
6.3. Improvement of Banking Legislation .....	80
6.4. Fulfillment of Financial Advisor Functions .....	83
6.5. Internal Audit and Internal Control System .....	85
6.6. Public Information .....	87

## III. CONSOLIDATED FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR THE YEAR ENDED DECEMBER 31, 2011

CHAPTER 7. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 .....	92
7.1. Independent Auditor's Report .....	93
7.2. Consolidated Statement of Financial Position as at 31 December 2011 .....	94
7.3. Consolidated Income Statement for the year ended 31 December 2011 .....	96
7.4. Consolidated Statement of Comprehensive Income for the year ended 31 December 2011 .....	97
7.5. Consolidated Statement of Cash Flows for the year ended 31 December 2011 .....	98
7.6. Consolidated Statement of Changes in Equity for the year ended 31 December 2011 .....	100
7.7. Notes to the Consolidated Financial Statements for the year ended 31 December 2011 .....	102

## IV. ATTACHMENTS

Appendix 1. Chronology of Major Events in the Monetary Sphere in 2011 .....	150
Appendix 2. Statistical Information (tables and charts) .....	159
Appendix 3. NBKR Periodical Publications and Other Information Tools .....	181
Appendix 4. List of Abbreviations .....	185



Following a difficult preceding period, the macroeconomic situation improved in the economy of the Kyrgyz Republic in 2011. A wide range of tasks in the monetary policy and in the sphere of development of banking and payment systems of the country stood before the National Bank of the Kyrgyz Republic.

The National Bank and the Government of the Kyrgyz Republic through joint efforts managed to decrease inflation to 5.7 percent and secure stability of the banking system, and thereby create preconditions for sustainable economic growth in the medium term and development of positive expectations among the population.

Monetary policy development and implementation allowed maintaining the stability of the national currency. Moreover, moderate rate of increase of general level of prices was achieved ensuring the revival of economic growth. The National Bank interacted with the

state administrative bodies on a wide range of economic issues, including the coordination of the monetary and fiscal policies as one of the key issues.

The banking system of the country, despite remaining problems with certain banks, in overall proved its steadiness having demonstrated positive growth dynamics. The National Bank continued its efforts on strengthening the public trust in the banking system and increasing level of financial intermediation.

In order to assist in development of the regions, a special attention was devoted to micro-finance institutions promoting expanded access to financial resources for small and medium businesses. Following a coherent policy in this sphere, a Strategy for Microfinance Development for 2011-2015 was developed.

The national payment system worked steadily. In 2011, the National Bank proceeded with implementation of measures for supervision of the payment system of the Kyrgyz Republic to maintain its reliable operation and strengthen the trust in the national currency as means for cash and noncash payments.

The Annual Report of the National Bank of the Kyrgyz Republic for 2011 was prepared pursuant to the Law “On the National Bank of the Kyrgyz Republic” and reflects activities of the Bank carried out to fulfill responsibilities entrusted to it. Financial statements were confirmed by an independent audit.

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

Governor

A handwritten signature in black ink, appearing to read 'Asankojoeva Z. M.'.

Asankojoeva Z. M.



# I

**ECONOMIC SITUATION  
IN THE KYRGYZ REPUBLIC  
IN 2011**

## CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2011

In 2011, the economic activity recovery was observed in the country. Favorable domestic and foreign economic situation stimulated growth in all spheres of the economy, except for construction. These conditions contributed to increase in growth dynamics of tax revenues of the state budget and enabled the Government of the Kyrgyz Republic to increase expenditures, particularly in the spheres of social protection, education and health care. Consequently, the state budget deficit to Gross Domestic Product (GDP) ratio remained approximately at the same level as in 2010 amounting to 5.0 percent of GDP. The economic recovery process along with improved foreign economic environment conditioned increased positive balance of payments.

The situation in the financial sector was steady in 2011. Increase in the loan portfolio, volumes and duration of deposit base, decrease in weighted average interest rates on loans and increase in interest rates on deposits in the national currency were observed. Following the outcomes of 2011, the net profit of the banking system increased more than 2.5 times.

Nonbanking finance and credit institutions development trends also remained positive. Increase in the volume of their assets and loan portfolio was observed and in overall this sector demonstrated growth and profitable activity in the reporting period.

### 1.1. Real Sector of Economy

In 2011, the economy of the Kyrgyz Republic was characterized by overall recovery and revival of economic activity. According to preliminary data of the National Statistics Committee of the Kyrgyz Republic (NSC of KR) in 2011, the volume of GDP at current prices amounted to KGS 273.1 billion, having increased by 5.7 percent in real terms compared to decrease of the same indicator by 0.5 percent in 2010. In 2011, the volume of GDP increased by 5.6 percent, excluding gold mining enterprises of Kumtor company (in 2010 decrease by 1.0 percent was observed).

The GDP deflator constituted 17.3 percent against 10.0 percent in 2010.

***Table 1.1.1.***  
Gross Domestic Product Structure

	2010			2011		
	Share, in percent	Growth rate, in percent	Contribution to growth rate, percentage points	Share, in percent	Growth rate, in percent	Contribution to growth rate, percentage points
<b>GDP</b>	<b>100.0</b>	<b>-0.5</b>	<b>-0.5</b>	<b>100.0</b>	<b>5.7</b>	<b>5.7</b>
Agriculture	17.5	-2.6	-0.5	18.0	2.3	0.4
Mining	0.6	-3.6	0.0	0.8	24.6	0.2
Manufacturing	17.0	11.3	1.6	16.8	9.8	1.7
Generation and distribution of electricity, gas and water	3.1	11.2	0.2	3.1	22.4	0.7
Construction	5.5	-18.5	-1.2	4.9	-3.9	-0.2
Trade; repairs of motor vehicles	16.0	-5.6	-0.9	16.1	7.0	1.1
Hotels and restaurants	1.3	-9.5	-0.1	1.3	9.3	0.1
Transport and communications	8.6	4.2	0.4	8.2	9.8	0.8
Financing	0.6	-4.9	0.0	0.5	6.7	0.0
Real estate activities	4.8	4.9	0.2	3.9	-1.7	-0.1
Public administration	5.6	-0.3	0.0	5.4	5.1	0.3
Education	4.4	-0.3	0.0	5.0	0.3	0.0
Health	2.6	1.7	0.0	2.4	2.0	0.1
Public utilities	2.3	-2.2	0.0	2.0	0.7	0.0
Net taxes on products (net of subsidies)	10.2	-0.5	-0.1	11.5	5.7	0.6

Source: NSC

The volume of gross agricultural output amounted to KGS 147.3 billion in 2011, demonstrating increase by 2.3 percent in real terms. The growth of gross output was achieved through increase in production of major types of livestock produce (except for milk), expansion of sown area (by 1.2 percent) as well as significant increase in production of certain crops. The agriculture amounted to 18.0 percent of GDP in 2011 against 17.5 percent in 2010.

*Agriculture*

Industrial output amounted to KGS 161.8 billion and its physical volume increased by 11.9 percent. Excluding the Kumtor gold mining enterprises, the increase of industrial output was 18.8 percent. The share of industrial production in the GDP structure remained at 20.7 percent - the same level as in 2010; therefore, this sector had the largest share in the structure of the economy of Kyrgyzstan.

*Industrial production*

The largest contribution (1.7 percentage point) to industrial growth was made by the manufacturing branch with an increase of 9.8 percent. In the structure of manufacturing, the considerable growth was observed in such sectors as textile and garment manufacture (1.5 times), manufacture of transportation means and equipment (1.6 times), chemical production (1.6 times) and manufacture of machines and equipment (1.7 times).

A considerable contribution to industrial growth was made by production and distribution of electricity, gas and water. Output of this branch grew by 22.4 percent in 2011, while in 2010 this indicator increased by 11.2 percent.

Growth in trade transactions amounted to 7.0 percent. In the structure of trade operations, increase in turnover of the wholesale trade constituted 2.7 percent, and that of retail trade amounted to 6.2 percent. The latter was conditioned largely by increase in the sale of nonfoods (10.1 percent). Volume of services provided by hotels and restaurants grew by 9.3 percent. Freight transport increased by 2.1 percent in 2011. Services rendered by communications enterprises also grew significantly in volumes (by 11.4 percent).

*Trade and services sector*

In 2011, total gross construction output amounted to KGS 41.8 billion, which is decreased by 3.9 percent in real terms against decline of the same indicator by 18.5 percent in 2010. The reduction in the volume of construction works in 2011 was conditioned mainly by the decrease in the volume of investments into the fixed capital.

*Construction*

The volume of such investments amounted to KGS 47.4 billion, having thus decreased by 6.6 percent in real terms (in 2010 the similar indicator reduced by 9.2 percent). Decrease of investments in fixed capital in 2011 was largely conditioned by decreased investments in mining and manufacturing industries, agriculture, production and distribution of electricity, gas and water and in the sphere of building hotels and restaurants. In the structure of sources for financing investments in fixed capital an 18.6 percent increase in the share of investments financed by outside sources was observed, while those financed by domestic sources decreased by 13.9 percent. Investments made by using public funds decreased by 8.4 percent, which was mainly caused by the decline in individual construction and investments in individual entrepreneurial activity. Investments funded from outside sources expanded due to 1.6 times increase in the volume of foreign loans.

*Investment activity*

## 1.2. Public Finance Sector

In 2011, the budget policy was implemented against the background of revival of economic activity in the country, increasing growth rates of the industrial production and foreign trade turnover. The political stability also contributed to increased receipt of official transfers from foreign organizations and countries. On the other hand, increase in budget expenditures was observed in the spheres of

*Conditions of fiscal policy implementation*

social protection, education, health care and economic issues. Consequently the state budget imbalance persisted.

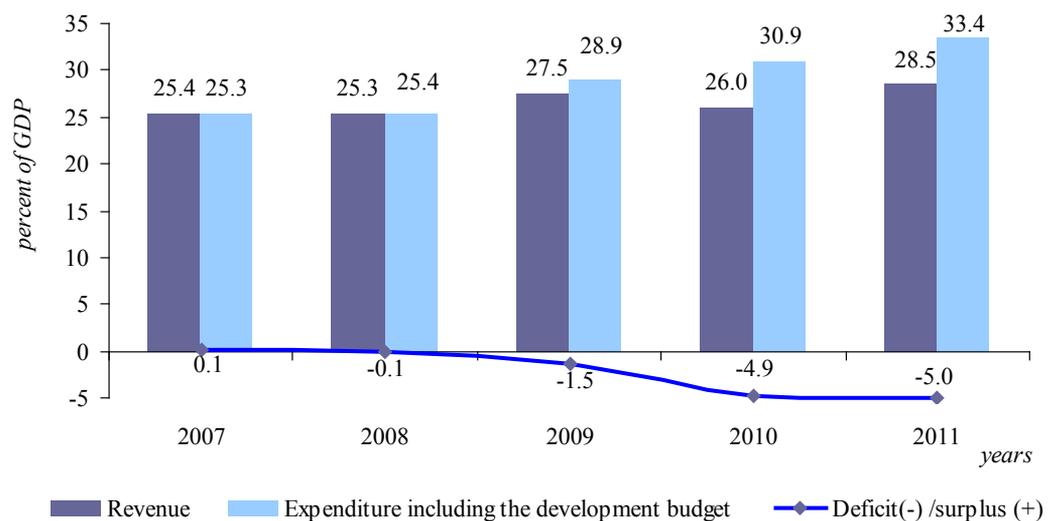
According to the data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic<sup>1</sup> the state budget deficit in 2011 amounted to KGS 13.5 billion, which corresponds to 5.0 percent of GDP (in 2010 the budget was implemented with a deficit of 4.9 percent of GDP).

State budget revenues were characterized by significant increase of both tax revenues, largely conditioned by increased volume of import, and nontax revenues, achieved through improved public property management and attraction of additional external resources for the budget purposes. In 2011, state budget revenues from conducting operational activity totaled to KGS 77.3 billion or 28.3 percent of GDP, having increased by 34.8 percent compared to the same indicator in 2010 (in 2010 the increase was 3.7 percent).

The state budget expenditures policy was mainly aimed at improving social protection of the population. The Government of the Kyrgyz Republic adopted a number of normative and legal acts to raise wages of budget sphere employees and pensions. Total state budget expenditures for conducting operational activity amounted to KGS 82.4 billion having increased by 33.8 percent in 2011 (increase in 2010 was 23.1 percent). The expenditures ratio to GDP increased from 27.9 percent to 30.2 percent.

### **Chart 1.2.1.**

Key State Budget Parameters

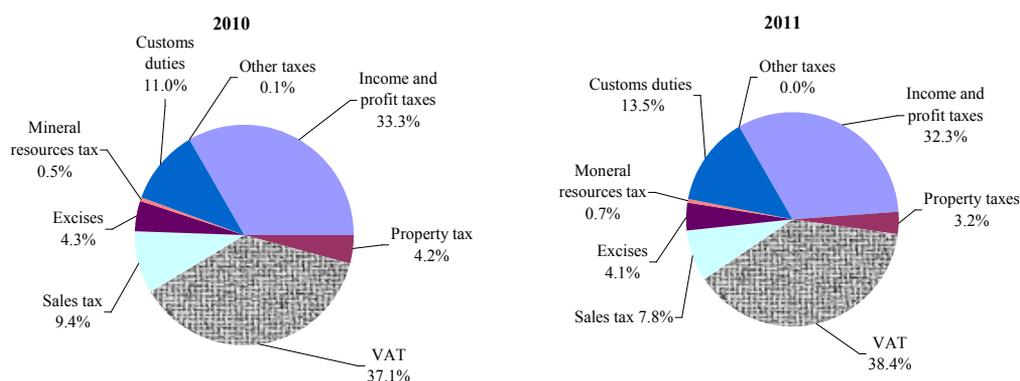


*Increase in tax revenue*

Tax revenue amounted to KGS 53.0 billion, having thus increased by 34.7 percent as compared to the similar indicator in 2010. The share of tax revenue in total budget revenue constituted 68.5 percent, maintaining approximately the same level as in 2010. Customs and tax agencies provided collection of 44.7 percent and 55.3 percent of total tax revenue accordingly.

The growth of tax revenue was caused, first of all, by the increase of revenue from customs duties by 64.4 percent, or by KGS 2.8 billion, as well as by the increase of revenue from imports (according to preliminary data of NSC KR imports increased by 31.8 percent in 2011). For example, revenue from VAT on imported products increased by 44.7 percent. Revenue from VAT on goods and services produced in the country increased by 26.3 percent, however their share in the total tax revenue remains low (10.1 percent). In total, the revenue from VAT increased by 39.4 percent or by KGS 5.8 billion compared to the same indicator in 2010.

<sup>1</sup> Preliminary data

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

In 2011, state budget expenditures for conducting operational activity amounted to KGS 82.4 billion or 30.2 percent of GDP (27.9 percent of GDP in 2010).

In 2011, the Government of the Kyrgyz Republic adopted a number of normative and legal acts on raising salaries of employees in education and health care systems and pensions:

*Socially oriented public expenditure policy*

- Starting from May 1, 2011 a new hour based system of remuneration of staff of educational institutions was introduced. Following this innovation the salaries of employees of educational institutions in average doubled or tripled depending on the employee's work experience;

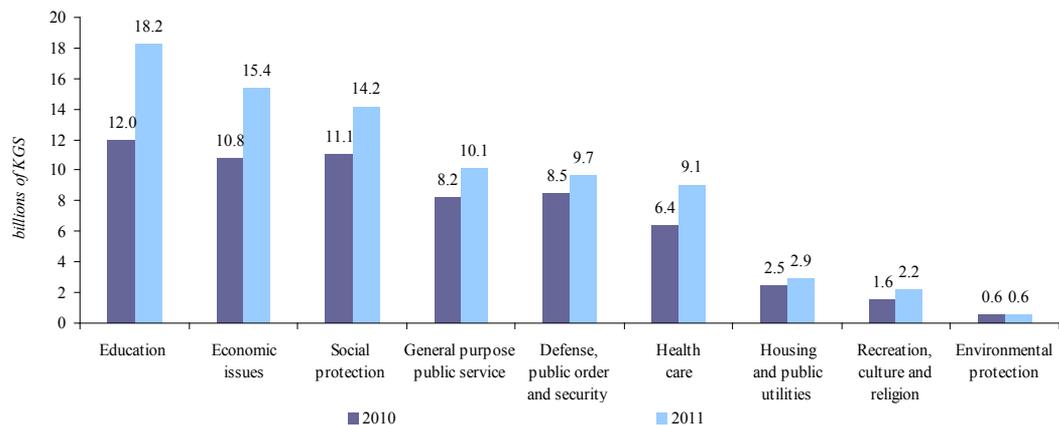
- Starting from May 1, 2011 insurance share of pensions increased from KGS 100 to KGS 600 depending on the pension size;

- Starting from September 1, 2011 salaries of technical and junior assisting staff employed in the sphere of health care, education, social protection, culture, arts, information, science, physical culture and sports tripled in average;

- Starting from October 1, 2011 basic component of the pension increased by 50 percent and amounted to KGS 1500. Increasing the basic component of pensions required KGS 778.4 million in 2011, including KGS 311.4 million funded from the state budget and KGS 467.0 million from the Social Fund.

In the end, the state budget expenditures for wages increased by 40.9 percent in 2011 (in 2010 increase was 13.0 percent) amounting to KGS 26.9 billion or 32.7 percent of the total state budget expenditures for operational activity. Meanwhile expenditures for social benefits and subsidies increased by 28.6 percent amounting to KGS 16.3 billion or 19.7 percent of the total state budget expenditures.

In the reporting period, in line with the functional classification of budget expenditures the growth of budget expenditures was observed in the following categories: for education – by 52.0 percent, for recreation culture and religion – by 43.2 percent, for economic issues – by 42.3 percent, for health care – by 41.6 percent, for social protection – by 28.1 percent, for general purpose public service – by 23.6 percent, for housing and public utility services – by 15.5 percent and for defense, public order and security – by 14.7 percent. State budget expenditures reduced on environment protection by 1.0 percent.

**Chart 1.2.3.****Functional Classification of State Budget Expenditures**

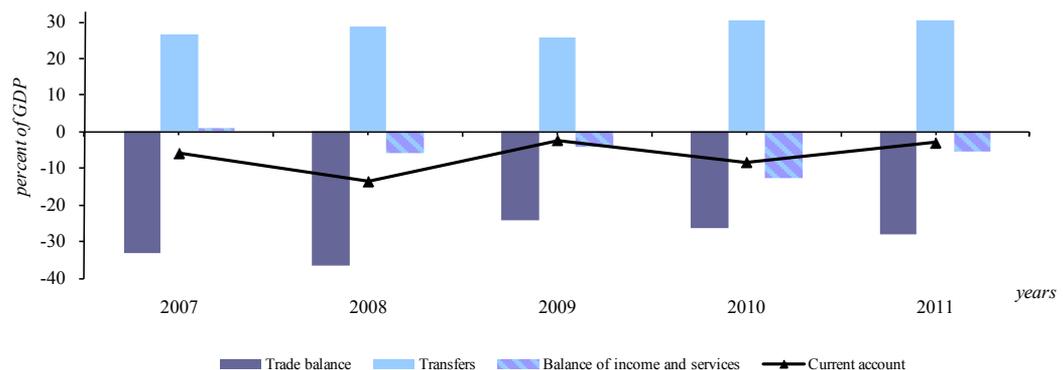
An excess of state budget expenditures for purchase of nonfinancial assets over their sale amounted to KGS 8.5 billion or 3.1 percent of GDP in 2011 (in 2010 it amounted to 3.0 percent of GDP).

According to the data of the Ministry of Finance of the Kyrgyz Republic<sup>1</sup> the external public debt equaled to USD 2.8 billion as of the end of 2011 (in 2010 - USD 2.6 billion), while the domestic debt totaled to KGS 12.9 billion (in 2010 - KGS 8.4 billion). The public debt service expenditures amounted to KGS 9.6 billion or 3.5 percent of GDP, of which interest payments constituted 1.0 percent of GDP.

**1.3. Balance of Payments**

According to preliminary results of 2011, the positive balance of payments increased and amounted to USD 101.2 million.

Despite the growth of trade deficit, the sustained high growth rate of monetary receipts on the item “Current Transfers”, considerable decrease of the deficit of “Services” and decreased outflow on the item “Revenues” – all contributed to improvement of the current account status. According to the results in 2011, the deficit of the current account amounted to USD 178.3 million, which corresponds to 3.0 percent of GDP, while the same indicator equaled to 8.4 percent in 2010.

**Chart 1.3.1.****Current Account**

Foreign trade

Quicker growth of import of goods versus growth of export conditioned increase of the trade balance by 38.8 percent up to USD 1.7 billion.

<sup>1</sup> Preliminary data

Export of goods increased by 28.0 percent over the reporting period and amounted to USD 2.3 billion. This was largely achieved through increased export of gold, which grew in cost volume by 50.6 percent. Increased export of gold was achieved through both increased physical volume of export delivery and uplift in prices. Export, excluding gold, increased by 14.4 percent and amounted to USD 1.3 billion. An increase was observed in the export of vegetables and fruits (by 42.9 percent), aviation kerosene (by 44.8 percent), electricity (by 66.0 percent) etc.

Growth of imports reached 32.4 percent and amounted to USD 3.9 billion in the period of report. The growth of imports was caused by increased import of oil products, including motor gasoline – by 32.6 percent and diesel fuel – by 80.4 percent. Along with increased import of oil products, import of motor cars, medicine, cast iron and steel, telephones, sugar and others increased as well.

Dynamic growth of services under the item “Travel” complemented by positive dynamic of the export of “other services” contributed to reducing the “Services” balance deficit to USD 9.5 million, while in 2010 the deficit amounted to USD 231.1 million.

The level of money receipts remained high in the reporting period leading to net inflow of current transfers amounting to USD 1.8 billion. Just as before, significant volume of money receipts in the structure of current transfers was provided by money transfers that started to grow dynamically following the slowdown in 2009. In the end of 2011, net inflow of money transfers reached USD 1.7 billion thus exceeding the corresponding indicator for 2010 by 33.6 percent.

*Remittances*

The negative balance of revenues reduced by 7.5 percent, which was mainly caused by decrease in interest payments on loans received from foreign direct investors.

According to the results in 2011, the capital and financial transactions account was formed positive and totaled to USD 331.8 million, which is by 38.0 percent lower than the corresponding indicator for 2010.

*Capital account*

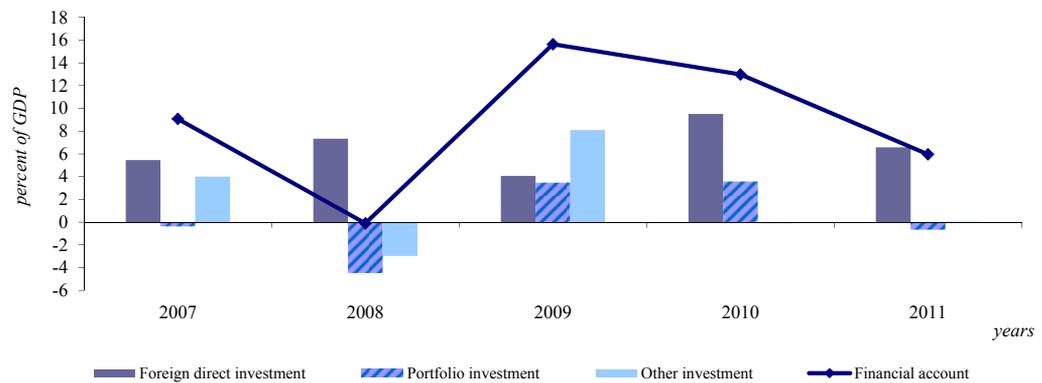
In 2011, currency receipts to the financial account were noted in the form of direct investments. Net inflow of direct investments equaled to USD 391.0 million, which is a decrease by 10.6 percent compared to the same indicator for 2010. As before, the major volume of direct investments was provided by reinvested profits.

Net inflow of USD 3.1 million was accounted under the item “Other Investments” resulting from significant increase of liabilities of residents compared to increase of their foreign assets.

Increase of foreign assets of residents by USD 177.1 million was mainly conditioned by the increase of funds on the enterprises’ accounts in foreign banks by USD 116.3 million and increase in receivables by USD 50.2 million.

Following increase of the net inflow of foreign loans into the public and private sectors of the economy the foreign liabilities increased by 81.2 percent as compared with the same indicator of 2010. The volume of net inflow of loans into the public sector amounted to USD 93.6 million, while USD 42.9 million – was channeled into the private sector.

**Chart 1.3.2.**  
Financial Account



According to preliminary calculations for 2010, the “Errors and Omissions” item balance developed with negative value equivalent to USD 52.3 million, which points to undercount of transactions related to outflow of capital from the country or undercount of the import of goods and services.

*International reserves*

The volume of total international reserves as of the end of 2011 amounted to USD 1.8 billion. The level of reserve assets of NBKR corresponded to 3.8 months covering of potential critical volume of imports of goods and services.

#### 1.4. Banking Sector

*Number of commercial banks*

In 2011, 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 based on the annual regulatory reporting of commercial banks<sup>1</sup>.

The key indicators of the banking system demonstrated growth dynamics in 2011. Majority of banks worked in normal mode. Four banks, namely OJSC “Akylinvestbank”, OJSC Investbank “Yssyk –Kul”, OJSC “KyrgyzCreditbank” and CJSC “Manas Bank” operated in laid-up mode. Besides these four, laid-up mode was maintained in OJSC “Ak-Bank” that does not carry out banking activity.

Over the year of 2011, the National Bank, jointly with commercial banks and NFCIs, addressed issues related to restructuring of loans to prevent aggravation of relations between the borrowers affected by the events in June of 2010 and their creditors.

Activities foreseen in the Banking System Development Strategy until 2011 have generally been completed. Failure to achieve certain indicators resulted from interruption by events of 2010. Key areas of banking sector development in the Kyrgyz Republic for the period till 2014 were defined together with the commercial banks to promote sustainability of the banking sector, advance efficiency, security and reliability of banking activity, and set conditions for expanding the access to the banking services and further growth of financial intermediation level. Measures to prevent engagement of commercial banks in unhealthy and insecure banking practices were also developed.

*Capital of commercial banks*

Total regulatory capital<sup>2</sup> of commercial banks increased by KGS 1.9 billion or by 16.2 percent over the year and amounted to KGS 13.4 billion by the end of 2011. At the same time, paid authorized capital<sup>3</sup> increased by 11.2 percent.

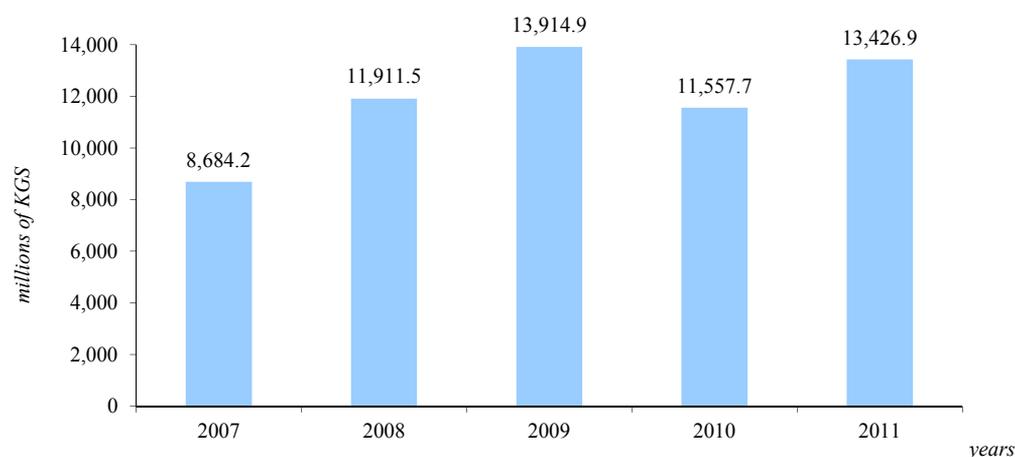
<sup>1</sup> Data of regulatory reporting of commercial banks for 2010 certified by an independent audit and data for 2011 not yet verified by an independent audit were used.

<sup>2</sup> 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.

<sup>3</sup> This category covers ordinary shares and preference shares.

**Chart 1.4.1.**

Trend in Regulatory Total Capital of Commercial Banks



In 2011, total liabilities<sup>1</sup> of commercial banks increased by 15.4 percent and amounted to KGS 52.3 billion. The share of liabilities in foreign currency in total liabilities practically did not change and corresponded to 55.0 percent.

*Liabilities of commercial banks*

**Table 1.4.1.**

Structure of Liabilities of Commercial Banks (end of period)

Category of liabilities	2010		2011	
	in million KGS	share, in percent	in million KGS	share, in percent
Demand deposits of legal entities	14,048.9	30.5	13,897.2	26.6
Deposits of individuals	12,106.4	26.3	16,149.2	30.9
Time deposits of legal entities	1,442.8	3.1	2,096.9	4.0
Liabilities to NBKR	0.7	0.0	308.4	0.6
Correspondent accounts	443.2	1.0	77.0	0.1
Deposits of other banks	3,300.2	9.1	3,377.0	6.5
Short-term placements	0.0	0.0	0.0	0.0
Deposits and credits of public authorities	6,026.3	11.1	6,273.8	12.0
Securities sold under REPO agreements	231.0	0.5	82.4	0.2
Received loans	3,690.1	8.0	5,288.5	10.1
Subordinated debt	129.0	0.3	124.2	0.2
Other liabilities	3,929.3	10.0	4,645.1	8.9
<b>Total</b>	<b>45,347.9</b>	<b>100.0</b>	<b>52,319.4</b>	<b>100.0</b>

At the end of 2011, deposits of commercial banks<sup>2</sup> increased by 16.5 percent and totaled to KGS 32.1 billion. Deposits of legal entities increased in the reporting period by KGS 502.4 million or by 3.2 percent. Deposits of individuals increased by KGS 4.1 billion or by 33.4 percent. The growth of time deposits was observed in the structure of deposits of individuals, both in absolute and relative terms.

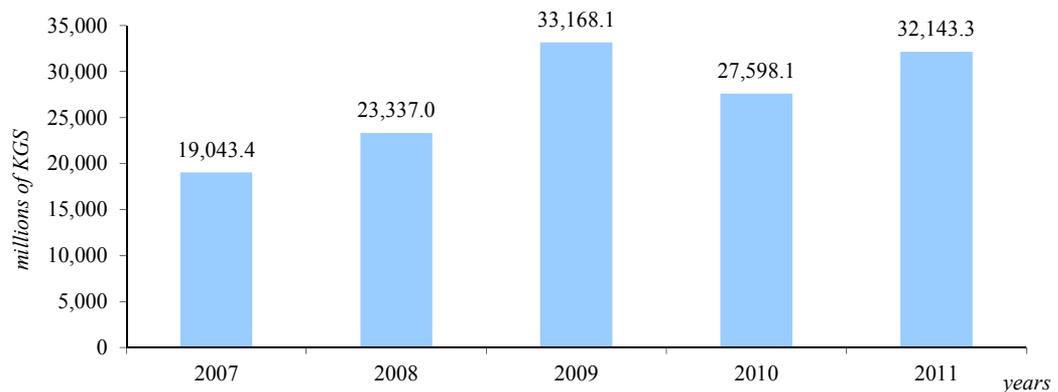
*Deposit base*

<sup>1</sup> Total liabilities comprise all of the funds mobilized by the bank.

<sup>2</sup> Excluding the government deposits and credits and the deposits of finance and credit institutions

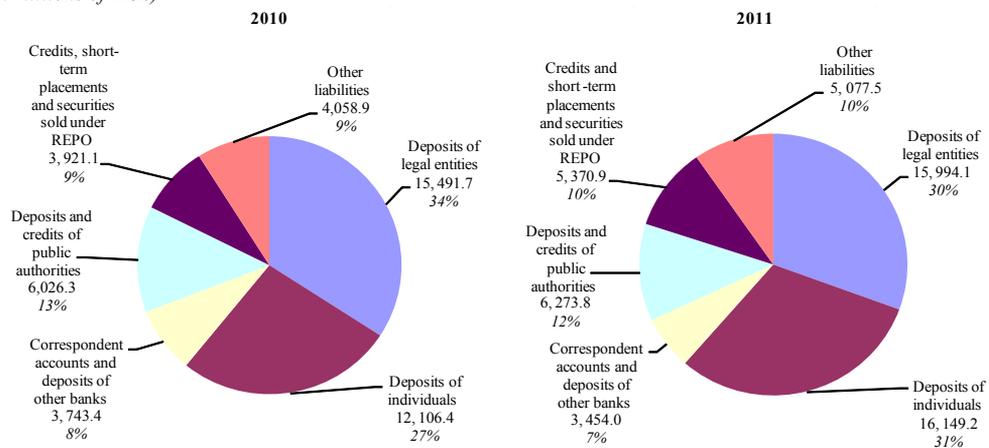
**Chart 1.4.2.**

## Dynamics of Deposits of Commercial Banks

**Chart 1.4.3.**

## Structure of Liabilities of Commercial Banks (end of period)

(in millions of KGS)



Assets of the  
banking system

In 2011, total assets of banks increased by 15.2 percent and totaled to KGS 66.7 billion, whereas growth of assets in foreign currency was 25.5 percent and assets in the national currency increased by 7.0 percent.

**Table 1.4.2.**

## Structure of Assets of Commercial Banks (end of period)

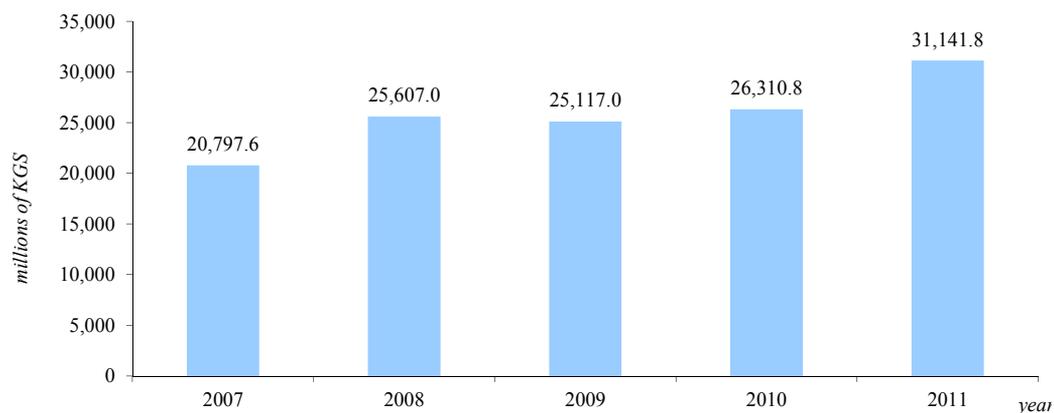
Category of assets	2010		2011	
	in millions of KGS	share, in percent	in millions of KGS	share, in percent
Cash	3,870.5	6.7	6,305.3	9.4
Correspondent accounts with the NBKR	5,513.7	9.5	5,431.1	8.1
Correspondent accounts and deposits with other banks	10,491.9	18.1	9,541.8	14.3
Securities portfolio	4,142.5	7.2	5,663.5	8.5
Short-term placements	1,004.2	1.7	93.0	0.1
Securities purchased on REPO operations	101.8	0.2	245.2	0.4
Loans to finance and credit institutions	1,064.5	1.8	1,596.6	2.4
Lending to customers	26,310.8	45.4	31,141.8	46.7
Special LLP*	-2,822.8	-4.9	-1,954.2	-2.9
Fixed assets	3,954.8	6.8	4,651.3	7.0
Other assets	5,363.5	9.3	4,039.1	6.1
<b>Total</b>	<b>57,930.9</b>	<b>100.0</b>	<b>66,754.5</b>	<b>100.0</b>

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

The volume of liquid assets placed by the commercial banks as cash assets, short-term placements and on the correspondent accounts with the NBKR increased, taken together, by 13.9 percent during the reporting period, and as of the end of 2011 this category of assets totaled to KGS 11.8 billion. The growth was also observed in the credits to customers<sup>1</sup> by 18.4 percent compared to the same indicator in 2010 and also the growth was noted in all main categories of assets of the banking system.

#### **Chart 1.4.4.**

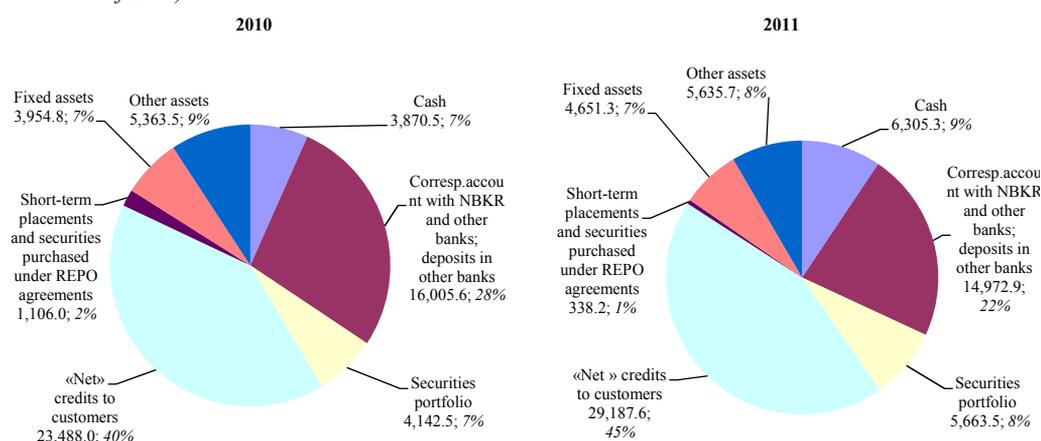
Dynamics of Credits to Customers of Commercial Banks



#### **Chart 1.4.5.**

Structure of Assets of Commercial Banks (end of period)

(in millions of KGS)



The volume of total net lending<sup>2</sup> increased by 24.3 percent and amounted to KGS 29.2 billion at the end of 2011. Its share in total assets of banks increased by 3.2 percentage points and was 43.7 percent. *Net lending*

According to the data of call reports of banks, the share of “unclassified”<sup>3</sup> assets was 92.2 percent of total assets subject to classification, while the share of “classified”<sup>4</sup> assets was 7.8 percent. The share of classified loans shrank to 10.2 percent (in 2010-15.8 percent), which speaks of certain improvement in the loan portfolio quality of the banking system.

<sup>1</sup> 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.

<sup>2</sup> «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.

<sup>3</sup> The unclassified assets (credits) comprise assets (credits) referred to standard assets, satisfactory assets and assets under watch.

<sup>4</sup> The classified assets (credits) comprise assets (credits) referred to substandard, doubtful assets and losses.

**Table 1.4.3.**

Classification of Assets, Off-Balance Sheet Liabilities and Credits to Customers  
(in percent, unless otherwise indicated)

Category	Assets and off-balance sheet liabilities		Credits to customers	
	2010	2011	2010	2011
<b>Total unclassified</b>	<b>90.5</b>	<b>92.2</b>	<b>84.2</b>	<b>89.8</b>
<i>including:</i>				
Standard	48.6	41.7	1.5	0.7
Satisfactory	35.8	45.2	70.4	80.1
Under watch	6.1	5.3	12.3	9.1
<b>Total classified</b>	<b>9.5</b>	<b>7.8</b>	<b>15.8</b>	<b>10.2</b>
<i>including:</i>				
Substandard	2.9	3.1	4.3	3.3
Doubtful	2.1	1.7	3.9	3.0
Losses	4.5	3.1	7.7	4.0
<b>Total classified</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total in millions of KGS</b>	<b>54,957.4</b>	<b>59,813.8</b>	<b>26,310.8</b>	<b>31,141.8</b>

*Income and expenses*

In 2011, both income and expense items of commercial banks increased, while the expenses for establishment of LLP decreased.

**Table 1.4.4.**

Composition of Income and Expenses  
(in millions of KGS)

Category	2010	2011
Total interest income	5,014.8	6,186.6
Total interest expenses	1,397.8	1,883.1
Net interest income	3,617.0	4,303.5
Loan loss provisions (on credits)	680.9	-100.6
Net interest income after LLP	2,936.1	4,404.1
Total non-interest income	11,460.0	18,625.8
Total non-interest expenses	9,271.9	15,565.9
Net operating income (loss)	1,197.8	2,393.2
Loan loss provisions (on other assets)	318.6	168.1
Net income (loss) before taxes	879.1	2,225.1
Profit tax	137.0	245.0
Net profit (loss)	742.2	1,980.2

The banking system closed the year 2011 with net profit in the amount of KGS 1,980.2 million; meanwhile in the end of 2010 the financial outcome was KGS 742.2 million (increase by 166.8 percent).

Regardless of the necessity to overcome the consequences of the events of 2010, in overall the main indicators of the banking system demonstrated positive dynamics and growth of banking services and products was ensured. The following main trends were observed in commercial banking:

- Growth of the volume of deposits of individuals (the growth by 33.5 percent) that shows maintained public confidence in commercial banks;
- Growth of total assets of the banking system by 15.2 percent;
- Growth of the total loan portfolio of commercial banks by 18.4 percent;
- Increase of the level of return on assets (ROA) by 1.9 percentage points (reaching 3.0 percent) and return on equity (ROE) by 10.6 percentage points (to 17.7 percent).

## 1.5. Sector of Nonbank Finance and Credit Institutions

As of December 31, 2011 the system of nonbank finance and credit institutions subject to licensing and regulation by NBKR included: a specialized finance and credit institution – Limited Liability Company (LLC) “FCSDCU”; 197 credit unions; 454 microfinance organizations (including four microfinance companies, 340 microcredit companies and 110 microcredit agencies) and 279 exchange bureaus. The total number of NFCIs as well as the volume of their assets and loan portfolio grew in 2011.

*NFCI structure*

**Table 1.5.1.**

Dynamics of the Number of NFCIs and Exchange Bureaus

Title	2007	2008	2009	2010	2011
FCSDCU	1	1	1	1	1
Specialized Fund for Banks Refinancing*	-	-	1	1	-
Kyrgyz Republic Development Fund**	-	-	1	-	-
Microfinance organizations (MFC, MCC and MCA)	233	291	359	397	454
Credit unions	272	248	238	217	197
Exchange bureaus	318	353	372	290	279

\* The license of LLC "Specialized Fund for Banks Refinancing" #003 of May 6, 2009 for conducting certain banking operations in the national currency of the Kyrgyz Republic was revoked on August 1, 2011 based on the Resolution of the Board of the National Bank of KR # 40/5 dated July 27, 2011.

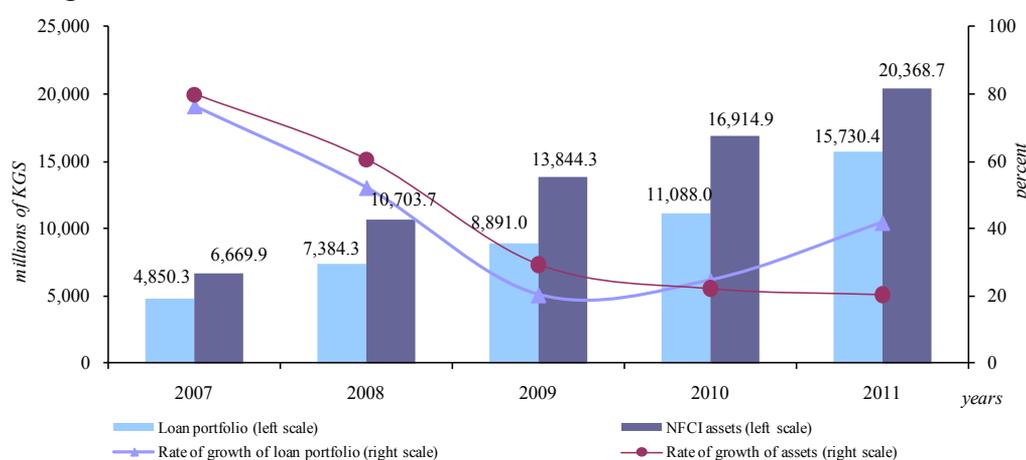
\*\* The license of CJSC "Kyrgyz Republic Development Fund" №4 of September 2, 2009 was revoked on May 7, 2010 based on the Decree of IGKR # 31 of April 30, 2010.

In 2011, the National Bank issued 285 licenses to exchange bureaus (including 219 issued due to expiration of the term of previous ones) and 91 certificates to MCC/MCA.

According to call reports, total assets of NFCIs<sup>1</sup> increased over the reporting year by 20.4 percent and amounted to KGS 20.4 billion as of December 31, 2011. The size of the NFCI<sup>1</sup> loan portfolio increased by 41.9 percent compared to 2010 and amounted to KGS 15.7 billion KGS.

**Chart 1.5.1.**

Changes in NFCI Total Assets and Loan Portfolio



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

*NFCI loan portfolio by regions and Bishkek city*

<sup>1</sup> The NFCI sector data are given excluding the loan portfolio of LLC “FCSDCU” because the loans were given to the credit unions that on-lent them further.

**Table 1.5.2.**

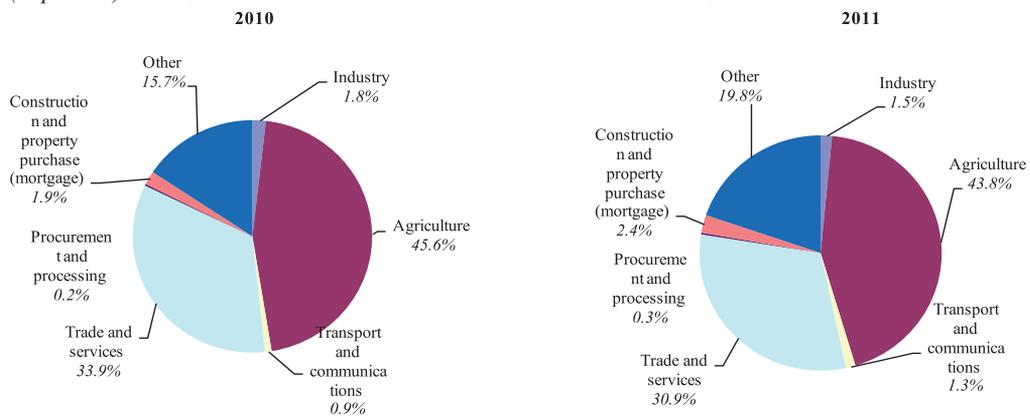
Change in NFCI Loan Portfolio by Regions (end of period)  
(in millions of KGS)

	2010	2011
Bishkek city	1,940.8	2,741.7
Batken Oblast	828.8	1,264.0
Jalal-Abad Oblast	1,951.6	2,904.4
Yssyk -Kul Oblast	1,118.3	1,581.9
Naryn Oblast	769.2	1,167.3
Osh Oblast	2,104.3	2,718.8
Talas Oblast	948.6	1,240.0
Chuy Oblast	1,320.3	1,960.2
Outside of the Kyrgyz Republic	106.1	152.2
<b>Total</b>	<b>11,088.0</b>	<b>15,730.4</b>

The key focus of NFCI activity is microlending. In the reporting year, the number of borrowers increased by 22.9 percent and the total number of borrowers amounted to 480 thousand people.

**Chart 1.5.2.**

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



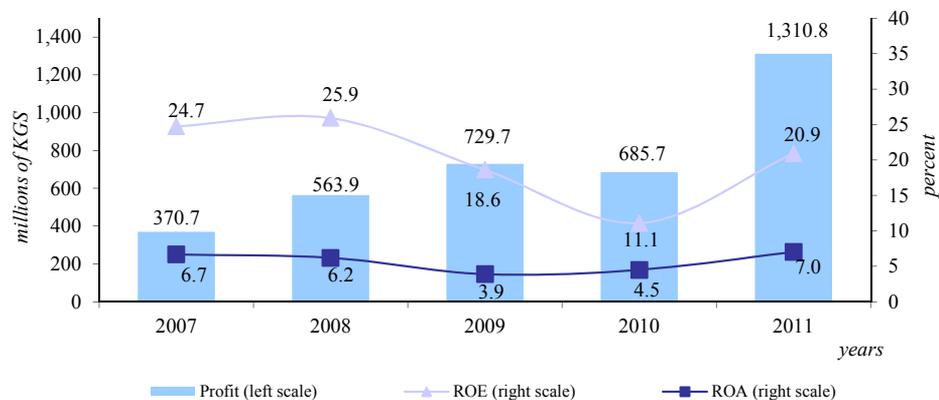
Loan portfolio by  
NFCI types

The share of microfinance organizations increased in the NFCI cumulative loan portfolio from 89.7 percent (KGS 9.9 billion) to 92.2 percent (KGS 14.5 billion), and the share of credit unions decreased from 10.3 percent (KGS 1.1 billion) to 7.8 percent (KGS 1.2 billion).

In 2011, the NFCI cumulative net profit amounted to KGS 1,310.8 million, having increased by 91.2 percent or by KGS 625.1 million compared to the NFCI cumulative profit for 2010.

**Chart 1.5.3.**

Change in NFCI Net Profit and ROA and ROE indicators



The average weighted interest rates on NFCI loans remain at the previous level due to sustained high demand of the population for these types of loans, as well as the need for covering current high operational expenses and risks.

***Table 1.5.3.***

Average Weighted Interest Rates of Credits  
(in percent)

	2007	2008	2009	2010	2011
FCSDCU	14.3	13.5	14.6	15.5	15.8
Special Fund for Banks Refinancing*	-	-	11.0	7.2	6.2
Kyrgyz Republic Development Fund**	-	-	3.5	-	-
Microfinance organizations	32.9	32.4	34.5	38.8	38.3
Credit Unions	25.8	28.0	29.5	30.7	29.0

\* The license of LLC "Special Fund for Banks Refinancing" was revoked on August 1, 2011 due to termination of its activity.

\*\* The license of CJSC "Kyrgyz Republic Development Fund" №4 of September 2, 2009 was revoked by the Resolution of NBKR #29/1 dated May 7, 2010 issued based on the Decree of IGKR # 31 of April 30, 2010.

The growth of NFCI loan portfolio was largely contributed by the activities of microfinance organizations. The cumulative loan portfolio of microfinance organizations increased by 45.7 percent over the reporting year and amounted to KGS 14.5 billion at the end of 2011. The number of borrowers from microfinance organizations increased by 24.7 percent and amounted over 463 thousand people. As for the payback period, the microfinance organizations loan portfolio mainly consists of medium and short-term loans with payback period up to three years.

The major microfinance organizations loan recipient sector was agriculture, which accounted for 43.5 percent (45.2 percent as of the end of 2010) of the cumulative loan portfolio. The second largest share was taken by the trade sector – 30.6 percent (28.6 percent as of December 31, 2010). Growth of the microfinance organizations loan portfolio was achieved through attraction of resources of international finance institutions and increasing the capital of microfinance organizations.

The cumulative loan portfolio of credit unions increased by 8.1 percent in 2011 and amounted to KGS 1.2 billion at the end of the year. In the structure of loan portfolio of credit unions the major share is on agriculture - 48.4 percent and trade – 34.2 percent (in 2010 - 49.0 percent and 32.3 percent respectively). The number of credit unions' borrowers decreased by 11.9 percent in 2011 and approximated to 17 thousand people as of December 31, 2011. The decrease in the number of credit unions borrowers was conditioned by decrease in the number of credit unions per se.

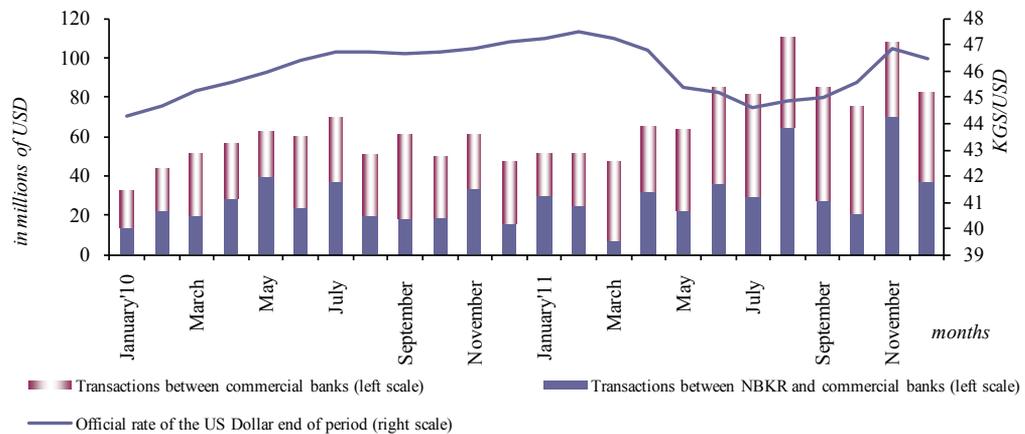
*Credit unions*

Twelve (12) credit unions held deposit license as of the end of 2011. The volume of mobilized deposits from credit unions participants increased by 1.4 percent and amounted to KGS 35.5 million, while the liabilities to other FCI increased by 10.2 percent and equaled to KGS 598.3 million.

## 1.6. Financial Markets

### 1.6.1. Foreign Exchange Market

The situation at the market was formed against the background of economic upturn in key trade partner countries of the Kyrgyz Republic and growth of lending to the economy. Throughout the year the dynamics of exchange rate of the Kyrgyz som was multidirectional and following the results of the year the exchange rate of USD decreased by 1.3 percent: from 47.0992 to 46.4847 KGS per 1 USD.

**Chart 1.6.1.1.****Exchange Rate Movement and Total Interbank Foreign Exchange Auction Transaction***Development of exchange rate*

Beginning of the year was characterized by continued growth of the US dollar exchange rate, which grew by 0.8 percent over the first two months of 2011. However, the vector of exchange rate reversed due to the change in the market resulting from increased supply of US dollars in the domestic exchange market following increased inflow of foreign currency through the money transfer systems as one of the key contributing factors. As of the end of July, the exchange rate of USD corresponded to 44.5952 KGS/USD, having thus decreased by 5.3 percent since the beginning of the year.

In August, the exchange rate started to grow again. The uplift in the exchange rate was partly conditioned by an increased demand for US dollar at the domestic exchange market to cover contracts for imports, particularly for imports of fuels and lubricants and consumer goods. Seasonal acceleration of consumer activity in September–November served as an additional factor for sustained demand for the US dollar. The USD exchange rate reached 46.8308 KGS/USD by the end of November, while in December the exchange rate decreased by 0.7 percent and amounted to 46.4847 KGS/USD.

*NBKR foreign currency interventions*

In order to prevent sharp fluctuations of the exchange rate the National Bank conducted both 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 to USD 401.6 million, having exceeded by 37.5 percent the similar indicator for 2010. Operations on foreign currency sale constituted the bulk of such operations; their volume increased by 6.8 percent and amounted to USD 281.2 million. The volume of foreign currency purchase constituted USD 120.5 million, having increased by 4.2 times. The net sale volume of US dollar by the National Bank amounted to USD 160.7 million, which is by USD 73.6 million or 31.4 percent less compared to the same indicator of 2010. The NBKR also conducted transactions for purchase of the Russian rubles for RUB 10.0 million.

**Table 1.6.1.1.**
**Foreign Exchange Purchase/Sale Transactions**  
*(in millions of KGS)*

	2010	2011	Rate of growth, in percent
<b>Total volume</b>	<b>160,520.7</b>	<b>242,207.8</b>	<b>50.9</b>
including:			
<i>Spot operations with foreign currency in non-cash at foreign exchange auctions</i>	31,472.9	43,800.6	39.2
operations with the NBKR	13,822.7	18,474.3	33.7
interbank operations	17,650.3	25,326.3	43.5
<i>Spot operations with foreign currency in non-cash outside foreign exchange auctions</i>	1,554.4	2,382.0	53.2
<i>Spot operations with foreign currency in cash</i>	126,125.1	193,125.2	53.1
operations with the NBKR	23.6	0.0	-
interbank operations	96,317.8	158,452.0	64.5
exchange bureaus	29,783.8	34,673.1	16.4
<i>SWAP operations</i>	1,368.3	2,900.1	113.0
operations with the NBKR	683.5	0.0	-
interbank operations	684.8	2,900.1	327.9

In 2011, the situation at the foreign exchange market developed against the background of sustained yearly trend of acceleration of activity at the foreign exchange market due to comparatively high volumes of export and import operations, inflow of foreign currency through money transfer systems and foreign currency conversion transactions. The volume of foreign currency purchase and sale transactions at the domestic market increased by 50.9 percent and corresponded to KGS 242.2 billion in the national currency equivalent. Transactions with the US dollar increased by 42.0 percent and their share in the total volume of operations amounted to 62.2 percent, having decreased by 3.9 percentage points. Transactions with Euro increased by 30.9 percent, while their share decreased by 0.7 percentage point (to 4.3 percent). The volume of operations with the Russian rubles increased by 78.1 percent and their share increased from 20.8 percent to 24.5 percent. There was an increase in transactions with the Kazakh tenge too; these operations increased by 69.0 percent, and their share – by 1.0 percentage point and reached 9.0 percent. The volume of transactions with other foreign currencies<sup>1</sup> decreased by 47.5 percent and their share reduced from 0.1 to 0.05 percent.

*Foreign exchange market organization by currencies*

In the non-cash segment of the foreign exchange market, the essential part of operations in the interbank foreign currency auctions<sup>2</sup> was concluded in the US dollars. The volume of these operations in the national currency equivalent amounted to KGS 41.7 billion, having thus increased by 39.8 percent compared to the similar indicator in 2010. The growth was achieved by the increase of the NBKR operations on purchase/sale of the USD by 37.5 percent.

*Non-cash and cash segments of foreign exchange market*

It was the cash segment of the foreign exchange market where the essential part of operations was completed – 80.8 percent of the total volume of operations. Significant share of transactions on purchase and sale of foreign currency in cash were completed in commercial banks (66.3 percent); moreover, the share of cash operations at the exchange bureaus reduced from 18.8 percent to 14.5 percent over the year.

In the reporting year swap operations in the national currency equivalent amounted to KGS 2.9 billion, having thus increased by 113.0 percent against the same indicator in 2010. Out of this amount, direct National Bank swap operations in the national currency equivalent amounted to 164.7 million.

*Swap operations*

Following the results of 2011, the average weighted USD exchange rate in

*Foreign exchange rate development in exchange bureaus*

<sup>1</sup> British pound, Swiss franc, Turkish lira, Uzbek sum and Chinese yuan etc.

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

the exchange bureaus decreased by 0.9 percent and equaled to 46.7927 KGS/USD as of the end of December 2011. Meanwhile the Kyrgyz som has strengthened its positions in relation to Euro, Russian ruble and Kazakh tenge: average weighted rate for sale of Euro in exchange bureaus decreased by 3.1 percent over the year and amounted to 60.4420 KGS/EUR, Russian ruble depreciated by 5.2 percent and cost 1.4442 KGS/RUB, Kazakh tenge depreciated by 1.4 percent and amounted to 0.3125 KGS/KZT.

### 1.6.2. Interbank Credit Market

In 2011, the situation in the interbank credit market was determined by the liquidity level and its concentration in the banking system. In addition, an increase was noted in the average rate and the range of transactions' maturity.

*Operations in the national currency*

Notable decline in the level of liquidity in the banking system in the second and fourth quarters of 2011 led to the growth of the number of interbank credit operations in the domestic market. Total volume of transactions in the national currency in this market amounted to KGS 10.1 billion, having thus increased by 30.7 percent compared to the same indicator for 2010. The essential share of operations in the national currency was made in the REPO transactions segment of the market. However, the share of REPO operations dropped by 8.9 percentage points to 50.8 percent over the reporting period due to 52.5 percent increase of the volume of NBKR's operations on allocating "overnight" credits that totaled to KGS 4.1 billion.

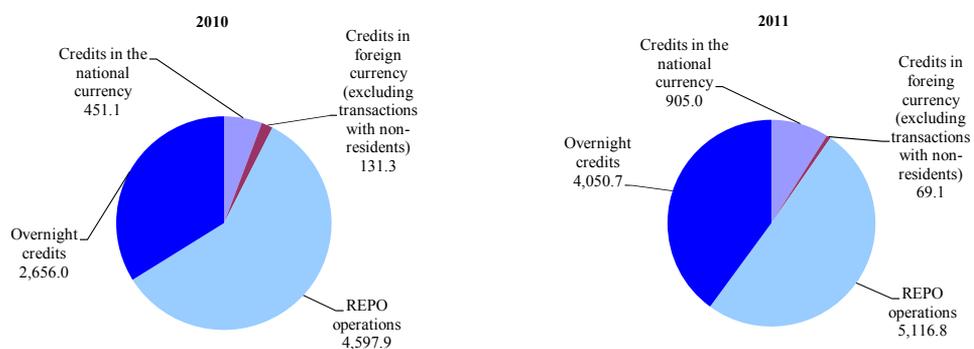
*Change of interest rates*

In the beginning of the year, under the impact of the sustained demand for borrowed resources and uplift in interest rates in other financial market segments, the interest rates on credits in the national currency increased in comparatively low pace. Starting from April the cost of interbank credits in the national currency started to grow under the influence of increased demand for borrowed resources that ensued from the decline in the level of liquidity. Despite certain volatility of interest rates in the following months, the value of resources in the national currency in the interbank market remained rather high until the end of the year. The average rate on REPO operations was 9.4 percent in 2011, having increased by 5.7 percentage points compared to the rate effective in 2010. The annual average rate on interbank credits in the national currency increased by 4.6 percentage points and equaled to 9.1 percent.

Average REPO maturity increased from five to six days and that of credits in the national currency remained the same as before (seven days).

#### **Chart 1.6.2.1.**

Volume of Transactions in the Domestic Interbank Credit Market  
(in millions of KGS)



In 2011, the volume of operations in the foreign exchange segment of the domestic interbank credit market decreased by 47.3 percent and amounted in the national currency equivalent to KGS 69.1 million. The rates in this segment formed under the influence of rates development in other segments of the currency market. As a whole, the average rate on credits in foreign currency extended in the domestic interbank market increased by 0.6 percentage point compared to 2010 and amounted to 3.5 percent, while the average weighted maturity increased from 5 to 58 days.

*Operations in domestic market in foreign currency*

**Table 1.6.2.1.**

Average Weighted Interest Rates in Domestic Interbank Credit Market

(in percent)

	2010	2011
Rate on credits in the national currency	4.5	9.1
Rate on credits in foreign currency	2.9	3.5
Rate on REPO operations	3.7	9.4
Rate on overnight credits	3.2	13.2

Apart from extending interbank credits in the domestic market, some banks conducted operations with non-resident banks acting as creditors. Total credits issued to non-residents decreased by 21.0 percent in 2011 and equaled in the national currency to KGS 171.6 billion.

*Operations with non-resident banks*

### 1.6.3. Securities Market

#### 1.6.3.1. Government Securities Market

In 2011, the government securities market was represented by the following types of securities:

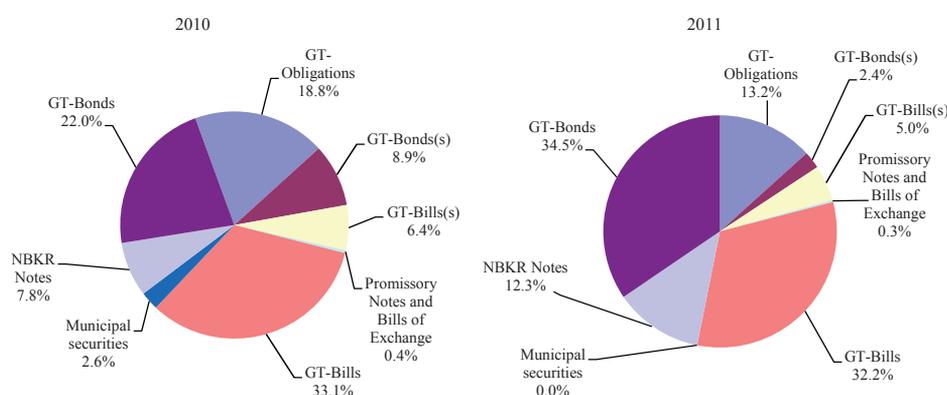
- Government Treasury Bills (GT-Bills);
- National Bank Notes;
- Government Treasury Bonds (GT-Bonds);
- Government Treasury Obligations (GT-Obligations);
- Government Securities for Settlement – Treasury Bills (GT-Bills(s)) and Treasury Bonds (GT-Bonds(s));
- Promissory Notes and Bills of Exchange;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

The total value of circulating government securities amounted to KGS 11.1 billion, having thus increased by 29.3 percent within a year. The increase conditioned by the increased volume of issue of GT-Bills, GT-Bonds and Notes. This was reflected accordingly in the structure of government securities.

*Outstanding government securities*

**Chart 1.6.3.1.1.**

Structure of Outstanding Government Securities



The unit weight of GT-Obligations in the structure of securities shrank to 13.2 percent (-5.5 percentage points) following redemption of liabilities to the amount of KGS 142.4 million under the earlier issued obligations. In total, the volume of outstanding GT-Obligations reduced by 8.8 percent over the year and amounted to KGS 1.5 billion. Practically the whole volume of these securities (99.9 percent) is in the portfolio of the National Bank.

The volume of GT-Bills(s), emitted in the previous years when adjusting the debts of the Government to the National Bank, did not change in the reporting year, and their unit weight in the structure of government securities decreased from 6.4 to 5.0 percent.

The volume of outstanding promissory notes and exchange bills issued by the Ministry of Finance when restructuring debts of banks and other financial institutions to their depositors amounted to KGS 34.9 million, having thus decreased by 0.8 percent, and their share decreased to 0.3 percent.

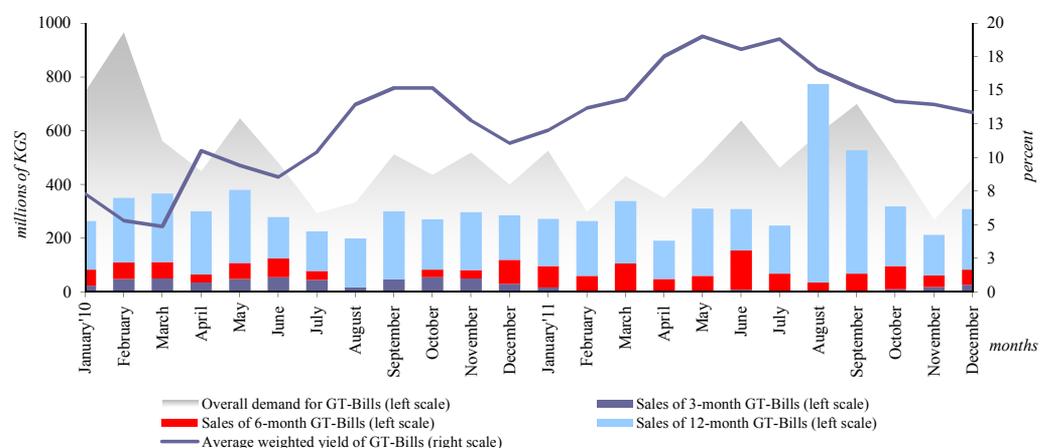
In 2011, no new municipal securities were emitted. As a whole, the volume of outstanding municipal securities placed by the Bishkek city administration to finance construction and reconstruction of roads decreased to KGS 1.5 million. The share of these obligations in the structure of government securities corresponded to 0.01 percent.

### 1.6.3.1.1. Government Treasury Bills

The Ministry of Finance issues Government Treasury Bills for the term of 3, 6 and 12 months with the aim to finance current state budget deficit. Auctions on the primary placement of GT-Bills are conducted on weekly basis at the National Bank, that acts as the general agent for GT-Bills placement and settlement. Along with this, the Ministry of Finance does direct placement of emitted securities in the market without involvement of the National Bank<sup>1</sup>.

**Chart 1.6.3.1.1.1.**

Demand for and Placement of GT-Bills



Over the reporting year, the dynamics of the average monthly yield of GT-Bills was multidirectional. In the first quarter of 2011, the situation in the primary market of GT-Bills was characterized by comparatively high level of demand under the conditions of high liquidity level in the banking system. The Ministry of Finance maintained the level of GT-Bills supply that established by the end of 2010, reaching the highest level in the reporting year at the end of the first quarter.

The market responded to decrease in the level of liquidity in April by cutting sales sharply to the minimum level for the year amounting to KGS 192.7 million.

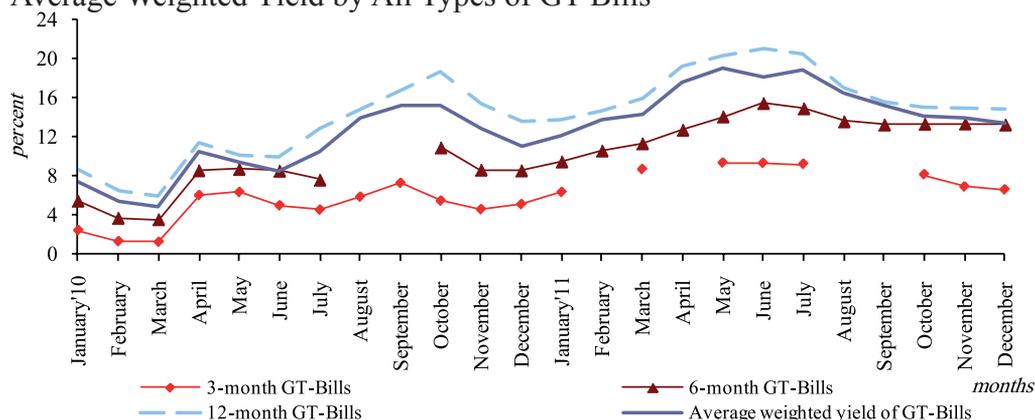
<sup>1</sup> This Annual Report is built on data on government securities placed with NBKR involvement.

Moreover, all the auctions for sale of 3-month GT-Bills announced in April were considered cancelled due to insufficient number of bidders. Sales increased in the following months, partly contributed by additional placement of securities in the primary market by the Ministry of Finance, and subsequent decline in the average monthly yield.

As of the end of 2011, the average monthly yield amounted to 13.4 percent, having thus increased by 2.3 percentage points compared to the same indicator for 2010. The increase of average monthly yield of 12-month GT-Bills that take up the largest share in the total volume of outstanding securities was even lower: it increased by 1.4 percentage point and reached 14.9 percent.

**Chart 1.6.3.1.1.2.**

Average Weighted Yield by All Types of GT-Bills



The total volume issued of Government Treasury Bills amounted to KGS 4.1 billion, having increased by 15.7 percent compared to the volume in 2010. As the share of longer term Bills increased, the duration of the GT-Bills portfolio increased from 164 days to 186 days at the end of the year.

*Volume of outstanding GT-Bills*

**Table 1.6.3.1.1.1.**

Issue and Annual Yield of GT-Bills

	2010			2011		
	Sales, in millions of KGS	Share, percent	Yield, percent	Sales, in millions of KGS	Share, percent	Yield, percent
<b>Total</b>	<b>3,527.4</b>	<b>100.0</b>	<b>10.4</b>	<b>4,081.9</b>	<b>100.0</b>	<b>15.6</b>
including						
3-month GT-Bills	520.3	14.8	4.6	99.8	2.4	8.0
6-month GT-Bills	522.8	14.8	7.4	851.7	20.9	13.0
12-month GT-Bills	2,484.3	70.4	12.1	3,130.4	76.7	16.9

As before, the commercial banks prevailed in the structure of holders of GT-Bills. The volume of bills in their portfolio increased by 15.5 percent and as of the end of 2011 amounted to KGS 2.8 billion or 79.3 percent of the total volume of outstanding GT-Bills (-7.2 percentage points).

*Structure of GT-Bills market*

At the same time, the share of GT-Bills in the assets of commercial banks remained small amounting only to 4.3 percent, which speaks of comparatively low level of investment attractiveness of these securities as financial means.

The number of banks holding GT-Bills remained at the previous level (17), with the concentration of the total banking portfolio of these securities increased from 0.17 to 0.19, which is equivalent of the market division among five banks having equal shares. The reduction in the share of banks was caused by continued activeness of the institutional investors, whose share of the portfolio increased by 4.1 percentage points and reached 16.3 percent. The volume of GT-Bills held by

resident individuals and resident legal entities also grew over the reporting period, and their shares increased from 0.1 percent to 0.5 percent and from 1.1 percent to 3.9 percent accordingly.

*Operations in the secondary market of GT-Bills*

The commercial banks actively used the GT-Bills in the secondary market when concluding deals on REPO conditions. Compared to 2010, the volume of such operations increased by 10.6 percent in the reporting year, and amounted to KGS 5.0 billion. At the same time, the volume of interbank operations at the secondary market on purchase/sale of GT-Bills prior to their maturity date (on “outright” conditions) decreased by 87.2 percent and amounted to KGS 66.6 million. The average weighted term of maturity of GT-Bills in these transactions made 190 days, and the average annual rate equaled to 10.8 percent.

### 1.6.3.1.2. Government Treasury Bonds

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

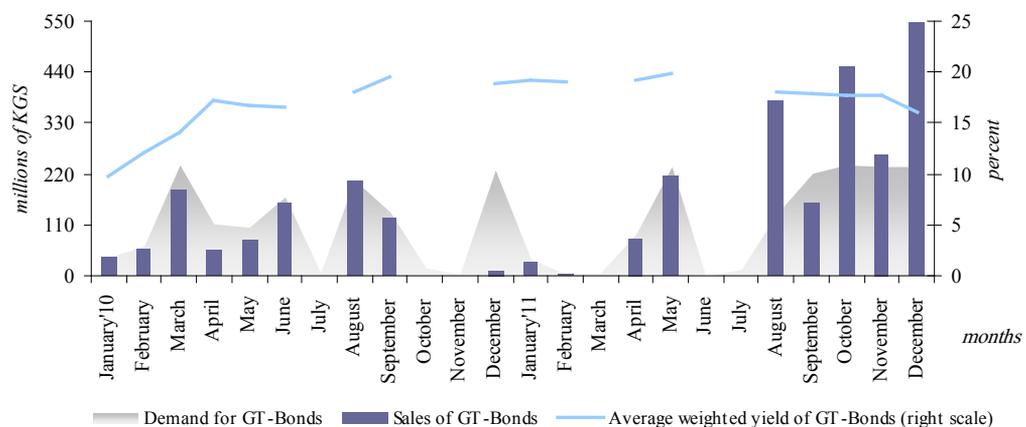
*Demand and supply in the GT-Bonds market*

In the reporting year, the demand for GT-Bonds remained comparatively low due to short-term nature of resources of commercial banks that are the principal investors at the primary market of GT-Bonds. The issuer, in his turn, adjusted the volume of supply to the budget needs and the demand level. In certain months, the auctions were cancelled due to lack or insufficient number of investors. Following increased activeness at the GT-Bonds’ market in the second half of 2011, which influenced the formation of the interest rates on the securities, the yield of GT-Bonds decreased over the year and amounted to 16.0 percent at the end of the year against 18.9 percent established in the end of 2010. The average annual yield of GT-Bonds amounted to 18.3 percent.

Annual sales of GT-Bonds totaled to KGS 2.1 billion, while the volume of outstanding GT-Bonds amounted to KGS 3.0 billion.

#### Chart 1.6.3.1.2.1.

Demand for and Placement of GT-Bonds



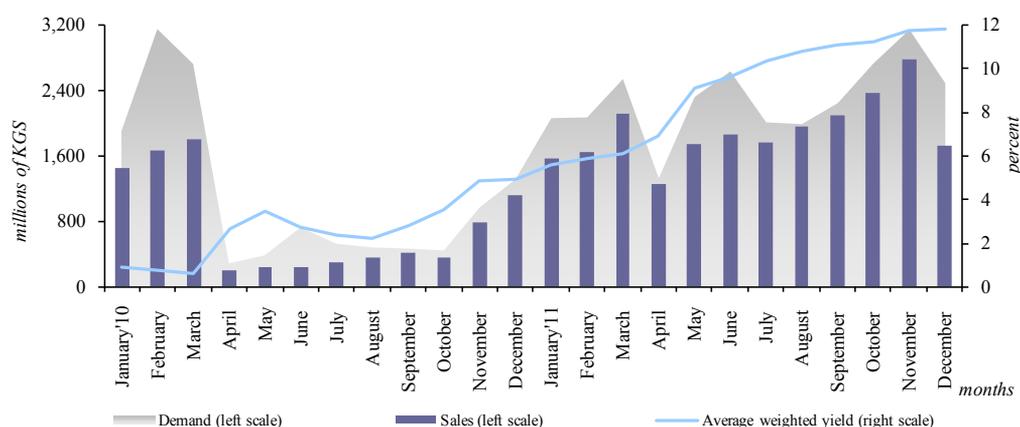
### 1.6.3.1.3. National Bank Notes

In 2011, the NBKR placed 7-, 14- and 28-day notes in the market. The NBKR continued to use notes as a tool for removing excess liquidity by regulating the volume of their supply according to the monetary policy objectives and the liquidity level in the banking system.

The NBKR placed notes to the total value of KGS 22.9 billion in 2011, while in 2010 this amount equaled to KGS 8.9 billion.

**Chart 1.6.3.1.3.1.**

## Demand for and Placement of NBKR Notes



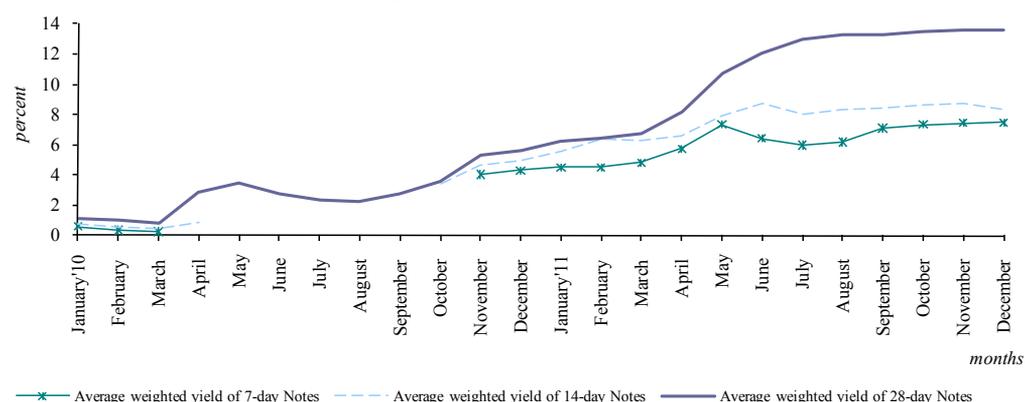
In the first quarter of 2011, against the background of comparatively high level of excess reserves in commercial banks the demand for NBKR notes increased. In the second quarter of 2011, following decline in the level of liquidity, including in one of the banks with decisive involvement in formation of the total portfolio of these securities, and subsequent slow-down of activities in this segment of the market, the volume of circulating notes decreased to the minimum level in the reporting year. At the same time, cumulative yield indicators for NBKR notes continued to grow due to increased yield on all types of securities. At this period institutional investors stood as principal market participants and their share exceeded the half of the cumulative volume in the structure of holders of NBKR notes. Following stabilization of the situation with liquidity that caused increase in the demand for the notes, the NBKR, in line with the effective monetary policy, once again increased the volume of supply of the notes in the market.

*Demand and supply in the NBKR notes market*

The average yield level on all types of notes increased by 6.5 percentage points as compared to the level in 2010 and reached 9.2 percent. The average annual yield of 7-day notes totaled to 6.2 percent (+4.3 percentage points), that of 14-day notes constituted 7.7 percent (+5.4 percentage points) and the average annual yield of 28-day NBKR notes increased by 8.1 percentage points and totaled to 10.9 percent.

**Chart 1.6.3.1.3.2.**

## Average Weighted Yield by Types of NBKR Notes



The volume of outstanding NBKR notes amounted to KGS 1.4 billion in 2011. In the structure of holder of NBKR notes, the commercial banks held the share of 78.0 percent, institutional investors – 20.6 percent and resident legal entities – 1.4 percent. Fifteen (15) banks had NBKR Notes in their portfolio.

### 1.6.3.2. Corporate Securities Market

In 2011, the operating stock exchanges united into one trade floor. An agreement on establishment of a common national depository was adopted at the level of the Government of the Kyrgyz Republic, implying direct participation of the Government in managing it.

The cumulative volume of auctions on deals concluded in the reporting year amounted to KGS 1.6 billion, which is by 11.4 percent more than in 2010.

In the end of 2011, five joint stock investment funds and one nongovernmental pension fund were operating in the securities market, but their share in the financial services sphere remains small.

### 1.6.4. Deposit and Credit Market

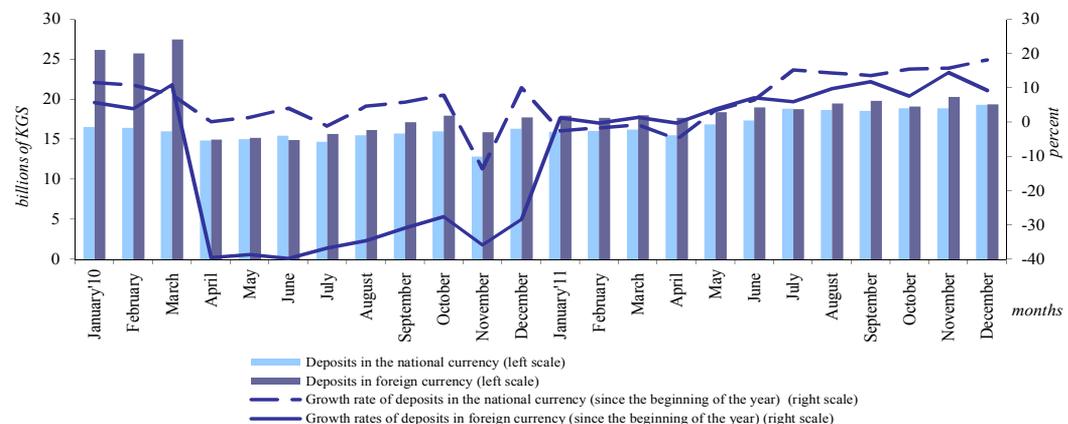
#### *Deposit base*

As of the end of 2011, the volume of deposit base<sup>1</sup> according to the reports of commercial banks totaled to KGS 38.7 billion, having thus increased by 13.5 percent since the beginning of the year. Deposits in the national currency increased by 18.2 percent and amounted to KGS 19.3 billion. Deposits in foreign currency increased by 9.3 percent and in the national currency equivalent amounted to KGS 19.4 billion. Excluding the factor of the USD exchange rate change, the deposit base increased by 14.3 percent since the beginning of the year.

Continued reduction of the volume of deposits in foreign currency led to reduction in dollarization of the deposit base by 2.0 percentage points, to 50.1 percent at the end of December of 2011. At the same time, the ratio of deposits in the national currency to the volume of cash (M0) increased from 39.4 percent to 40.9 percent.

#### **Chart 1.6.4.1.**

Deposit base (end of period)



#### *Structure of the deposit base by depositors*

The share of deposits of legal entities in the deposit base structure remained substantial – 56.0 percent. Deposits of legal entities in the national currency grew by 4.0 percent, while the volume of deposits of enterprises in foreign currency increased by 1.7 percent. The share of deposits of individuals increased from 33.0 percent to 39.3 percent. In the currency structure of individuals' deposits, the predominant growth by 52.7 percent was achieved in deposits in the national currency, while deposits in foreign currency increased by 22.3 percent.

The time structure of the deposit base did not change significantly from its original status established at the beginning of 2011. The share of resources on settlement accounts and time deposits changed from 47.5 percent to 40.0 percent and

<sup>1</sup> Including Government deposits and deposits of other financial institutions. Government loans and loans of local self-government bodies of the Kyrgyz Republic are excluded.

from 34.3 to 35.6 percent accordingly. At the same time, the balance on the clients' demand deposit accounts increased by 51.8 percent and their share increased from 18.3 percent to 24.4 percent over the year. The share of long-term deposits (for over a year period) in the structure of time deposits increased by 2.7 percentage points and had 10.9 percent of the total deposit base (or 30.6 percent in the volume of time deposits), while the share of short-term deposits decreased by 1.4 percentage points and fell to 24.7 percent. Therefore, the duration of time deposits increased from 11.8 months to 15.3 months since the beginning of the year, and the duration of the deposit base as a whole increased from 4.0 months to 5.5 months.

In 2011, the volume of newly attracted deposits<sup>1</sup> of banks amounted to KGS 203.2 billion, having thus increased by 56.9 percent compared to the same indicator for 2010. Deposits in the national currency grew by 69.7 percent and amounted to KGS 95.1 billion, deposits in foreign currency increased by 47.2 percent and totaled to KGS 108.1 billion. The major inflow of deposits was provided by receipts in both the national and foreign currencies to the demand accounts of legal entities.

*Newly attracted deposits*

As of the year-end results, the concentration index of the deposit market remained at the 0.10 level, indicating a low level of the market concentration.

At the end of 2011, the average weighted interest rate on deposits in the national currency amounted to 5.3 percent, having increased by 0.7 percentage point. The rate on the balance of deposits in foreign currency, on the contrary, decreased a little, having lost 0.1 percentage point to 2.8 percent.

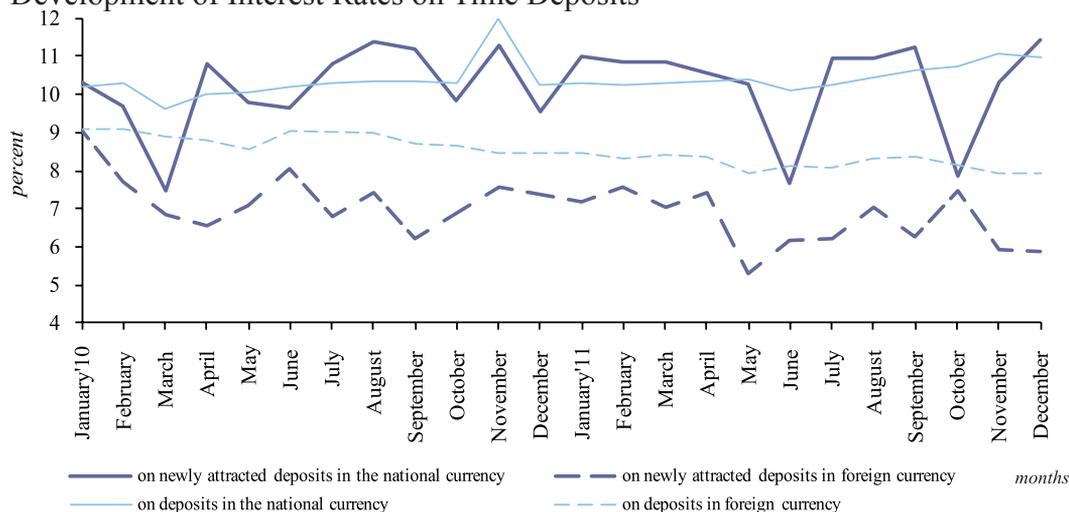
*Interest rates on deposit base*

The average weighted interest rate on newly attracted deposits in the national currency increased by 0.2 percentage point compared to the same indicator for 2010 and reached 2.2 percent. At the same time, the cost of newly attracted time deposits in the national currency increased by 0.2 percentage point and amounted to 10.3 percent. The average weighted interest rate on deposits in foreign currency decreased by 0.3 percentage points and amounted to 0.8 percent. The average weighted interest rate on time deposits in foreign currency decreased by 0.7 percentage points to 6.6 percent following decrease of interest rates on all types of time deposits, excluding deposits with maturity term over three years. At the same time, interest rates on individuals' time deposits in the national currency increased by 0.4 percentage points to 11.5 percent, while rates on deposits in foreign currency fell by 0.9 percentage points and amounted to 7.2 percent.

*Interest rate on the attracted deposits*

**Chart 1.6.4.2.**

**Development of Interest Rates on Time Deposits**



<sup>1</sup>The volume of newly attracted deposits does not account receipts to settlement accounts of legal entities.

Major credit market developments

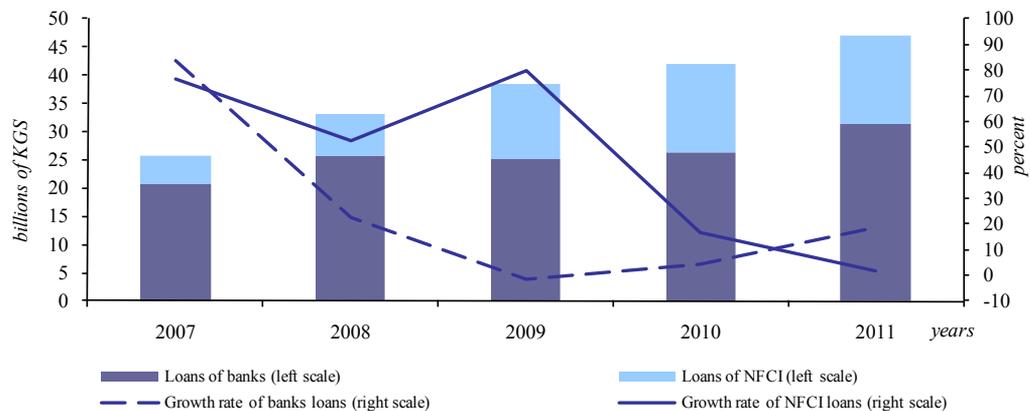
The upward tendency in lending to the real sector of economy continued in the reporting year. At the same time, the first quarter of 2011 was characterized by comparatively low growth rate of the credit portfolio. Nonetheless, in subsequent two quarters, the lending volumes increased significantly marking the most active growth phase in 2011. The upward tendency in lending to the economy and decrease of interest rates was complemented by improvement of qualitative characteristics of the credit portfolio of the banking system determined by shared values of arrears and prolonged credits. Nonbanking finance and credit institutions, in turn, continued to build their lending volumes.

NFCI lending

At the end of 2011, the total volume of credits of banks and NFCI amounted to KGS 46.9 billion, having thus increased by 12.1 percent (in 2010 it increased by 8.7 percent), including lending to economy extended by NFCI that increased by 41.9 percent.

**Chart 1.6.4.3.**

Volume of Credits in the Economy, Including Credits of NFCI (end of period)

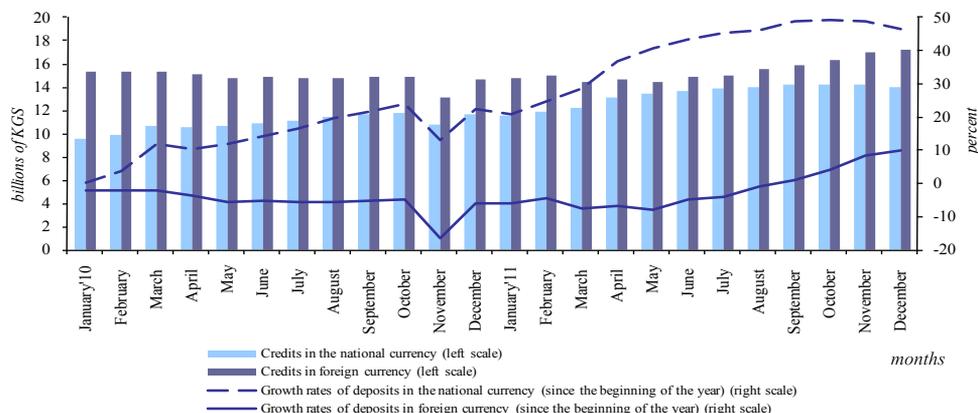


Credit portfolio of banks

The aggregate loan portfolio of banks<sup>1</sup> increased by 18.3 percent (the growth in 2010 was 4.6 percent) and amounted to KGS 31.2 billion at the end of the year. Not accounting the exchange rate decrease (by 1.3 percent), the credit portfolio of banks grew by 19.2 percent. The growth of the credit portfolio was achieved through growth of credits in the national currency by 19.8 percent up to KGS 14.0 billion and in foreign currency by 17.2 percent up to KGS 17.2 billion (without impact of the USD exchange rate fluctuation, the growth constituted 18.7 percent). As a result, dollarization of the credit portfolio decreased from 55.8 percent to 55.3 percent.

**Chart 1.6.4.4.**

Volume of Loans of Banks (end of period)



<sup>1</sup> Including created LLPs and accrued discount.

The upward trend in long-term lending continued in 2011 and led to increase in the duration of the loan portfolio from 26.5 months to 28.3 months. The share of loans with maturity terms from one to three months and over three years increased in the structure of the credit portfolio of banks.

*Time structure  
of the credit  
portfolio*

The concentration of the lending market remained low – 0.10, having increased a little since the beginning of the year. At the same time, the index reflecting concentration of the loan portfolio of banks in sectors remained high – 0.46, which speaks of distribution of loans of the majority of banks between about two sectors (trade and construction). If we consider concentration of loans separately in each sector, we can notice that the concentration in most of them (8 out of 11 sectors) remains high – over 0.18.

The volume of credits newly extended by commercial banks increased by 39.8 percent compared to the same indicator in 2010 and amounted to KGS 31.9 billion. The increase resulted from 26.9 percent growth of credits in the national currency, which amounted to KGS 15.2 billion as well as 54.0 percent growth of credits in foreign currency, which amounted to KGS 16.7 billion in the national currency equivalent.

*Newly extended  
credits*

The growth of newly extended credits was observed in most sectors of the economy. At the end of the year, the share of mortgage loans increased by 0.6 percentage point to 4.6 percent, and consumer credits constituted 10.3 percent (with 2.0 percentage points increase). At the same time, credits to trade decreased by 0.1 percentage point to 54.3 percent, credits to industry – shrank from 5.4 percent to 4.4 percent, to agriculture – from 12.6 percent to 11.8 percent, and construction – from 4.4 percent to 2.1 percent. The share of credits for manufacture and processing, transport, communications and social services totaled to 1.9 percent. The share of “other” credits increased by 2.0 percentage points and amounted to 10.6 percent.

*Sectoral  
structure  
of extended  
credits*

The average weighted rate on newly extended credits in the national currency was 23.8 percent for the year, having practically at the same level as before. Reduction of interest rates was observed in most branches of the real sector of the economy, except for trade and consumer loans. The average weighted interest rate on newly extended loans in foreign currency was 19.6 percent for year, having thus decreased by 0.2 percentage point compared to the previous period. The lowest interest rates on loans in the national currency were fixed on mortgage; the lowest interest rates on loans in foreign currency were set on credits for communications.

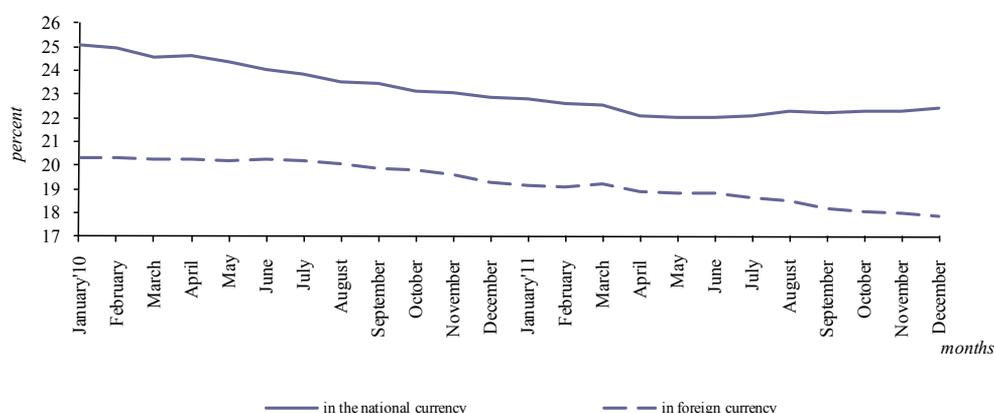
*Interest rates on  
newly extended  
credits*

The average weighted interest rate on credits comprising portfolio of operating commercial banks over the year totaled to 22.3 percent on credits in the national currency (-1.7 percentage point) and 18.6 percent on credits in foreign currency (-1.4 percentage point).

*Interest rates on  
the loan portfolio*

#### **Chart 1.6.4.5.**

Development of Average Weighted Interest Rates on Credits





# II

**ACTIVITY OF THE NATIONAL BANK  
OF THE KYRGYZ REPUBLIC  
IN 2011**

## CHAPTER 2. MONETARY POLICY

In 2011, in view of persisting high inflation risks, the National Bank proceeded with the tight monetary policy introduced in the second half of 2010. Growth of state expenditures on consumption, high level of budget deficit, uneven distribution of budget expenditures over the financial year complicated implementation of the monetary policy. The public finances sector and increased lending to the economy provided for supply of money in the reporting year. In order to restrain the impact of the monetary factor on the inflation, the National Bank built up the volumes of sterilizing operations over the year. Favorable situation with prices at the global commodity and raw materials market and measures undertaken by the National Bank to toughen the monetary policy helped to slow down the growth of consumer prices observed in the second half of 2011. The rate of inflation in 2011 was 5.7 percent.

The volume of total international reserves grew to USD 1.8 billion. International reserves comprised the currency portfolio, SDR, and assets in gold and 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 mainly used to fulfill the tasks 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*

As stipulated in the Law “On the National Bank of the Kyrgyz Republic”, the key objective of the National Bank activity is to ensure and sustain the stability of the general prices level. The National Bank develops the monetary policy in view of this objective, current macroeconomic situation and the forecast of changes in key economic parameters.

The strategic document in the sphere of the monetary policy is Main Monetary Policy Guidelines, which are approved annually by the NBKR Board and cover, as a rule, the medium term. The Board of the NBKR also defines the Monetary Program for a period up to two years, which is updated on quarterly basis and guides the Monetary Policy Committee’s operational decisions regarding the monetary policy. The Monetary Policy Committee holds regular weekly and ad-hoc sessions to adopt decisions on application of monetary policy instruments and to define their parameters.

At the end of 2010, the NBKR Board approved Main Monetary Policy Guidelines for 2011-2013, which defined two possible development scenarios of inflation processes. The first scenario forecasts the level of inflation to range between 8 and 10 percent provided the moderate rate of growth of tariffs, alleviation of built-up inflation expectations of the population, and lack of any significant external or domestic price shocks and demand and supply shocks. The second scenario assumed potential inflation at the level of 18.5 percent.

In the first half of the reporting year, the inflation processes tended to accelerate stimulated by high growth rate of prices for wheat and other imported food commodities, heightened export demand from neighboring countries for domestic agricultural produce, uplift of prices for nonfoods (garment and footgear, natural gas) as well as services of restaurants and hotels.

#### *Monetary policy measures*

In order to limit monetary component of the inflation, the National Bank gradually increased supply of NBKR Notes. On weekly basis, the National Bank announced auctions for sale of government securities on REPO terms aiming at

additional withdrawal of excess reserves of commercial banks. At the same time, despite the sustained direction of the monetary policy and increase of interest rates, the National Bank reduced the volumes of sterilizing operations in April and May, due to reduction of excess reserves in the banking sphere and their increased concentration.

In total, over the first six months of 2011, the volume of circulating NBKR Notes increased from KGS 669.2 million as of the end of 2010 to KGS 1.1 billion KGS by the end of June, 2011; meanwhile the volume of transactions on sale of government securities on REPO terms amounted to KGS 60.7 million at the end of June, 2011 (KGS 70.8 million as of the end of 2010).

In the second half of 2011, the overall level of prices demonstrated tendency to decrease following significant slowdown of growth of prices on main food commodities (bakery and cereals, fruits and vegetables, meat and sugar), and moderate rate of growth of prices for nonfoods and services. Moreover, measures taken by the National Bank in the monetary sphere contributed to alleviation of the inflation tension.

*Factors that contributed to reduction of inflation*

Despite slow down of inflation processes in the economy, high inflation risks, including those related to uneven distribution of expenditures of the Government of the Kyrgyz Republic and significant anticipated budget deficit, persisted in the second half of the reporting year. Under these conditions, the National Bank continued to build up volumes of operations for sterilizing the excess liquidity of commercial banks up until November of 2011. Thus, the volume of circulating NBKR Notes increased to KGS 1.7 billion by the end of November, while the volume of government securities sold on REPO terms totaled to KGS 375.6 million.

In December, due to failure of some sources of funding to cover the budget deficit, the Government of the Kyrgyz Republic reduced its expenditures, and thus consequently reduced the budget deficit. In this situation, the National Bank cut its operations a little: the volume of outstanding NBKR Notes was reduced to KGS 1.4 billion by the end of the accounting year, while the volume of government securities sold on REPO terms was reduced to KGS 206.8 million.

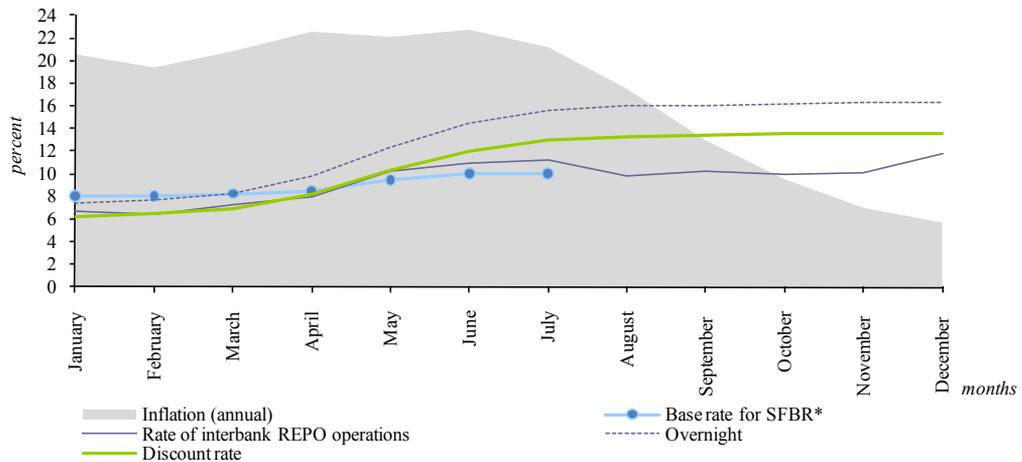
Following considerable build-up of the volume of operations to sterilize liquidity, the latter grew in value. Therefore, the yield on all types of NBKR Notes increased, and as a result, the NBKR discount rate tied to the average yield of 28-day NBKR Notes grew from 5.5 percent to 13.6 percent over the last four auctions.

Besides undertaking measures to sterilize excess reserves of commercial banks within the framework of tight monetary policy, the National Bank raised the level of reserve requirements from 8 to 9 percent of the effective base, and gradually raised the base rate for credits of the Specialized Fund for Banks Refinancing (SFBR) from 7 percent (in December, 2010) to 10 percent (in July, 2011).

Upon accomplishment of the key objective for establishment of the SFBR, the National Bank decided to cease its operation. As of the commencement of the liquidation process (August 1, 2011), the volume of distributed SFBR resources amounted to KGS 2.6 billion, including securities portfolio – KGS 0.4 billion, credit portfolio – about KGS 2.2 billion, including KGS 565.1 million lent under the Project “Affordable Credits to Farmers”.

**Chart 2.1.1.**

Development in Inflation, Rates of NBKR and Interbank REPO operations in 2011 (end of period)

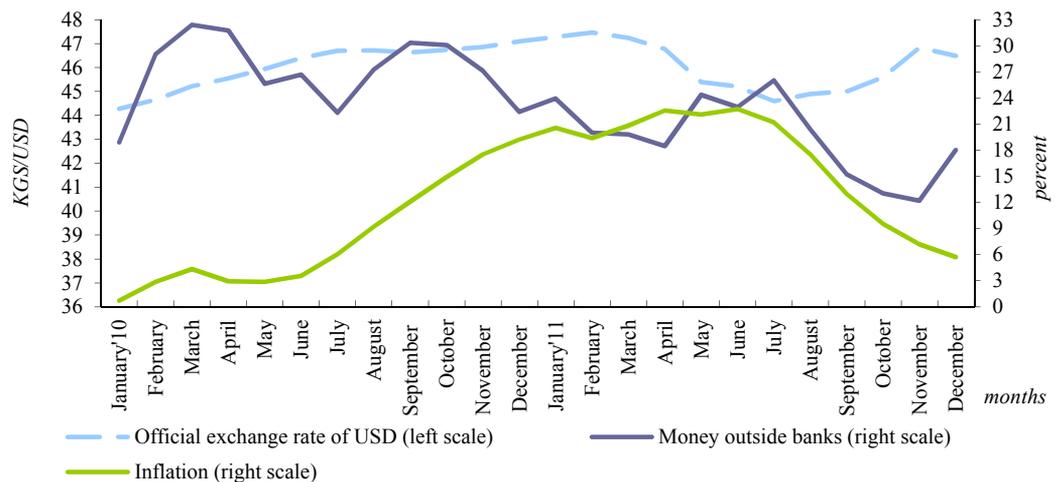


\* The process of liquidation of the SFBR was started on August 1, 2011

As for operations of the National Bank in the foreign exchange market, currency interventions to sell foreign currency in the domestic foreign exchange market prevailed as the demand for it exceeded supply, mainly caused by the expanding trade balance deficit. At the same time, it is noteworthy, that the supply of foreign currency in the domestic foreign exchange market increased, resulting from considerable growth of inflow of funds through remittances transfer system: over 2011 net inflow of remittances amounted to USD 1.7 billion, having increased by third compared to the same indicator in 2010. Therefore, the National Bank occasionally concluded transactions on purchase of the foreign currency over the year to prevent drastic strengthening of the Kyrgyz Som. The volume of net sale of NBKR in 2011 amounted to USD 160.7 million against USD 234.8 million in 2010. The US dollar exchange rate in relation to the Kyrgyz som fell by 1.3 percent and constituted 46.4847 KGS/1USD at the end of December of 2011.

**Chart 2.1.2.**

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



## 2.2. Monetary Policy Implementation

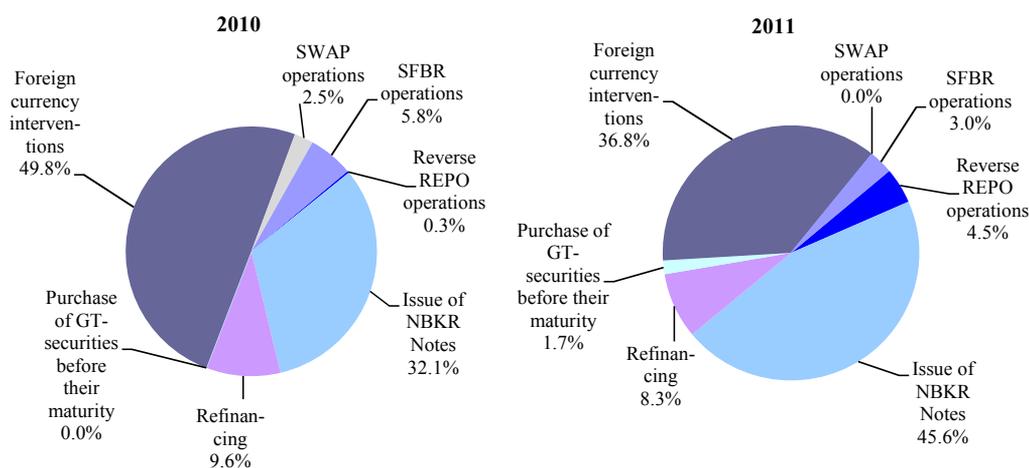
In 2011, the National Bank significantly increased operations to sterilize excess liquidity of commercial banks by auctions for NBKR Notes and reverse REPO operations. Consequently the share of NBKR Notes emission in the structure of NBKR operations increased to 45.6 percent compared to 32.1 percent held in 2010, while the share of REPO operations increased to 4.5 percent (from 0.3 percent in 2010).

*Liquidity regulation tools*

In view of considerable fluctuations in availability of liquidity in the national currency in certain banks, the demand for borrowed resources increased in 2011. Therefore, the National Bank increased the volume of refinancing of commercial banks through standard monetary policy tools, such as overnight credits, intraday credits, and purchase of government securities in the secondary market prior to their maturity (on outright terms). Nevertheless, the share of refinancing operations decreased by 1.3 percentage points as compared with the same indicator in 2010 and corresponded to 8.3 percent. The share of operation on purchase of government securities prior to their maturity amounted to 1.7 percent (in 2010 no such operations were made).

### Chart 2.2.1.

Structure of the National Bank Operations



In 2011, the share of currency interventions in the structure of NBKR operations decreased by 13 percentage points compared to the previous period and amounted to 36.8 percent. Nonetheless, in absolute terms the volume of currency interventions of the National Bank increased by third, mainly because the National Bank increased purchase of foreign currency following increased inflow of remittances from migrant workers. In 2011, in total, the National Bank mainly sold noncash US dollars at currency auctions: the volume of net sales of NBKR amounted to USD 160.7 million.

### 2.2.1. Domestic Foreign Exchange Market Operations

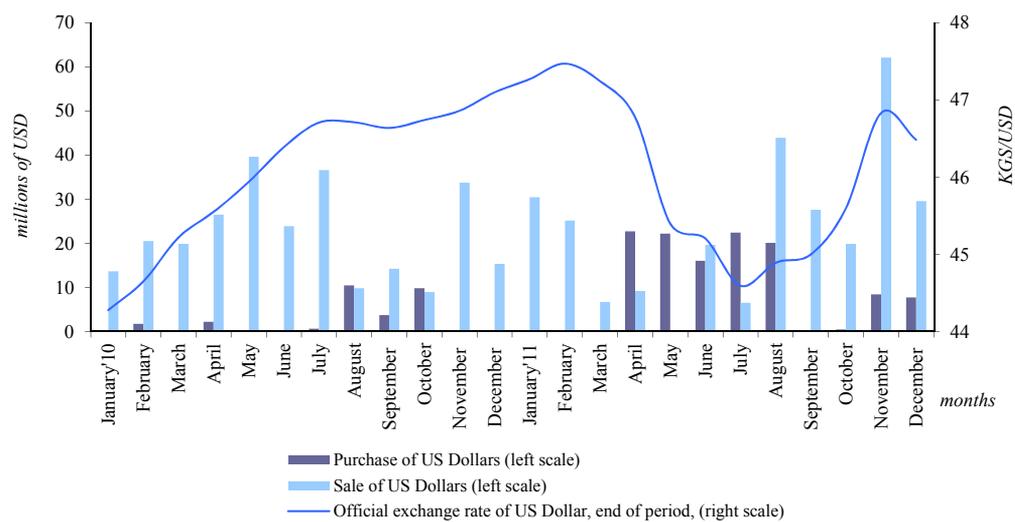
The situation in the domestic foreign exchange market in 2011 can be described as relatively stable. The exchange rate of the national currency had multidirectional trend in 2011. The National Bank's participation in the interbank currency market depended on the market conditions and was determined by the need to smoothen sharp exchange rate fluctuations.

*Foreign exchange market status*

Similar to the previous years, the structure of demand for foreign currency practically did not change and covered the need to pay for standard import items—fuels and lubricants, energy resources (gas, coal and black oil), materials for textile industry, automobiles, and consumer goods. Additional demand for foreign currency was generated by the need to pay dividends and other forms of income distribution to nonresident companies. The influence of the situation at the global financial markets, which in overall could be characterized as instable in 2011, should also be acknowledged.

### **Chart 2.2.1.1.**

NBKR Operations at the Interbank Foreign Exchange Auctions



From the beginning of 2011, the strengthening of the US dollar in the domestic exchange market, which commenced in the end of 2010, continued. This trend is explained by the seasonal factor observed in similar periods of previous years as well. In the first quarter of 2011, the official exchange rate of US dollar reached the maximum value in 2011 and amounted to 47.5265 Kyrgyz soms per 1 US dollar. The demand for US dollars tended to grow over the course of the first quarter of 2011, conditioning participation of NBKR in the foreign exchange market and playing the role of a seller of foreign currency. The volume of sales of NBKR over the period from January 1 through March 30, 2011 amounted to USD 62.5 million, with no transactions on purchase of foreign currency. By the end of the first quarter, the exchange rate was strengthened by 0.3 percent, having reached 47.2448 Kyrgyz soms for 1 USD.

Starting from the end of the first quarter, supply of US dollars increased, and the US dollar exchange rate declined under this influence. The key factor contributing to increased inflow of foreign currency into the country was receipt of remittances sent by the labor migrants through money transfer systems. During the second quarter of 2011, the National Bank conducted transactions on both purchase of foreign currency in the amount of USD 61.1 million and sale of it to the amount of USD 29.0 million in order to smoothen sharp fluctuations in exchange rates. The national currency strengthened its positions by 4.1 percent compared to the exchange rate established by the beginning of the year, and equaled to 45.2067 Kyrgyz soms for 1 US dollar as of June 30, 2011.

Strengthening of the national currency continued in the beginning of the third quarter of 2011, from July to beginning of August, which is explained by increased inflow of remittances and influx of foreign currency through the tourism

sector. Later on, influenced by the change of the market conditions, the exchange rate of the national currency to US dollar weakened a little. As a whole, the exchange rate of the US dollar to the Kyrgyz som remained steady until the mid-October and ranged between 44.3469 KGS/1 USD and 45.1163 KGS/1 USD. The situation at the foreign exchange market conditioned involvement of the National bank as both the seller and buyer of foreign currency. The total volume of purchase of foreign currency amounted to 42.6 million, while the sales totaled to USD 78.2 million. Net sale over the third quarter of 2011 amounted to USD 35.6 million.

Influenced by the seasonal factor, over the fourth quarter of 2011 the national currency tended to lose strength, with short-term strengthening occasionally correcting this trend. Over this period, the demand for foreign currency exceeded the supply thereof due to reduced inflow of foreign currency. The National Bank sold foreign currency for USD 111.6 million in the fourth quarter, which corresponds to the maximum level of sales in 2011; meanwhile the purchase of foreign currency amounted to USD 16.7 million. Net sale in the fourth quarter of 2011 constituted USD 94.9 million.

According to the performance in 2011, the total volume of National Bank's purchases of currency in the domestic foreign exchange market amounted to USD 120.5 million, and the total volume of sales was 281.2 million, thus the net sales for 2011 totaled to USD 160.7 million. The official US dollar exchange rate for 2011 decreased from 47.0992 to 46.4847 Kyrgyz soms for 1 US dollar, which is down by 1.3 percent.

*The volume  
of currency  
interventions*

**Table 2.2.1.1.**

**NBKR Operations in the Domestic Foreign Exchange Market**

*(in thousands of US dollars)*

	Q1	Q2	Q3	Q4	Total
<b>2010, total</b>	<b>55,950.0</b>	<b>92,970.2</b>	<b>87,080.8</b>	<b>79,378.2</b>	<b>315,379.2</b>
<i>including:</i>					
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 (purchase)	-	-	5,450.0	9,200.0	14,650.0
<b>2011, total</b>	<b>62,801.3</b>	<b>90,050.0</b>	<b>120,750.0</b>	<b>128,350.0</b>	<b>401,951.3</b>
<i>including:</i>					
purchase of US Dollars	-	61,100.0	42,600.0	16,750.0	120,450.0
sale of US Dollars	62,450.0	28,950.0	78,150.0	111,600.0	281,150.0
purchase of foreign currency (excluding US Dollars)	351.3	-	-	-	351.3
sale of foreign currency (excluding US Dollars)	-	-	-	-	-
SWAP operations in foreign currency (purchase)	-	-	-	-	-

Besides the operations on purchase/sale of US dollars in the domestic foreign exchange market, the National Bank purchased Russian rubles for 10.0 million in March of 2011 to make payments of the Central Treasury of the Ministry of Finances of the Kyrgyz Republic.

In the beginning of 2011, the National bank extended to May of 2011 the term of SWAP operations to the volume of USD 3.5 million concluded with commercial banks in 2010.

To encourage development of interbank foreign exchange market, the Board of the National Bank adopted a decision on shifting to setting official exchange rates for the Euro, the Russian ruble and Kazakh tenge on daily basis, which would allow minimizing exchange risks when concluding currency exchange operations and optimizing the process of accounting of foreign currencies.

### 2.2.2. Operations with NBKR Notes and NBKR Discount Rate

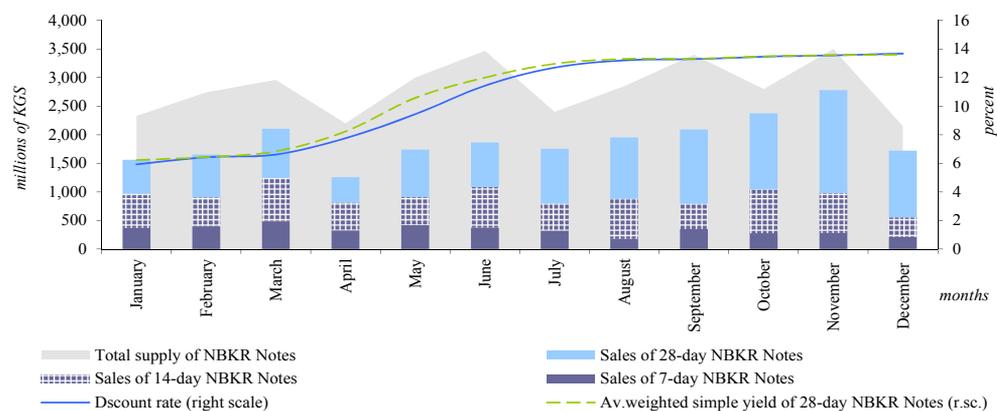
*Operations with the NBKR Notes*

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 and considering the persisting high level of inflation risks in the country, the NBKR increased the volume of supply of NBKR Notes from KGS 11.9 billion in 2010 to KGS 33.8 billion in 2011. The annual volume of sales of NBKR Notes amounted to KGS 22.9 billion, while in 2010 it amounted to KGS 8.9 billion. The 28-day NBKR Notes were the ones sold most (52.0 percent). Sales of Notes with the maturity of 7 and 14 days made up 17.5 and 30.5 percent respectively.

#### Chart 2.2.2.1.

Sales of NBKR Notes and NBKR Discount Rate development



*Essence of the discount rate*

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.

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 four auctions.

The average level of the discount rate in 2011 was 10.7 percent, which is by 8 percentage points higher than in 2010. At the end of December of 2011, the NBKR discount rate amounted to 13.6 percent.

### 2.2.3. REPO operations

To regulate the level of liquidity in the national currency in the banking system in 2011 the National Bank conducted REPO operations on sale of Government Treasury Bills for Settlement (GT-Bills(s)) held in the NBKR portfolio in order to withdraw short- and medium term liquidity. In April and May, due to lack of demand from the commercial banks, the National Bank did not conclude reverse REPO operations.

*Volume of REPO operations*

Compared to the previous year, the total volume of REPO operations conducted by the National Bank increased by 32 times in 2011, and amounted to KGS 2.3 billion. The average weighted term of reverse REPO operations decreased from 42 days to 35 days, while the average yield increased to 11.4 percent.

**Table 2.2.3.1.**REPO Operations of NBKR  
(in millions of KGS)

	Q1	Q2	Q3	Q4	Total
<b>2010, total</b>	-	-	-	<b>70.8</b>	<b>70.8</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	-	-	-	70.8	70.8
<b>2011, total</b>	<b>684.5</b>	<b>60.7</b>	<b>858.5</b>	<b>674.8</b>	<b>2,278.5</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	684.5	60.7	858.5	674.8	2,278.5

Along with sale of government securities on REPO terms, the National Bank also purchased government securities at the secondary market on outright conditions without obligation of reverse sale. These transactions aimed to provide the banking sector with liquidity in the national currency.

*Purchase of government securities on outright terms*

The total volume of transactions on purchase of government securities by the National Bank at the secondary market on the outright terms in 2011 amounted to KGS 870.0 million KGS.

#### 2.2.4. Refinancing of Banks

Refinancing of banks is one of the tools to sustain the liquidity of commercial banks, to mitigate the current the liquidity fluctuations in the banking system in normal conditions of its functioning and to provide urgent funding during the system instability.

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

- The intraday credits, extended in the national currency, without charging an interest rate, during an operational day for several hours, secured by the collateral, with a view of increasing the functional efficiency of the payment system;
- The overnight credit, provided in the 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, 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.

In 2011, refinancing for commercial banks was provided through intraday and overnight credits. The National Bank provided the commercial banks with intraday credits in the amount of KGS 129.0 million to ensure uninterrupted operation of the payment system (in 2010 the intraday credits were not asked for by the banks). In 2011, the major share of funds for refinancing of commercial banks was provided as overnight credits to the total amount of KGS 4.1 billion, which is by 52.5 percent more than in 2010. The average annual rate on overnight credits in 2011 amounted to 12.8 percent, having thus increased by 9.6 percentage points compared to the same rate in 2010.

*Intraday and overnight credits*

**Table 2.2.4.1.**

Overnight credits issued by the NBKR  
(in millions of KGS)

	Q1	Q2	Q3	Q4	Total
2010	550.0	843.0	765.0	498.0	<b>2,656.0</b>
2011	290.0	3,423.0	105.0	232.7	<b>4,050.7</b>

**Table 2.2.4.2.**

Intraday credits issued by the NBKR  
(in millions of KGS)

	Q1	Q2	Q3	Q4	Total
2010	-	-	-	-	-
2011	-	60.0	69.0	-	<b>129.0</b>

### 2.2.5. Reserve Requirements

Reserve requirements are one of the monetary policy tools and stand for certain amount of cash funds that the operating commercial banks must hold on their correspondent account with the National Bank. The NBKR Board fixes the level of the reserve requirements based on the monetary policy tasks.

*Increase of reserve requirements*

In 2011, the level of reserve requirements was changed as an additional measure to limit monetary component of inflation under the framework of the tight monetary policy. Starting from March 14, 2011 the level of reserve requirements for commercial banks was raised from 8 to 9 percent of the effective base to reduce their excess liquidity.

By the end of 2011, the volume of reserve requirements amounted to KGS 3.1 billion, having increased by 44.6 percent over the accounting period. The growth resulted from the deposits increase as well as raising the level of reserve requirements.

In 2011, one of the commercial banks failed to fulfill the reserve requirements; however, no payment for incompliance with the reserve requirements was imposed because temporary management mode was introduced in this bank in the beginning of the year and later changed to the closedown mode.

**Table 2.2.5.1.**

Reserves of Commercial Banks in the National Currency \*  
(in millions of KGS)

	Q1	Q2	Q3	Q4
<b>2010, total</b>	<b>6,022.8</b>	<b>4,269.1</b>	<b>3,427.7</b>	<b>4,139.0</b>
<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
<b>2011, total</b>	<b>4,263.0</b>	<b>4,013.4</b>	<b>4,933.4</b>	<b>4,259.8</b>
<i>including:</i>				
required reserves	2,515.6	2,758.9	2,995.0	2,938.8
excess reserves	1,747.4	1,254.5	1,938.4	1,321.0

\* average values for the period

### 2.3. International Reserves 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, as stipulated 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 strict compliance with the principles of maintenance of liquidity and safety of assets.

*Principles of management*

Management of international reserves is 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 2011”, and “On Limits in Management of Investment Asset of International Reserves”.

*Regulatory documents*

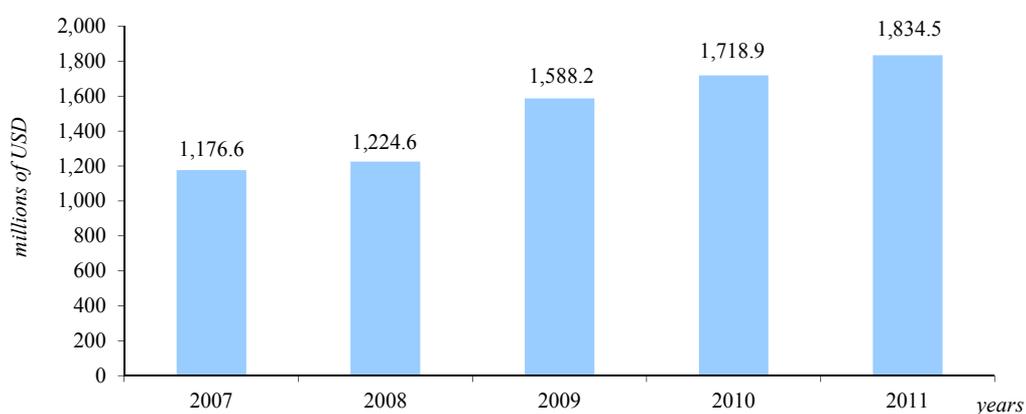
The Board and the Investment Committee of the National Bank were in charge of the decision-making in the part of determining the investment strategy of the bank, portfolio structure of international reserves, the ratio of risks and the yield of investment tools, as well as a selection of bank counterparties. The Investment Committee held 17 meetings on issues of managing international reserves in 2011. 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.

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 USD 1.8 billion at the end of 2011, having thus increased by USD 115.6 million or by 6.7 percent over the year.

*Structure and volume of IR*

#### ***Chart 2.3.1.***

Gross International Reserves of NBKR



The sources of growth of international reserves in 2011 were currency receipts to the accounts of the Government and the National Bank from international financial institutions and donor countries, revenues accrued from international reserves management, and increased volume of gold purchased by the National Bank at the domestic market. 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.

*Sources of IR growth*

**Table 2.3.1.**Structure of NBKR Reserve Assets (end of period)  
(in percent)

	2010	2011
Gold	6.8	7.2
Foreign Currency Portfolio	83.3	83.2
Special Drawing Rights	9.9	9.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

*Structure of  
foreign currency  
portfolio of IR*

The foreign currency portfolio of international reserves was comprised of US dollars, Euro, Swiss francs, the British pounds, the Australian and Canadian dollars, as well as Japanese yens and the Russian rubles.

*IR structure*

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

*Allocation of IR*

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, France and 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.

**Table 2.3.2.**Structure of allocation of NBKR International Reserves (end of period)  
(in percent)

	2010	2011
International Financial Institutions	35.7	26.4
Central Banks	30.9	40.9
Commercial Banks	33.0	32.2
NBKR	0.4	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Difficult situation in the global economy in 2011, high volatility at global foreign exchange, financial and commodity and raw material markets had a significant impact on the investment policy and placement of reserve assets of the National Bank. In 2011, sovereign arrears of a number of leading developed countries supplemented the consequences of the global crisis. Downgrade of sovereign ratings of certain eurozone countries and the USA was the tangible adverse aftermath of government debt problems. Problems in the European economy entailed low growth rates, high market volatility and disturbance; therefore, the central banks faced tough choice when selecting the monetary policy instruments in these conditions.

## 2.4. Monetary Policy Results

The growth of money in 2011 was less than in 2010 as the outcome of the monetary policy pursued by the NBKR, at the same time, the money to the economy was supplied through public finance sector following the expansionary fiscal policy pursued by the Government of the Kyrgyz Republic. Over the course of 2011, the monetary base grew by KGS 6.2 billion: operations of the Government of the Kyrgyz Republic increased it by KGS 14.6 billion, while operations of the National Bank decreased it by KGS 8.4 billion. (In 2010 the monetary base increased by KGS 7.5 billion, chiefly because of the operations of the Kyrgyz Government, which increased it by KGS 15.6 billion, while the NBKR's operations decreased it by KGS 8.1 billion).

*Monetary base*

At the end of the reporting year, the monetary base amounted to KGS 54.8 billion, having thus increased by 12.8 percent over the year (in 2010 it grew by 18.4 percent).

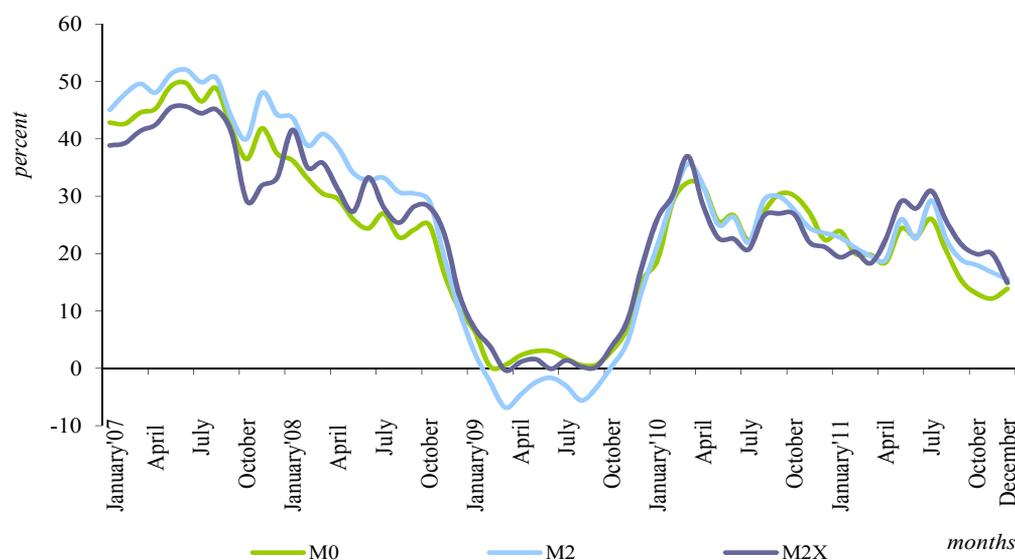
The share of cash in the structure of the monetary base constituted 91.0 percent at the end of 2011, while the share of funds on correspondent accounts of commercial banks with the National Bank comprised 9.0 percent.

As a whole, the monetary aggregate M0 (money outside banks) increased by 13.9 percent over the year, and totaled to KGS 47.2 billion at the end of 2011 (in 2010 the growth was 22.4 percent, up to KGS 41.5 billion). Growth of the monetary aggregate M2 (M0+ deposits in the national currency) in the reporting year amounted to 15.6 percent and equaled to KGS 62.1 billion (growth in 2010 equaled to 23.6 percent and M2 amounted to KGS 53.7 billion), and the deposits in the national currency increased by 21.4 percent.

*Monetary aggregates*

### Chart 2.4.1.

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

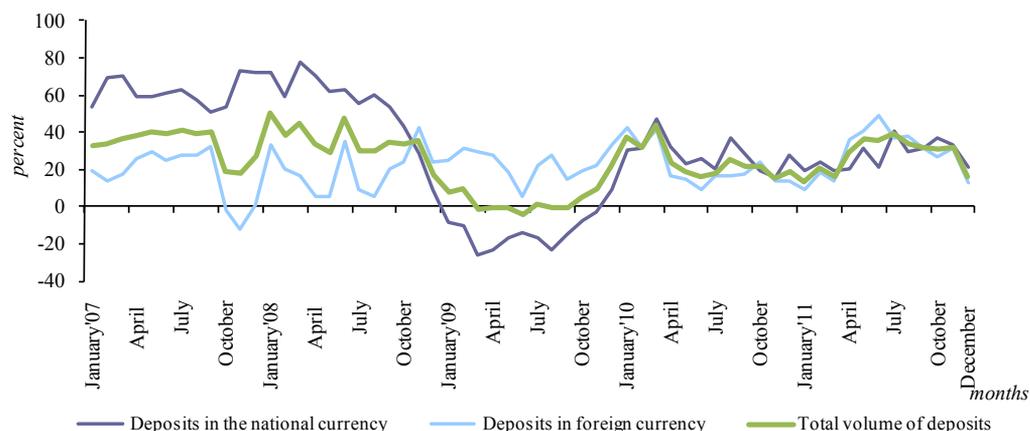


At the end of December 2011, broad money M2X (M2+ deposits in foreign currency) amounted to KGS 79.5 billion, having increased by 14.9 percent or KGS 10.3 billion over 2011 (in 2010 – it totaled to KGS 12.1 billion, with 21.1 percent growth). Growth of the broad money M2X was achieved through growth of deposits<sup>1</sup> in the banking system by 16.5 percent or KGS 4.6 billion (foreign deposits increased by 12.5 percent) and growth of money outside banks – by 13.9 percent or KGS 5.7 billion.

<sup>1</sup> Excluding the deposits of the Government of the Kyrgyz Republic and the deposits of nonresidents

**Chart 2.4.2.**

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



Factors influencing  
M2X

The net foreign assets of the banking system made the major contribution to growth of broad money M2X due to external receipts amounting to USD 148.7 million, budget revenues from local gold mining enterprises amounting to USD 159.5 million and from the Transit Center amounting to USD 60 million. The net domestic assets also contributed (6.5 percent) to the growth of broad money M2X following increased 20.8 percent growth rate of lending to the economy

**Table 2.4.1.**

Sources of Broad Money Supply M2X (end of period)

	2010	2011	Growth, in millions of KGS	Growth rate, in percent	Impact on M2X, in percent
Net foreign assets	71,424.8	77,213.9	5,789.0	8.1	8.4
Net international reserves	79,773.0	85,423.3	5,650.2	7.1	8.2
Other foreign assets	134.3	135.0	0.8	0.6	0.0
Distribution of SDR	-6,096.4	-6,030.1	66.3	-1.1	0.1
Settlements with CIS countries	0.0	0.0	0.0	0.0	0.0
Long-term foreign liabilities	-2,386.1	-2,314.4	71.7	-3.0	0.1
Net domestic assets	-2,217.1	2,313.9	4,531.1	-204.4	6.5
Net claims to general government	-4,195.4	-3,028.7	1,166.7	-27.8	1.7
Net claims to the Government	-3,039.2	-1,333.7	1,705.5	-56.1	2.5
Net claims to special funds	-1,156.2	-1,695.0	-538.9	46.6	-0.8
Kyrgyz Republic Development Fund	-1,156.2	-1,695.0	-538.9	46.6	-0.8
Claims to other sectors	27,574.7	33,321.9	5,747.2	20.8	8.3
Other items	2,654.6	594.8	-2,059.9	-77.6	-3.0
Capital account	-28,251.0	-28,574.0	-322.9	1.1	-0.5
<b>Broad money M2X</b>	<b>69,207.7</b>	<b>79,527.8</b>	<b>10,320.1</b>	<b>14.9</b>	<b>14.9</b>
Money outside banks	41,471.2	47,219.6	5,748.4	13.9	8.3
Deposits of other deposit corporations	27,736.6	32,308.2	4,571.7	16.5	6.6
Deposits in the national currency	12,274.3	14,905.8	2,631.5	21.4	3.8
Deposits in foreign currency	15,462.3	17,402.5	1,940.2	12.5	2.8

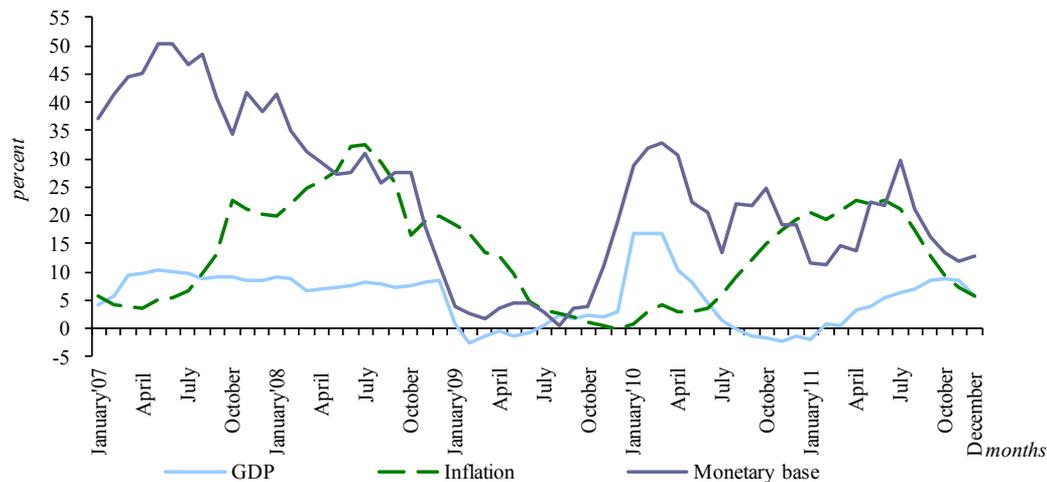
Inflation

According to the data of the National Statistics Committee the growth of consumer prices index, which reflects the level of inflation, was 5.7 percent for 2011 (data for December 2011 against December 2010), while the annual inflation in 2010 reached 19.2 percent. The main causes of the slowdown of the general prices level growth are:

- Significant slowdown of growth rates of prices for foods and energy sources at the global and domestic markets;
- Tight monetary policy pursued by the National Bank;
- Stability of the socio-political situation in the country.

**Chart 2.4.3.**

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



Lower level of inflation in partner–countries<sup>1</sup> conditioned the increase of the Real Effective Exchange Rate Index (REER), which amounted to 112.7 at the end of December 2011, having increased by 1.2 percent over the year. The Nominal Effective Exchange Rate Index (NEER) of the Kyrgyz som practically did not change and amounted to 116.2 at the end of 2011.

*REER and  
NEER*

<sup>1</sup> Inflation in the Kyrgyz Republic in 2011 was 5.7 percent, while the average rate of inflation in key trading partner countries was 4.5 percent according to preliminary calculations.

## CHAPTER 3. SUPERVISION AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT INSTITUTIONS

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.

Monitoring of the credit risk remained the focus of close attention of off-site (distance) supervision and on-site inspection as the key one associated with the activity of finance and credit institutions. Stress –testing has often been used as a tool for assessment of credit and other risks associated with the banking activity. Peculiarities of regulating the activity of finance and credit institutions in 2011 was related to the need to adopt quickly adequate and effective regulative measures to prevent the impact of the events of 2010 on the finance and credit system of the Kyrgyz Republic. Significant resources were channeled to address the increased flow of appeals, requests and claims from the clients and stockholders of the banks and non-bank finance and credit institutions.

Finance and credit system, as a whole, proved rather steady and demonstrated availability of the capacity to improve the level of intermediation and functioning efficiency. Consequences of the domestic political events of 2010 were overcome and a certain level of stability and security was achieved in the finance system.

The financial sector development trends remained positive, with continued growth of the number of nonbank finance and credit institutions, the volume of their assets, credit portfolio and the number of borrowers.

### 3.1. Banking Supervision

#### 3.1.1. Licensing

*Authorized capital  
of banks*

As of the end of 2011, the total paid authorized capital of commercial banks amounted to KGS 8.4 billion, including the share of foreign capital in the authorized capital of the banking system amounting to 39.9 percent or KGS 3.3 billion. The total size of the authorized capital increased by KGS 843.8 million, which is by 11.2 percent more compared to the same indicator for 2010.

Stockholders of one of the commercial banks changed in the reporting period. The composition of stockholders of other commercial banks remained without significant changes.

The National Bank carried out works to expand the licenses of a number of banks, to review the work sheets of heads of commercial bank when appointing them to certify their correspondence to the established requirements and criteria.

*Branches, savings  
and field cash  
offices*

Over the course of the year, number of branches and savings offices increased, expanding the access of the population to the banking services in the regions of the country. Thus, commercial banks opened 43 additional branches, 79 savings offices and 17 field cash offices.

**Table 3.1.1.1.**

Development of the Branch Network, Savings and Field Cash Offices

	Number of branches		Number of savings offices		Number of field cash offices	
	2010	2011	2010	2011	2010	2011
	Bishkek	46	54	187	211	10
Batken Oblast	11	15	28	41	-	-
Jalalabat Oblast	33	41	73	89	-	-
Yssyk-Kul Oblast	30	36	21	24	1	6
Naryn Oblast	14	17	3	7	-	-
Osh Oblast	39	44	97	112	1	6
Talas Oblast	9	11	5	8	-	-
Chui Oblast	29	36	38	39	-	2
<b>Total:</b>	<b>211</b>	<b>254</b>	<b>452</b>	<b>531</b>	<b>12</b>	<b>29</b>

### 3.1.2. Off –Site Supervision

In 2011, 18 banks functioned in normal mode. The quality of assets, sufficiency of the capital, revenue factors, liquidity management and risks management systems were assessed in these banks under the off –site (distance) supervision.

The off-site supervision over the activities of the commercial banks was based on using a set of indicators describing the activity of the bank by components of the CAMELS system, identifying the relationship between the indicators, studying factors leading to changes in these indicators and the level of risks assumed by the banks, conducting stress testing and comparing the findings with the average results for the group of homogenous banks.

Reports about the status of banks were prepared on the basis of monitoring and analysis of submitted regulatory reports, findings of the on-site inspection, audit opinions, including the information of fulfillment of the requirements on availability of the risks management and internal control systems and other relevant information on the activities of the bank, and supervision measures needed to sustain stable operation of both individual banks and the overall banking system were elaborated.

Supervisory measures, special regimes and limitations of the activities of several 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. Limitations earlier imposed on some commercial banks were removed after they fulfilled certain recommendations and improved their financial indicators. Warning supervision measures were taken within the framework of the off-site supervision to prevent violations of the legislation of the Kyrgyz Republic. In the commercial banks where special regimes were introduced, measures were taken to improve their conditions. In the results of measures taken by the National Bank, an Agreement was signed with one of the problem banks on elimination of violations and brining the activity of the bank in conformity with the requirements of the legislation of the Kyrgyz Republic. Concerning other banks, lawsuits between the shareholders is under way; the National Bank will adopt relevant further actions based on their outcome.

Main Directions of the Banking System Development in the Kyrgyz Republic until 2014 were elaborated together with commercial banks and representatives of the Union of Banks of Kyrgyzstan to determine perspective directions of the banking system development in the medium term.

*Capital indicators*

Appeals from both the clients of the banking system and its participants (shareholders) pertaining to different issues, including legal ones, and those related to banking services delivery, credit administration and protection of customers' rights, were considered within the off-site supervision. Consultations for depositors of banks were held to protect their legal rights.

In 2011, the “net” risk assets<sup>1</sup> increased by KGS 6.4 billion, while the “net” total capital<sup>2</sup> grew by KGS 1.9 billion.

***Table 3.1.2.1.*****Capital of Commercial Banks (end of period)**

	2010	2011
«Net» total capital, <i>in millions of KGS</i>	11,564.1	13,427.0
«Net» risk assets, <i>in millions of KGS</i>	37,983.6	44,341.3
Total capital adequacy ratio, <i>in percent</i>	30.4	30.3
Total capital adequacy requirement (not less), <i>in percent</i>	12.0	12.0

Key factors contributing to the growth of the “net” total capital in 2011 were increase in the authorized capital following issue of ordinary shares (for KGS 843.8 million), additional capital contributed by individual and legal entities (for KGS 301.2 million) and profits realized in 2011. The indicator of the total capital adequacy considerably exceeds its required level, which speaks of the fact that the banking system of Kyrgyz has certain potential for expanding the supply of financial services.

*Credit risk*

Credit risk is estimated based on classification of assets and off-balance sheet liabilities<sup>3</sup>. The risk of credit loss, calculated as the ratio of loan loss provisions (LLP) to the total assets bearing the risk of credit losses, decreased at the end of 2011 compared to its size as of the end of 2010 (10.7 percent) and amounted to 6.3 percent.

At the end of 2011, the amount of overdue loans was KGS 2.4 billion, or 7.8 percent of all assets bearing the risk of credit losses. In the end of 2010, the same indicator equaled to 13.1 percent or KGS 3.5 billion.

*Exchange rate risk*

The exchange risk is considered from the point 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. Following the results of 2011, the foreign currency assets of the banking system in the national currency equivalent totaled to KGS 31.7 billion or 47.4 percent of total assets. Liabilities of commercial banks in foreign currency in the national currency equivalent equaled to KGS 28.8 billion, or 55.0 percent of all liabilities. Considering total reserves in foreign currency for KGS 359.0 million, as well as funds equated with liabilities in foreign currency for KGS 1.9 million, cumulative open currency position of the banking system was long at

<sup>1</sup> “Risk assets” include credits to clients, leasing, corporate securities, cash assets placed in foreign banks and other assets and off-balance sheet liabilities weighted by the credit risk associated with them.

<sup>2</sup> Estimate indicator covering the capital of shareholders of the bank, financial result of the activity over the reporting and previous years, created reserves, excluding investments into affiliated organizations and capital of other finance and credit institutions. This estimate indicator is used for calculation of prudential regulations established by the NBKR.

<sup>3</sup> The data is given in section 1.4 “Banking Sector”, Table 1.4.3. “Classification of Assets, Off-Balance Sheet Liabilities and Credits to Clients”.

the end of 2011, amounting to KGS 594.6 million or 4.4 percent of net total capital of the banking system.

**Table 3.1.2.2.**

**Assets and Liabilities of Commercial Banks in Foreign Currency\* (end of period)**

	2010	2011
Assets in foreign currency, <i>in millions of KGS</i>	25,150.0	31,665.6
Assets in foreign currency, <i>in percent</i>	43.4	47.4
Liabilities in foreign currency, <i>in millions of KGS</i>	24,784.0	28,769.1
Liabilities in foreign currency, <i>in percent</i>	54.6	55.0

\* On NBKR Discount Rate as of the end of 2010 and the end of 2011

The liquidity risk is considered from the point of coverage of liabilities by the assets in each maturity interval that allows estimating 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 2011 showed that the negative gap in maturities of assets and liabilities was noted with regard to maturities of up to 180 days, however, this being the case, the positive gap by maturities of more than 180 days shows that the banks have long-term sources of coverage of their liabilities.

*Liquidity risk*

**Table 3.1.2.3.**

**Assets and Liabilities by Maturities (end of period)**

*(in millions of KGS)*

2010*	Terms in days					Total
	0-30	31-90	91-180	181-365	over 365	
Financial assets	25,794.0	3,807.1	3,454.5	7,137.5	21,910.4	62,104.0
Financial liabilities	28,591.0	4,309.0	2,819.3	3,283.1	7,028.1	46,030.4
Amount of excess of financial assets over financial liabilities	-2,797.0	-501.9	635.2	3,854.5	14,882.3	16,073.7
in percent of the total financial assets	-4.5	-0.8	1.0	6.2	24.0	25.9

\* Data as of December 31, 2010, inclusive.

2011*	Terms in days					Total
	0-30	31-90	91-180	181-365	over 365	
Financial assets	26,706.6	3,092.4	3,449.1	7,559.2	28,717.8	69,525.2
Financial liabilities	30,041.5	4,260.2	3,663.7	4,910.6	9,443.5	52,319.4
Amount of excess of financial assets over financial liabilities	-3,334.9	-1,167.8	-214.6	2,648.7	19,274.3	17,205.7
in percent of the total financial assets	-4.8	-1.7	-0.3	3.8	27.7	24.7

\* Data as of December 31, 2011, 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 of the presence of the certain margin of safety. At the same time, there are still potential hazards associated with the credit risk and insolvency of clients of banks. The National Bank regularly monitors the development trends in the banking sector of Kyrgyzstan and other countries, as well as foreign financial markets, in order to undertake necessary measures for stabilization and development of the banking sector, involving, inter alia, the commercial banks.

### 3.1.3. On-Site Inspection

Inspections carried out within the supervision cycle were aimed at identifying risks and problems in the activity of banks at early stages. Besides this, target inspections of individual banks to verify their compliance with banking legislation

requirement in carrying out credit and exchange operations and operations with insiders and affiliated entities, and their compliance with the legislation of the Kyrgyz Republic on combating terrorism and money laundering.

In 2011, 16 comprehensive and 20 target inspections were conducted (3- on compliance with the cash discipline and 17 unscheduled inspections on specific aspects of the banking activity). Necessary supervision regulation measures were taken and plans of actions of the management of respective commercial bank on elimination of deficiencies in the operation were developed based on the findings of these inspections. In line with the legislation, information on compliance of commercial banks with the requirements on combating terrorism and money laundering was submitted to the State Financial Intelligence Service of the Kyrgyz Republic.

Moreover, inspection of activities of branch offices of 18 commercial banks and 5 microfinance institutions located in the southern region of the country was conducted in connection with problems encountered by borrower-clients.

The efforts on improving the quality of inspections and improvement of the methodological framework of inspection activity were made throughout the reporting period.

### **3.1.4. Enforcement Measures**

The decisions on application of preventive measures and sanctions of the National Bank against commercial banks were made in accordance with the legislation of the Kyrgyz Republic and normative and legal acts of the National Bank.

The Supervision Committee of the National Bank reviewed and adopted corresponding enforcement measures to ensure timely, adequate and consistent response to developments in commercial banks.

In particular, the Supervision Committee of the National Bank considered issues related to revision of prudential norms, earlier set in certain banks. Thus prudential norms on the maximum volume of attracted deposits was lowered for one commercial bank, and additional prudential rule on the maximum volume of attracted deposits was introduced in another bank considering risks associated with its activity. The Supervision Committee of the National Bank reviewed issues pertaining to continuing and introduction of direct banking supervision in some commercial banks. Following the instructions of the Board of the National Bank, Recovery Plans of commercial banks under conservation regime were reviewed.

A direct banking supervision was introduced in one of the commercial bank due to failure of the bank's shareholders to make the necessary information available and direct banking supervision mode introduced in another bank in 2010 was retained for targeted and effective monitoring and control of operations on sites.

In line with the Law of the Kyrgyz Republic "On Conservation, Liquidation and Bankruptcy of Banks", in order to conserve assets and protect interests of depositors and other creditors, the conservation regime was introduced in OJSC "KyrgyzCreditBank", CJSC "Manas Bank", OJSC "Akylinvestbank". On the same considerations, the conservation regime was maintained in OJSC Investbank "Yssyk-Kul" introduced in the end of 2010.

In line with the Law of the Kyrgyz Republic "On Banks and Banking Activity", the National Bank applied other measures as well in relation to commercial banks.

As a whole, measures undertaken by the National Bank in 2011 were aimed at ensuring reliability, stability and improving the efficiency of the banking system of the country.

### 3.2. Supervision of Nonbank Finance and Credit Institutions

The National Bank of the Kyrgyz Republic licenses and regulates activities of nonbank finance and credit institutions. The activities of LLC “FCSDCU”, microfinance companies, credit unions and exchange bureaus are carried out based on the license issued by the National Bank, while the microcredit companies and microcredit agencies enjoy simplified procedure of obtaining registration certificate.

In 2011, the National Bank conducted 134 inspections of exchange bureaus to ascertain their conformity with the legislation and normative and legal acts of the National Bank. Inspections were carried out with involvement of inspectors of the National Bank as well as other agencies. Of the total number inspected exchange bureaus, violations of the legislation and normative and legal acts were detected in 43 exchange bureaus. Based on the findings of inspections, 31 instructions and 12 warnings were issued.

*Inspection of  
NFCI*

Moreover, 73 cases of unlicensed activity of exchange bureaus were identified during spot inspections and were submitted to review of the Administrative Commission of the National Bank. As a result, on 54 cases it was decided to impose penalties to the total amount of KGS 66.0 thousand.

Inspections also revealed two cases of operating on expired license of the National Bank without payment of taxes to the state budget with end damage amounting to KGS 280.0 thousand. Therefore, the National Bank addressed a letter to the State Financial Police Service under the Government of the Kyrgyz Republic and the latter adopted measures stipulated by the legislation of the Kyrgyz Republic.

In 2011, explanatory work was carried out among exchange bureaus on issues related to anti-money laundering and combating the financing of terrorism (AML/CFT). Circulation letters on compliance of the exchange bureaus with the requirements of the Regulations of the National Bank “On Minimum Requirements to Organization of Internal Control in Exchange Bureaus in the Kyrgyz Republic for AML/CFT Purposes”.

The National Bank conducted 61 comprehensive and 14 target inspections of activities of the credit unions. Comprehensive inspections were carried out to verify the activities of two microfinance companies that applied for licenses for accepting deposits. Based on complaints submitted by the borrowers, 15 special inspections of activities of microcredit companies were conducted.

Following the findings of the off-site supervision and on-site inspection, 7 licenses of exchange bureaus, 6 licenses of credit unions and 18 certificates of MCC/MCA were withdrawn due to their failure to comply with normative and legal acts of the National Bank, and certificates and licenses of 30 nonbank FCI were annulled due to termination of their activity.

In order to promote further development of NFCI, the following amendments to the Laws of the Kyrgyz Republic “On Microfinance Institutions (MFI) in the Kyrgyz Republic”, “On Credit Unions” were prepared: expansion of the scope of eligible operations of MFI and CU by agent banking and exchange operations with cash foreign currency, including granting rights to carry out operations in line with the Islamic banking and financing principles; conducting operations in foreign currency by MFC; introduction of the consumer protection principles of microfinance services.

*Amendments to  
normative and legal  
acts*

The work was carried out to elaborate amendments to the Law of the Kyrgyz Republic “On Operations in Foreign Currency” to expand the list of persons entitled to conduct operations in foreign currency on professional basis.

Upon summarizing results of implementation of Mid-Term Microfinance Development Strategy for 2006-2010, a new Strategy for Microfinance Development

(SMD) was elaborated for 2011-2015 to promote further development of the microfinance sector. When developing the new strategy, the market of microfinance services was researched, and major activities for further development of the sector were identified. The draft SMD was coordinated with representatives of the microfinance services sector and the Government of the Kyrgyz Republic. The SMD provides for activities on improvement of the regulatory framework, development of the concept of the system for protection of deposits of MFI, introduction of principles of protection of consumer rights, creation of financial apexes and development of financial banking and money transfer operations.

In view of liberalization of the licensing regime of exchange operations with cash foreign currency, a new edition of the Regulations “On Issuing License for Conducting Exchange Operations with Cash Foreign Currency” was approved. In the new edition, the license validity term was extended from one to three years and minimum requirement for availability of circulation funds of exchange bureaus was set at the level of KGS 100,000.

*Activities on transferring LLC “FCSDCU”*

To fulfill the conditions of the Credit Agreement between Asian Development Bank and the Kyrgyz Republic under the Rural Financial Institutions Project, ratified in the established order, activities were carried out to transfer the LLC “FCSDCU” to credit unions, in particular, main and additional subscriptions were completed, based on these subscriptions the credit unions paid shares in the authorized capital of LLC “FCSDCU”.

### 3.3. Supervision and Regulation Methodology

*Basic guidelines of regulatory framework improvement*

In 2011, 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 developments in the banking legislation.

In order to ensure efficiency of licensing of the banks, amendments and addenda to the Regulation “On Bank Licensing” were approved. The introduced amendments and addenda were aimed at toughening the requirements on compliance with the banking legislation and normative and legal acts of the National Bank when purchasing bank’s shares; raising responsibility of bank officials; granting opportunities for transformation of MFC and MCC into a bank and transformation of a traditional bank into a bank operating on Islamic principles of banking and financing; and regulating the process of establishing a new bank through restructuring of a bankrupt bank.

*Prudential standards and requirements*

With the aim to minimize risks of banks associated with operations with securities, the National bank adopted a new edition of the Regulation “On Bank Operations with Securities”, where minimum requirements to reporting and internal control system in conducting operations with securities and basic rules for development of the bank’s investment policy were amended. Along with the aforementioned document, amendments and addenda were introduced to the Regulation “On Prudential Standards and Requirements Binding to Commercial Banks of the Kyrgyz Republic” and to interim rules, regulating the activity of microfinance companies on the territory of the Kyrgyz Republic. These introduced new prudential standards on maximum volume of bank’s investments into government securities, securities of central banks of foreign countries and nongovernmental debt securities.

*Risk management*

In 2011, amendments and addenda to the Regulations “On Minimum Requirements to Credit Risk Management in Commercial Banks and Other Finance

and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” were adopted. These changes chiefly aimed to strengthen the responsibility of the management of the bank for lending activity of the bank; to protect rights and interest of banks and their clients when concluding a credit agreement; to raise transparency of lending activity of the bank and improve awareness of clients of lending conditions.

Amendments and addenda to the Regulations “On Minimum Requirements to the Organization of Internal Control in Commercial Banks Aimed at Anti-Money Laundering and Combating the Financing of Terrorism” (AML/CFT) were approved to improve further the normative and legal acts of the NBKR on AML/CFT. Moreover, amendment and changes were introduced to the Instructions “On Dealing with Deposits”, that defined the order of opening a bank account and establishing relations with the clients of the bank when conducting internet-banking operations. It also includes provisions granting the banks a right to request from clients any additional documents or information necessary for identification and verification of the end beneficiary of the bank clients.

*AML/CFT*

Amendments and addenda to the Regulation “On Pre-Trial Regulation of Disputes Between the National Bank of the Kyrgyz Republic and Commercial Banks, Organizations Conducting Separate Types of Banking Operations and their Founders (participants), Legal Entities and Individuals” were approved to ensure common interpretation of normative and legal act of the National Bank by appellants and courts of the Kyrgyz Republic. The introduced amendments clarified the procedures for appealing a decision of the Supervision Committee and the Board of the National Bank and defined the list of persons that the Regulation is applicable to.

*Pre-trial regulation of disputes*

The National Bank adopted Regulations “On the Order of Conducting Certain Banking and Payment Operations by the Banks of the Kyrgyz Republic Upon Introduction of Temporary Management, Conservation and Bankruptcy Procedures”, which sets an order for carrying out finalizing SWAP, REPO, forward and conversion operations, transactions under intraday and overnight credits, and operations with government securities.

In the reporting period, amendments and addenda were introduced to methodic instructions on preparation of periodic regulatory reporting of banks to bring it in line with the Regulation “On Periodic Regulatory Banking Report”. Moreover, methodic instructions on filling out the forms of periodic regulatory consolidated reporting that clarify the order of filling out the Annexes to the Regulation “On Periodic Regulatory Consolidated Reporting” were also approved.

*Periodic regulatory reporting of banks*

Amendments and addenda were introduced to interim rules regulating the activities of microfinance companies operating on the territory of the Kyrgyz Republic to bring regulatory acts of the National Bank in conformity with the developments in the legislation. The amendments regulate operations of microfinance companies with affiliated persons.

*Regulation of NFCI*

A number of normative and legal acts were adopted for implementation of the Laws “On Introducing Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and “On Introducing Addenda to the Law of the Kyrgyz Republic “On Banks and Banking Activity in the Kyrgyz Republic” adopted to provide equal conditions for all participants of the banking sector and to create conditions for promotion of Islamic banking in the Kyrgyz Republic. The approved documents relate to issues of corporate management, regulatory reporting of banks, prudential standards and requirements, as well as the order of conducting certain types of operations by microfinance institutions and credit unions.

*Islamic principles of financing*

## CHAPTER 4. PAYMENT SYSTEM

One of the key tasks of the National Bank is to sustain steady performance of the payment system at high technological level, ensuring secure and timely settlements between different subjects of the economy in the Kyrgyz Republic.

The payment system of the Kyrgyz Republic functioned stably in the reporting period. In 2011, the National Bank carried on with activities to expand the scope of retail payment services offered by finance and credit institutions, including development of the Bulk Clearing System tools, provided support to functioning of the system of settlements with the use of payment cards, assisted the commercial banks in development of the infrastructure for accepting and servicing retail payments, including those made using bank payment cards.

The National Bank continued implementation of measures for increasing the share of noncash settlements and development of a modern national payment system. Nonetheless, cash remains the key payment instrument when making retail payments. In 2011, the growth of money in circulation was conditioned by sustained increase of the demand for cash from economic entities and expansion of the commodity and services market operating with cash. The National Bank carried out ongoing monitoring of the structure of circulating money and satisfied the needs of the economy by necessary denominations of the national currency banknotes and coins.

### 4.1. Payment System Development

#### 4.1.1. Noncash Settlements

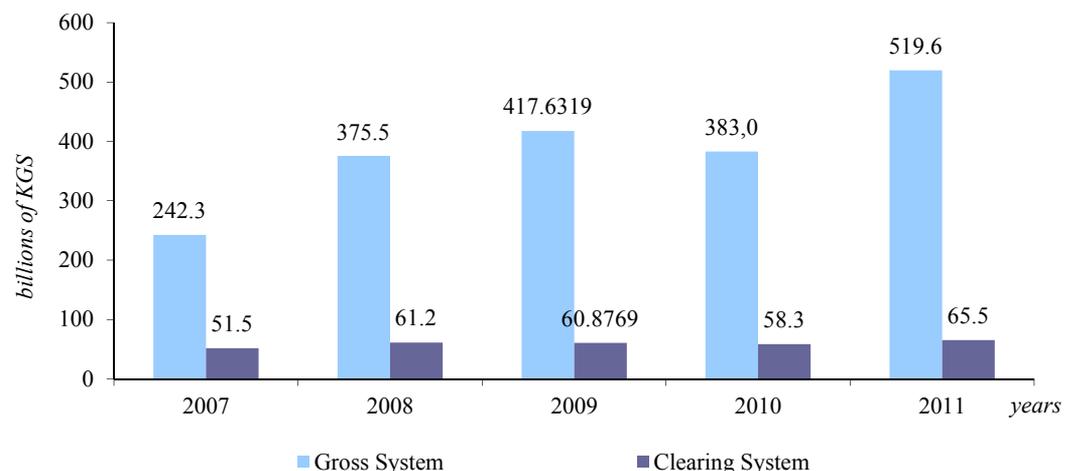
*Payment system of the  
Kyrgyz Republic*

The payment system of the Kyrgyz Republic comprises the Gross Settlement System (RTGS), Bulk Clearing System (BCS), the system of settlements with the use of payment cards, the remittance systems and the cross-border payments systems. Participants of the payment system in the Kyrgyz Republic included the NBKR, commercial banks and their branches, the Central Treasury of the Ministry of Finances of the Kyrgyz Republic, Interstate Bank and CJSC “Interbank Processing Center” on special participant rights.

In 2011, in total 1.6 million payments were made through the RTGS and BCS payments systems to the total amount of KGS 585.1 billion KGS, which is by 32.6 percent or KGS 143.8 billion more than in 2010.

#### **Chart 4.1.1.1.**

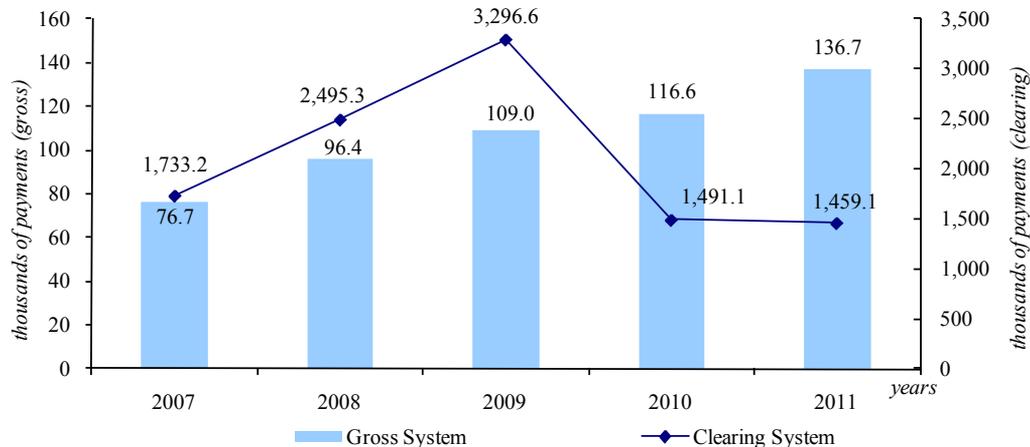
Value of Payments Made via Payment Systems (RTGS and BCS)



The number of payments through RTGS increased by 17.3 percent, and the number of payments via BCS decreased by 2.1 percent compared to the corresponding indicators in 2010. The decrease was the result of redistribution of the flow of budget payments that were processed within one of the commercial banks and did not go to interbank level.

**Chart 4.1.1.2.**

Number of Payments via Payment Systems (RTGS and BCS)

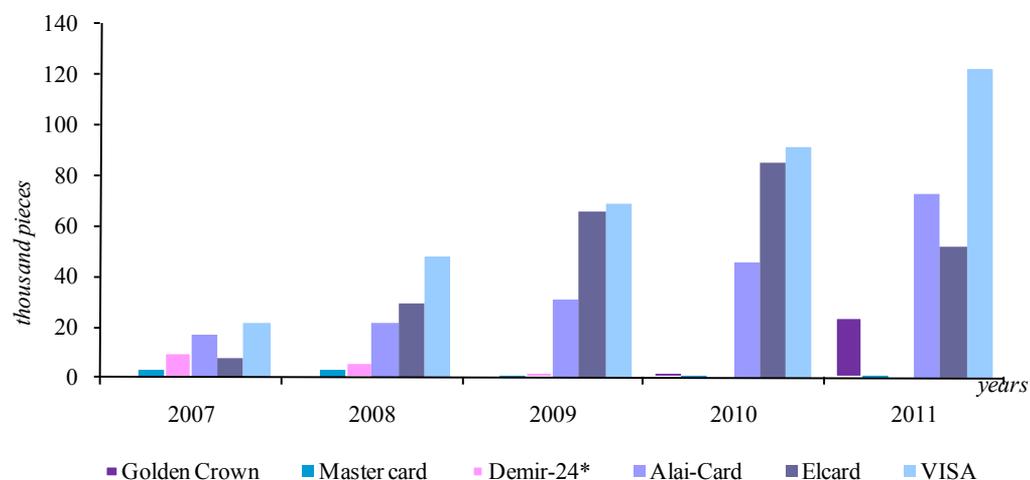


The total number of payment cards issued in 2011 was 271.1 thousand pieces, having thus increased by 20.4 percent over the year. Of the total number of payment cards, 51.9 thousand pieces were the cards of the Elcard national system. Increased number of bank payment cards issued under the salary projects contributed significantly to the growth of the total number of issued bank payment cards. Holders of the “Demir24” local system cards were provided with international cards in 2009.

*Bank payment cards*

**Chart 4.1.1.3.**

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



\* Demir-24 payment cards were replaced by VISA cards in 2009

In 2011, 4.9 million transactions were made with the use of payment cards, which is by 44.1 percent more than in 2010.

The aggregate value of transactions with the use of payment cards amounted to KGS 24.4 billion in 2011, having increased by 68.3 percent compared to the same indicator for 2010: this speaks of increased activity of commercial banks in the bank payment cards market.

*Operations with the use of cards*

The value of withdrawal of cash from the ATM network amounted to KGS

22.9 billion (95.5 percent), while the value of deals in trade and service enterprises completed with the use of cards remained rather low and totaled to KGS 1.5 billion (4.5 percent).

*Infrastructure to accept and service the payment cards*

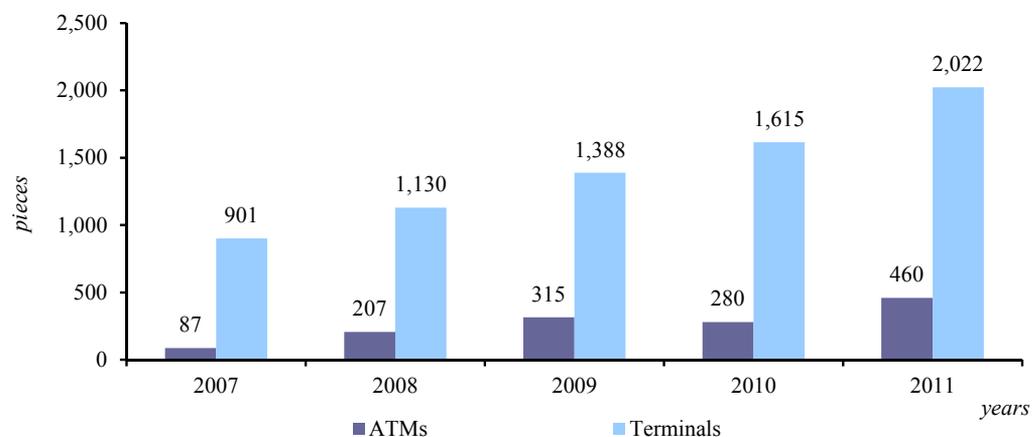
The total number of operating terminals and ATMs broken down by systems comprises the following:

- International systems “Visa & MasterCard ” – 180 ATMs and 1,041 terminals;
- The Elcard national system- 164 ATMs and 674 terminals; The Elcard payment cards were also accepted for serving at 152 ATMs and 670 terminals of international payment systems.
- International System “Golden Crown” – 82 ATMs and 235 terminals;
- Alai-Card system – 54 ATMs and 203 terminals.

As of the end of 2011, the bank payment cards were accepted for servicing in 460 ATMs and 2,022 terminals all over the territory of the Kyrgyz Republic.

#### **Chart 4.1.1.4.**

Dynamics of the Number of Operating ATMs and Terminals (end of period)



#### **4.1.2. Oversight of the Payment System**

*Objects of oversight*

During 2011, the work on development and improvement of the oversight methods of the payment system of the Kyrgyz Republic was continued to ensure steady functioning of the national payment system.

The objects of oversight in 2011 were systemically important payment systems (Real Time Gross Settlement System and Bulk Clearing System) and important payment systems (card payment systems).

*Objects of control*

Ongoing control of the technical infrastructure of the payment system of the Kyrgyz Republic was carried out over the functioning of the Multiple Access Center of SWIFT (MAC SWIFT) and Interbank Communication Network.

*Functioning of the payment system*

In overall the systemically important payment systems functioned in normal mode, the level of accessibility of the system remained high at the level of 99.7 percent over the reporting period. The level of financial risks in systemically important payment systems rested at the minimum level due to rather high level of liquidity against the debit circulation of the participants.

*Measures for development of the payment system*

In development of the payment systems, the National Bank devoted special attention to improvement of the normative and legal framework regulating the functioning of the payment systems and the activity of the participants as well the work of the payment system operators. Thus, aiming at development and regulation of the retail payments market, the National Bank conducted meetings with

representatives of CJSC “Interbank Processing Center” (operator of the national system Elcard), operators of international card payment systems and instant payment systems, SE “Kyrgyzpochtasy” (Kyrgyz Post Service), and commercial banks on the issues related to ensuring efficient functioning of the systems and implementation of projects on non-cash payments with cards.

In 2011, 122 cases of fraudulent transactions with use of 23 payment cards were fixed. Failure of the cardholders to comply with safety rules in using the payment cards (unlimited access to payment cards, lack of confidentiality of PIN codes, delayed notification of the servicing bank of loss or theft of the payment card) and unauthorized use of obtained data about the cards and their holders were the main causes of these fraudulent transactions.

Preliminary assessment of functioning of systemically important payment systems in the Kyrgyz Republic in 2011 showed that in overall they broadly observed the Core Principles for systemically important payment systems<sup>1</sup> (further referred to as Core Principles).

*Assessment of  
functioning of the  
payment systems in 2011*

***Table 4.1.2.1.***

**Assessment of Compliance of the Payment Systems with the Core Principles**

#	Brief description of the core principle	Systemically important payment system			National system
		RTGS	BCS	Elcard	
CP I	Availability of essential legal basis	broadly observed	broadly observed	broadly observed	
CP II	Availability of financial mechanisms against financial risks	observed	broadly observed	broadly observed	
CP III	Financial risks management procedures	broadly observed	broadly observed	not applicable	
CP IV	Prompt final settlement	observed	broadly observed	not applicable	
CP V	Timely completion of daily settlements in multilateral netting	observed	broadly observed	not applicable	
CP VI	Use of assets with minimum credit risks for settlement	observed	observed	not applicable	
CP VII	Security and operational reliability	broadly observed	broadly observed	broadly observed	
CP VIII	Economic efficiency	broadly observed	broadly observed	broadly observed	
CP IX	Availability of objective and publicly disclosed criteria for participation in the system	observed	observed	observed	
CP X	Effective, accountable and transparent system management	observed	broadly observed	broadly observed	

The responsibilities of the central bank in applying the Core Principles to the systemically important payments systems are fully observed. Thus, the objectives of the payments systems are clearly defined and their role and the main policy are publicly disclosed; compliance of the systems with core principles and oversight of them is ensured; and cooperation with other central banks in this direction is established.

<sup>1</sup> «Core Principles for Systemically Important Payment Systems», Committee on Payment and Settlement Systems, Basel, Switzerland, January 2001.

### 4.1.3. Activities to Increase the Share of Noncash Payments

*Multisectoral  
Commission on  
Increasing the Share of  
Non-Cash Payments*

The Multisectoral Commission on Increasing the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic (MSC) recommenced its activity in 2011 with the aim to address issues at the state level, to ensure coordination of governmental bodies and to assist in implementation of activities for increasing the share of noncash payments and settlements. An Action Plan was adopted to organize the work of the MSC. The Action Plan detailed the tasks related to shifting to noncash form of payment when accepting payments to the state budget, making disbursements from the state budget, making payments by economic entities and expanding the infrastructure for noncash payments and ensuring the security and reliability of noncash payment systems

The MSC decided on development of a State Program of Measures for Increasing the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 (second stage) to stimulate the demand for noncash payments and ensure transparency of the flow of budget proceeds and efficiency of the money circulation in general.

*Direct debiting*

Direct debiting of the bank account is one of the convenient ways of noncash payment for utility services. Therefore, the commercial banks carried out the works on finalizing the activities aimed at introducing the direct debiting services under the framework of measures for development of this tool. In 2011, the utility enterprises OJSC “Severelectro”, Production and Maintenance Unit “Bishkekvodokanal” OJSC “Bishkekteploset” conducted payments through direct debiting of the clients’ bank accounts.

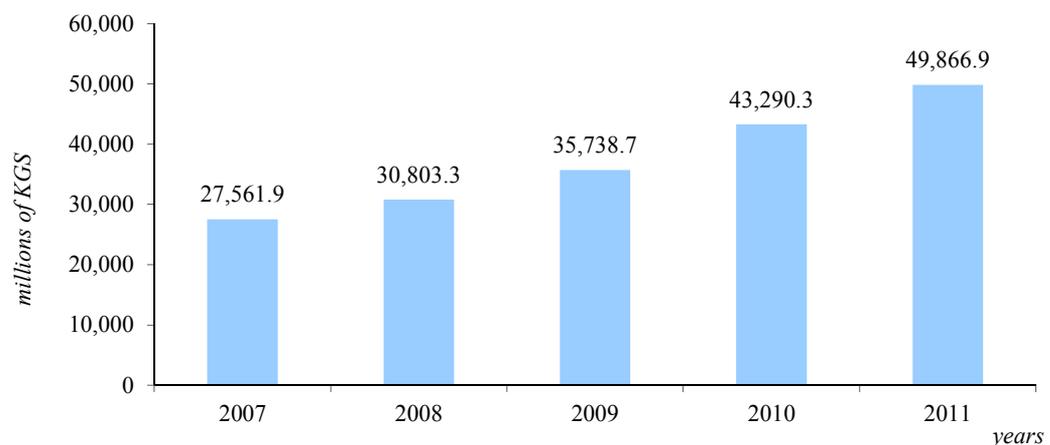
## 4.2. Cash Turnover

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

In 2011, the total amount of currency in circulation increased by 15.2 percent and amounted to KGS 49.9 billion.

### **Chart 4.2.1.**

Developments in Currency in Circulation (end of period)



Increased state payments under the social package and sustained demand for cash with the growth of the economy can be named as factors contributing to growth of money in circulation.

Return of cash to commercial banks’ cash departments amounted to 98.6 percent in 2011, having decreased by 0.2 percentage point compared to the level in 2010.

Receipt of cash in the cash offices of commercial departments amounted to KGS 430.5 billion in 2011, having increased by 44.1 percent compared to the volume of receipts in 2010. Issuance of cash from the cash departments of commercial banks increased by 44.4 percent and amounted to KGS 436.4 billion.

*Receipt and issue of cash from cash departments of commercial banks*

**Table 4.2.1.**

**Cash Flow via Cash Departments of Commercial Banks**

	Receipt <i>in millions of KGS</i>		Issue, <i>in millions of KGS</i>		Collectibility, <i>in percent</i>	
	2010	2011	2010	2011	2010	2011
<b>Total</b>	<b>298,652.7</b>	<b>430,505.7</b>	<b>302,242.3</b>	<b>436,436.9</b>	<b>98.8</b>	<b>98.6</b>
Bishkek	177,571.7	252,839.8	161,479.5	234,149.1	110.0	108.0
Batken Oblast	7,079.7	12,766.0	11,047.7	16,669.5	64.1	76.6
Jalalabat Oblast	30,412.9	39,925.8	37,101.7	48,882.0	82.0	81.7
Yssyk Kul Oblast	10,094.5	15,437.9	13,399.9	19,341.9	75.3	79.8
Naryn Oblast	3,479.5	5,041.6	5,885.7	7,803.9	59.1	64.6
Osh	41,052.1	64,186.7	38,222.3	59,980.7	107.4	107.0
Osh Oblast	8,680.2	12,102.9	13,341.0	19,159.9	65.1	63.2
Talas Oblast	4,330.6	6,851.5	6,713.6	10,161.0	64.5	67.4
Chui Oblast	15,951.5	21,353.5	15,050.9	20,288.9	106.0	105.2

Based on the analysis of money denomination in circulation, the work on sustaining the optimal stocks of required denominations of banknotes and coins was constantly performed; new banknotes and coins were issued into circulation and worn out banknotes were withdrawn from circulation for destruction.

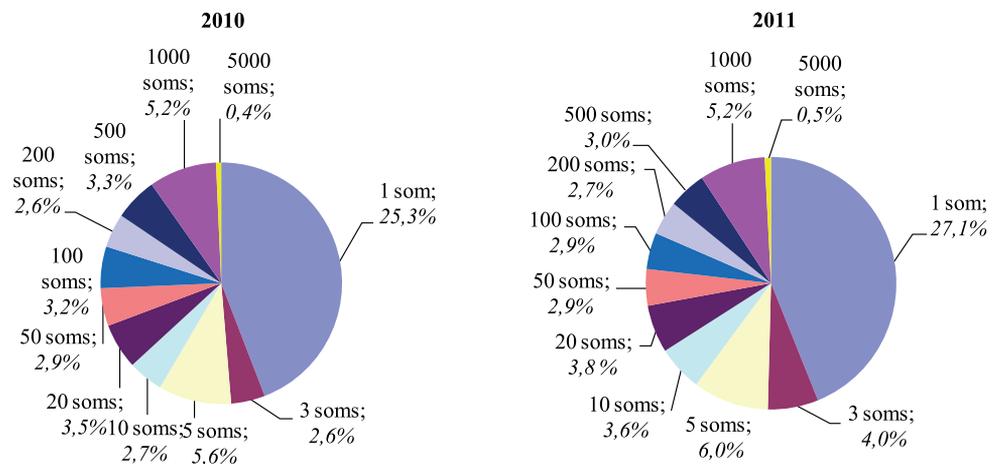
The denomination structure of banknotes in circulation was stable as a whole, with the reduction of the share of KGS 1,000 banknote with increase of the share of KGS 5,000 banknotes.

**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	1,000 soms	5,000 soms	<b>Total</b>
2010	0.7	0.4	0.7	1.4	3.2	5.0	16.1	52.3	20.2	<b>100.0</b>
2011	0.7	0.3	0.7	1.4	2.8	5.1	14.5	49.7	24.8	<b>100.0</b>

**Chart 4.2.2.****Breakdown of Money in Circulation by Denominations of Banknotes and Coins (end of period)***(in percent of total banknotes and coins in circulation)*

The National Bank conducted activities on further improvement of the regulatory framework for organization of cash turnover and handling of cash. Procedures for conducting issuing operations and preventive maintenance of the equipment for processing and storage of cash were developed. Amendments were introduced to fundamental regulatory documents on cash operations and on accounting of cash turnover in cash departments of commercial banks and turnover cash departments of the National Bank.

Counting and sorting machines with high efficiency and modern technology of destroying worn out banknotes in the course of the processing process were installed in the cash department of the National Bank to upgrade the technical processing of banknotes and improve the work efficiency.

In 2011, the total number of identified counterfeit banknotes amounted to 609 pieces (in 2010-328 pieces), that totaled to KGS 373.5 thousand (0.00075 percent of total money in circulation as of December 31, 2011, inclusive).

In view of celebration of the 20<sup>th</sup> anniversary of independence of the Kyrgyz Republic in 2011, a silver coin “Sovereign Kyrgyzstan” devoted to the Historical Events series were issued into circulation. Silver coins “Pobeda Peak”, “Great Silk Road”, “The World of Our Children” and copper-nickel coins “Pobeda Peak” and “Khan Tengri” were also issued into circulation.

*Issue of numismatic coins into circulation*

## CHAPTER 5.

### FOREIGN ECONOMIC RELATIONS

The activity of the National Bank of the Kyrgyz Republic in 2011 in the field of foreign economic relations was aimed at strengthening the existing and establishing new partner relations with international institutions and central (national) banks.

#### 5.1. Cooperation with International Organizations

The cooperation of the National Bank with international organizations in 2011 was fruitful. Advisory assistance and analysis of world experience in addressing issues of efficient banking system functioning were the main results of the cooperation.

In 2011, several missions of the International Monetary Fund (IMF) visited the Kyrgyz Republic. A review mission of IMF arrived in January to review the implementation results of the program supported under the Rapid Credit Facility (RCF)<sup>1</sup>, which is provided for prompt financial assistance to countries and flexible support under various urgent circumstances like shocks, natural disasters and emergencies.

*Cooperation  
with IMF*

In March 2011, a mission of the Legal Department of the IMF visited the National Bank to evaluate efficiency of normative and legal acts of the Kyrgyz Republic pertaining to reorganization of banks. The mission resulted in joint elaboration of an Action Plan of Introduction of Necessary Amendments and Addenda to normative and legal framework to streamline harmonize and fill gaps in the legislative framework and better define roles of the institutions and creditors involved in the management process during crises and reorganization of banks. The IMF advisor also provided consultations on improvement of normative and legal acts of the National Bank on banking supervision.

In April and May, a mission of IMF worked in Bishkek to discuss a package of economic policy measures to be implemented under the Extended Credit Facility (ECF). The Government of the Kyrgyz Republic and the National Bank signed a Memorandum on Economic and Financial Policy of the Kyrgyz Republic for 2011-2014 (Memorandum). The Executive Board of the IMF approved allocation of SDR 66.6 million for the Kyrgyz Republic under the framework of the three-year ECF to support revival of the economy in the short term and contribute to dynamic, sustainable and comprehensive economic growth in the medium term. The first tranche of SDR 9.5 million was received in June 2011.

A mission of the IMF visited Kyrgyzstan in September to conduct the first review of achievement of control indicators set for the end of June 2011 and implementation of activities foreseen in the Memorandum under the three-year program supported by the ECF of the IMF. Following the first review of the program implementation, the Executive Board of Directors of IMF approved allocation of the second tranche of SDR 9.5 million for Kyrgyzstan.

Under the Technical Assistance Project supported by the Government of Switzerland to strengthen the AML/CFT system in the Kyrgyz Republic, the IMF experts assessed adequacy of the supervision function of the National bank of the Kyrgyz Republic in AML/CFT. Based on findings of the assessment, the mission issued a report with a list of recommendations on improvement of AML/CFT system in Kyrgyzstan. The IMF Safeguard Assessment conducted regular assessment of the activity of the National Bank of the Kyrgyz Republic.

<sup>1</sup> Short term Rapid Credit Facility of the IMF. The Kyrgyz Republic and the IMF cooperated under this Facility from September to December of 2010.

In September, the Governor of the National Bank as a member of the Kyrgyz delegation participated in the meeting of the Swiss Constituency at IMF and the World Bank in Turkmenbashi city (Turkmenistan). The meeting was aimed at strengthening the cooperation between the central banks and financial departments of the countries member to the Constituency and the international financial institutions. The event included a seminar “Macroeconomic Stability and Banking Sector Development”.

Annual meeting of the IMF and World Bank Group countries was held in Washington, DC in September 2011, where the Governor of the National Bank participated as the IMF Governor on behalf of the Kyrgyz Republic. A number of meetings were held during the visit, where pressing economic issues and prospects of further cooperation were discussed.

*Cooperation with the  
World Bank*

In 2011, the cooperation between the National Bank and the World Bank continued. The Head of the Macroeconomic Sector under the Poverty Reduction and Economic Management Department for Europe and Central Asia Region of the World Bank visited Kyrgyzstan in December 2011 and met with the management of the National Bank during the visit. The agenda of the meeting included issues related to economic development of the country and perspectives of the Kyrgyz Republic and the Central Asian region as a whole, as well as the development and perspectives of the global economy.

In October 2011, the employees of the NBKR attended professional development courses on Risk Management in Banks conducted under the support of the International Finance Corporation. Training on tools of the assessment of corporate governance in banking organizations was held in Bishkek. This training covered the issues of corporate governance structure, work of the Board, transparency and disclosure of information and shareholders’ rights.

*Cooperation with  
EBRD*

A Joint Mission of the European Bank for Reconstruction and Development Bank (EBRD), IMF and WB arrived in December to review and analyze the Local Currency Lending Component of the Capital Markets Development Initiative. Monetary policy, capitalization and profitability of the banking sector, credit portfolio of the banking sector, situation with dollarization of the economy, the foreign exchange market, SWAP operations and derivatives, public debt management issues were discussed during the mission.

The EBRD Director for Central Asia also paid a visit to Kyrgyzstan and during the visit met with the management of the NBKR to sum the results of the activity of the EBRD Representative Office in the Kyrgyz Republic.

*Cooperation with the  
Basel Institute under  
the Swiss Government*

Within the framework of the Technical Assistance program, the employees of the National Bank passed training on issues of contemporary financial investigation in the Basel Institute under the Swiss Government.

In July 2011, a meeting with stakeholders was organized with the support of the Basel Institute to develop efficient relationship with the law enforcement bodies and to establish contacts for cooperation with international organizations on issues related to restoration of stolen assets within AML/CFT.

*Cooperation with  
SECO*

The activities to strengthen cooperation with the State Secretariat for Economic Affairs (SECO) continued in the reporting year. Within the cooperation with SECO and the IMF, the employees of the National bank visited Poland to study the methodological and organizational support of circulation and accounting of government securities in the Republic of Poland. During the visit the practices of the Ministry of Finances, the National Securities Depository, the National Bank of Poland and the Polish Financial Supervision Authority in functioning of the financial market in the Republic of Poland were studied to elaborate approaches

to and recommendations on transferring the government securities to the Stock Exchange of the Kyrgyz Republic.

The State Secretariat for Economic Affairs also provided grant assistance on legal issues.

A seminar devoted to studying core principles and methods of financial programming, application of the method of development of a common and coordinated forecast of macroeconomic development was conducted with the support from SECO. The seminar covered the issues of economic growth forecast, budget and its funding, monetary forecast and payment balance. The seminar resulted in a decision to strengthen interagency coordination in development of forecasts of macroeconomic indicators.

Within the framework of cooperation with the German Agency for International Cooperation (GIZ), specialists of the National Bank were trained in management and financial accounting and financial management. With the support of GIZ, a consultant assisted in updating of test programs on selection of staff. With the assistance of GIZ, study of Islamic financing on the example of the Bank Negara Malaysia was organized.

*Cooperation with GIZ*

The working group consisting of representatives of GIZ, NBKR, the Association of MFI of KR, the National Union of Credit Unions and Cooperatives and the Association of Credit Unions and Cooperatives continued its activity. This working group developed the Strategy for Microfinance Development in the Kyrgyz Republic for 2011-2015. The goal of the Strategy is to ensure access of the population to quality microfinance services for development of their business, creation of additional work places and development of entrepreneurship, particularly in rural areas.

In October 2011, the management of NBKR participated in the 25<sup>th</sup> session of the Club of Governors of Central Banks, which unites banks of 21 Central Asia, Black Sea and Balkan Countries. The main goal of the Club is to provide the central banks of the member countries with the opportunity for regular exchange of opinions on conducting monetary policy, exercising banking supervision and sustaining stability of the banking systems.

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

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 Exchange.

*Cooperation within the framework of the EurAsEC*

Representatives of the National Bank participated in the meetings of experts, 24<sup>th</sup> and 25<sup>th</sup> sessions of the Council of Heads of Central (National) Banks of EurAsEC member states.

The National Bank acted as organizer of the regular 25<sup>th</sup> session of the Council of Heads of Central (National) Banks of EurAsEC Countries. Heads and representatives of central (national) banks of Republic of Belorussia, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan as well as the Interstate Bank and the Secretariat of EurAsEC Integration Committee participated in this session held in September 2011. At the end of the session a Program of Professional Training of the Personnel of Central (National) Banks of EurAsEC Member States for 2012 and a Draft Agreement of Harmonization of Principles and Mechanisms of Pursuing Monetary and Currency Policy by Member States of the Eurasian Economic Community were approved.

Within the framework of the Professional Training Program for Personnel of Central (National) Banks, the employees of the National Bank attended training on monetary policy implementation, monitoring and forecasting the liquidity in the banking sector held at the Interregional Training Center of the Bank of Russia in Tula city. Moreover, there was an exchange of experience on stress testing of

commercial banks and the early prevention system. Trainings were also conducted at the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Institutions and at the training center of the National Bank of Tajikistan (Kayrakum city).

*Cooperation with the  
Interstate Bank*

The National Bank continued its cooperation with the Interstate Bank. Representatives of the National bank took part in the sessions of the Interstate Bank and maintained information exchange with statistical data with the Interstate Bank.

In the reporting period, cooperation with such international organizations as the Bank of International Settlements, the Joint Vienna Institute and the Islamic Development Bank continued in the sphere of training of the National Bank's employees.

## 5.2. Cooperation with Central (National) Banks

Cooperation with central banks of the near and far abroad countries on bilateral and multilateral basis and in the framework of integration agencies continued in 2011. Different activities and technical and advisory assistance projects were implemented under the framework of this cooperation.

*Cooperation with  
the Central Bank of  
Armenia*

Within the framework of exchange of experience, study visits were organized for the employees of the NBKR to the Central Bank of the Republic of Armenia, where issues of consolidated supervision, licensing of finance and credit institutions and systems for early prevention of banking risks as well as issues related to financial stability assessment were reviewed. The Central Bank of Armenia organized a training seminar "Credit Register and Enterprises' Rating", which covered the rating systems used in the Central Bank of Armenia, the rating methodology (assessment of qualitative parameters, financial analysis, and forecasting methodology) and credit register.

*Cooperation with the  
Banque de France*

Under the framework of cooperation with the Banque de France, the employees of the NBKR participated in the seminar "Combating Money Laundering" and were trained in organizing efficient payment system, studied the structure of payment systems operating in France, as well as interaction with the payment systems of the European Union.

*Cooperation with the  
Czech National Bank*

While strengthening partnership with the Czech National Bank, the employees of the NBKR participated in the international seminar "Payment System and System of Settlements with Securities", where issues related to oversight of the payment systems, systems of settlement with securities, payment card and electronic instruments were reviewed.

*Cooperation with  
Deutsche Bundesbank*

Under the framework of technical assistance program, the employees of the National Bank held an internship at the Deutsche Bundesbank, where they reviewed issues related to oversight of payment systems, systems of settlement with securities and payment cards.

In February 2011, the Deutsche Bundesbank organized a study visit for the employees of the NBKR. The focus of the study tour was engineering and technical security enforcement and the security system of the Central Vault and working cash.

*Cooperation with the  
National Bank the  
Republic of Kazakhstan*

In 2011, cooperation with the National Bank of Kazakhstan continued in the sphere of exchange of experience in international reserves management, functioning of international money transfers, collection and processing of information.

*Cooperation with  
Bank Negara  
Malaysia*

Employees of the NBKR passed training courses organized by the Bank Negara Malaysia with the financial support of the Islamic Development Bank to study the activity of the Central Bank of Malaysia and to obtain knowledge in Islamic principles of lending. The Bank Negara conducted a seminar, which covered issues related to the work of credit bureau, credit registry and the international experience in organizing the system of credit information exchange.

The National Bank continued strengthening its partner relations with the National Bank of Poland. The employees of the National Bank passed training on Payment System and Non-Cash Payments held at the National Bank of Poland. The organizers of the training provided an overview of the payment system of the Republic of Poland.

*Cooperation with the National Bank of Poland*

Within the framework of the IMF's Regional Public Debt Management and Government Securities Market Development Project, an exchange of experience on organizing the government securities market in the National bank of Poland was facilitated.

The employees of the National Bank participated in seminars organized by the Bank of Russia on issues related to monitoring and analysis of bank lending terms, regulation and observation of payment and settlement systems in EurAsEC member states. Specialists of the National Bank studied the methodology of preparing analytical materials on the current state of the payment system during the internship in the Bank of Russia on information and analytical work on.

*Cooperation with the Bank of Russia*

Specialists of the Swiss National Bank paid two visits to the NBKR in 2011 to render advisory assistance on the project on purchase of trade systems and depository. They provided advisory assistance in functional assessment of bids of suppliers as well as during actual implementation of this project.

*Cooperation with the Swiss National Bank*

The joint research project of the Swiss National Bank and the NBKR on economic modeling was carried on in 2011.

The employees of the National Bank participated in the seminar "Banknote Design & Forensic", which was organized by the Swiss National Bank in partnership with the international company KBA Notasys. Over the course of the seminar, the NBKR employees got familiarized with the latest achievements of the global leader in manufacture of equipment for banknotes printing – the company KBA Notasys, the laboratory on combating counterfeiting and expert examination of counterfeit banknotes of high quality and "super" US dollar banknotes, as well as new protection technologies of different companies engaged in development of protection elements of banknotes.

The experts of the Swiss National Bank provided consultations on purchase and testing of gold with the aid of equipment, and gave recommendations on the use of different protection elements.

In November 2011, the experts of the Swiss National Bank visited NBKR to evaluate the development of risk management in NBKR since August 2009, and to discuss improvements to the financial risks management process.

The Swiss National Bank rendered technical assistance in construction of bank facilities. Specialists of the Swiss National Bank and Deutsche Bundesbank provided consultations in this field.

In 2011, a seminar for exchange of experience in the field of payment systems was organized in Bishkek with the participation of an expert of the Central Bank of the Republic of Turkey. Introduction to payment systems, retail payment systems and perspective projects concerning the payment systems in the Republic of Turkey were covered during the seminar.

*Cooperation with the Central Bank of Turkey*

The employees of the National Bank participated in the regional seminar on payment systems organized by the Central Bank of Turkey. Issues related to conducting payments during financial crisis, intraday liquidity management and a draft Document of the Bank of International Settlements on raising the core principles for systemically important payment systems were discussed at the seminar.

In 2011, the National Bank continued cooperation with the central (national) banks of CIS countries in the framework of the Program of Professional Training of Personnel of Central (National) Banks of EurAsEC member states and with state bodies of Korea under the framework of bilateral and multilateral agreements.

## 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

In 2011, the NBKR's organizational structure comprised 26 central staff departments, five regional departments and a Representative Office in the Batken Oblast.

The committees and commissions operate at the National Bank on the ongoing basis. Nine commissions, seven editorial boards, six committees of the National Bank, four supervisory boards and one scientific and expert council operated as of the end of 2011. The order and the procedures of the work of committees, commissions and editorial boards are regulated by relevant regulations. Activities of the committees and commissions contribute to improvement of corporate management in NBKR.

The following changes were made in the organizational structure of the National Bank in 2011:

- The Legal Division was abolished, and a Legal Department was established, uniting the Draft Legislation Development Division and the Division for Rendering Legal Support to Departments;
- A Group for Assessment and Expert Review of Certain Banking Operations was set up under the Banking Supervision Department;
- A Credits Management Division was created;
- The Financial Stability Monitoring Group under the Financial Statistics and Review Department was abolished, and a Financial Stability Monitoring Division was created under the Financial Statistics and Review Department.

*NBKR staff size*

As of the end of the reporting year, the authorized staff size of the NBKR totaled to 565 people, including 494 people employed as the central staff and 71 persons working at the regional departments and at the Batken Representative Office. Of the total staff, 286 members of the central staff and 33 members of the staff of regional departments and Batken Representative Office were female employees. In percentage ratio, women held 56 percent and men – 44 percent of staff positions. The number of specialists amounted to 409 people and 96.3 percent, or 394 persons of them have higher education, and three of them hold the degrees of candidates of science.

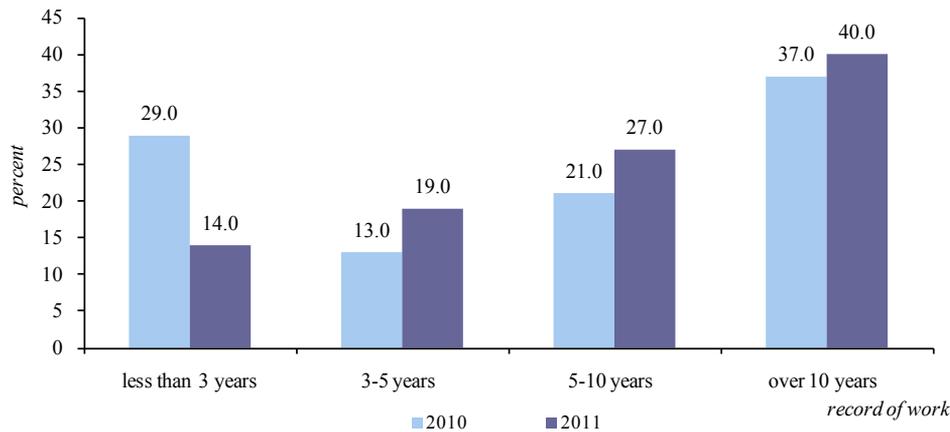
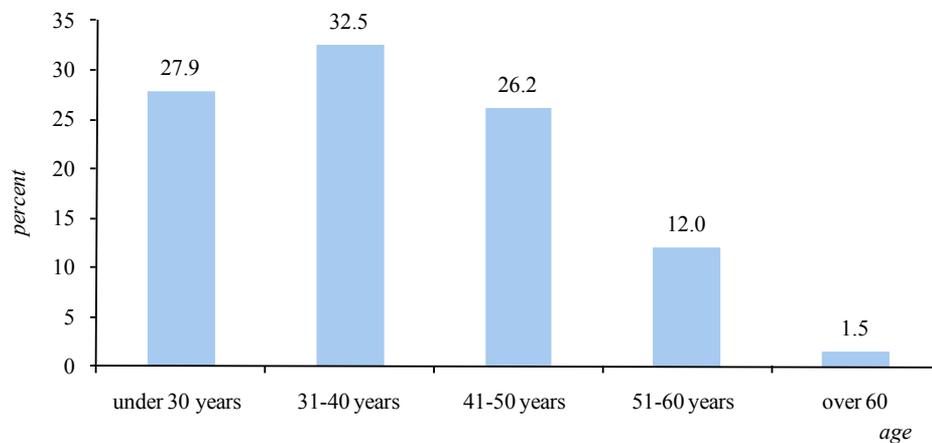
*Competitive selection*

To maintain the transparent, equal and fair approach, the system of a competitive selection of staff is used when employing 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 website of the NBKR and in the mass media.

In 2011, 49 competitions were held, including six competitions held in the regional departments. In total, 367 people participated in the competitions.

The turnover of staff was 14.1 percent in 2011 against 11.4 percent in 2010.

The staffing structure by record of work and age is given in charts 6.1.1, and 6.1.2, respectively.

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

## Goals and objectives of main committees and commissions of the National Bank of the Kyrgyz Republic

### **Monetary Policy Committee**

develops and adopts immediate decisions on current liquidity management.

Key tasks include assessment and selection of the line of operations in the open market, analysis of potential consequences of the selected line of actions, decision making on and setting boundary conditions for application of tools and development of recommendations on economic issues for the Governor and the Board of the NBKR.

### **Investment Committee**

develops and adopts decisions on management of international reserves within the defined authorities.

Key tasks include review and approval of the investment strategy, monitoring of its implementation, assessment of investment activity efficiency, regular discussion of the state of affairs in financial markets and development of tactical decisions within the framework of the approved strategy, development of suggestions and recommendations on investment activity issues for the Board.

<b><i>Supervision Committee</i></b>	decision-making on regulation of and supervision over activities of commercial banks and other finance and credit institutions licensed by the NBKR within its statutory authorities.
<b><i>Committee on the Payment System</i></b>	coordination of the work of structural units to ensure the efficiency, reliability and security of the payment system of the Kyrgyz Republic. Key tasks comprise decision-making, development and submission of recommendations (opinions) on issues related to the payment system of the Kyrgyz Republic.
<b><i>Committee on Risks</i></b>	develops recommendations on risks minimization through coordination of the structural units' activities on defining, evaluation and minimizing risks associated with the NBKR activity.
<b><i>Coordination Committee on Information Systems</i></b>	develops decisions on and follows up implementation of measures for implementation of the Information System Development Strategy of the NBKR and Long-Term Information Systems Development Plan of the NBKR in line with the goals and objectives of the NBKR.
<b><i>Anti-Corruption Commission</i></b>	was created to prevent and fight corruption by development of anti-corruption measures and monitoring over their implementation.
<b><i>Appraisal Commission</i></b>	defines eligibility of the employee to the position held. The commission's work aims to improve selection and placement of staff, motivate the team for efficient performance, and identify opportunities for application of the capacity of the employee.
<b><i>Central Expert Commission</i></b>	organizes and conducts expert review of the value of the NBKR documents and selects them for archive or disposal.
<b><i>Commission on Labor Disputes</i></b>	reviews individual labor disputes within the NBKR. In carrying out its activities, the Commission is guided by the Labor Code of the Kyrgyz Republic.
<b><i>Disciplinary Commission</i></b>	reviews cases of violation of the labor discipline by the NBKR employees, and supervises compliance of the NBKR staff with the Professional Code of Ethics.
<b><i>Methodology Commission</i></b>	upon request of the NBKR Board, reviews draft normative acts to verify their methodological elaboration. The Commission approves terms and their definitions, used in normative acts of the NBKR.

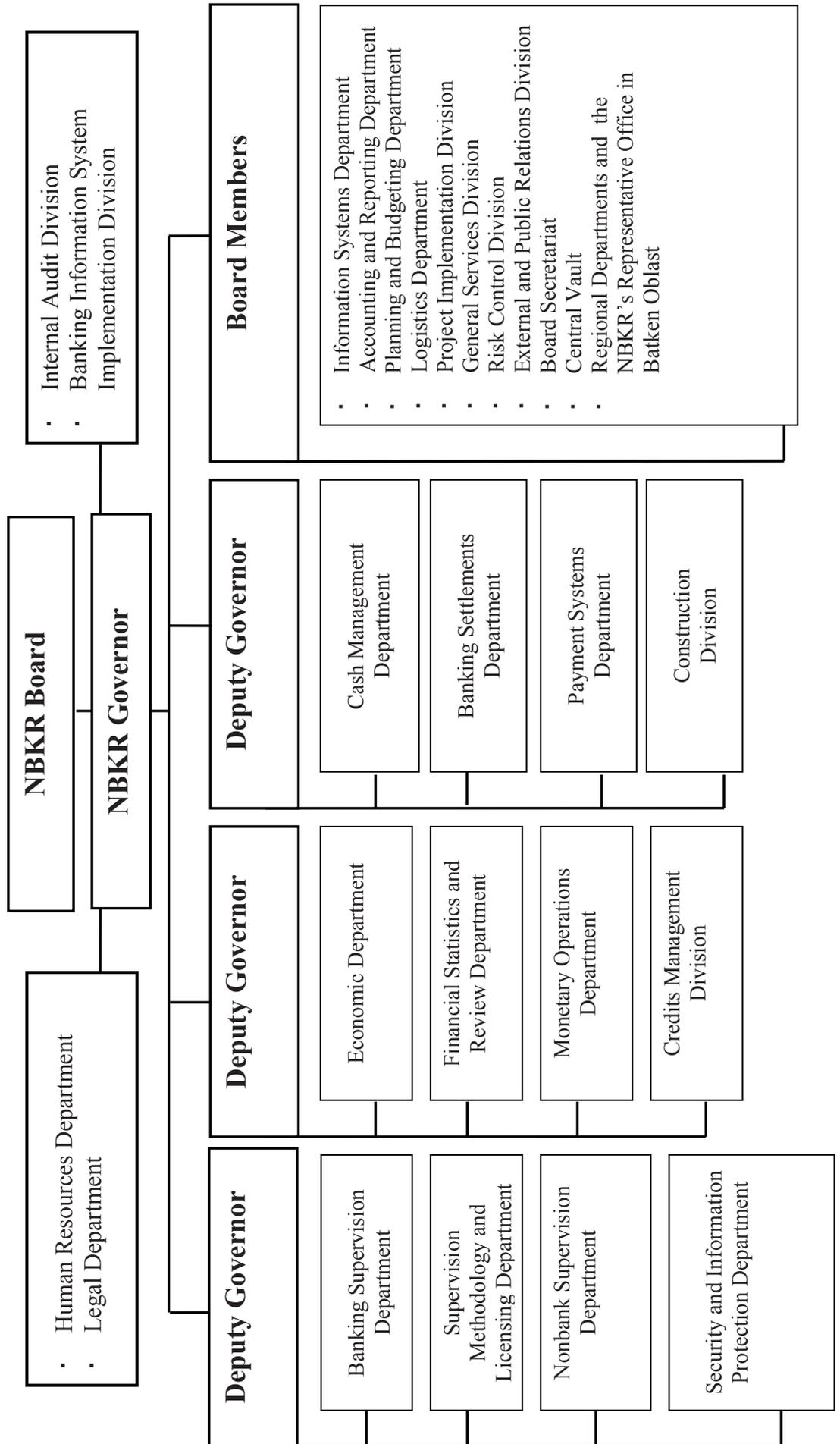
## Key Functions of Departments of the National Bank of the Kyrgyz Republic

<b><i>Board</i></b>	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».
<b><i>Economic Department</i></b>	develops proposals on monetary policy and on its implementation; analyzes the situation in the real, financial, fiscal and external sectors of the economy.
<b><i>Monetary Operations Department</i></b>	conducts operations in the financial markets, performs their assessment and analysis, and identifies the trends and factors of changes in the financial markets for effective coordination of the open market operations.
<b><i>Financial Statistics and Review Department</i></b>	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.
<b><i>Banking Supervision Department</i></b>	supervises commercial banks' compliance with the prudential standards and observance of the banking legislation of the Kyrgyz Republic.
<b><i>Supervision Methodology and Licensing Department</i></b>	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; and performs procedures for licensing of banks.
<b><i>Non-Banking Supervision Department</i></b>	exercises supervision over the activity of credit unions and other non-bank institutions licensed and regulated by the NBKR according to the legislation, regulatory and legal acts.
<b><i>Cash Management Department</i></b>	defines the needs of the Republic's economy for cash, provides for cash circulation, and promotes the implementation of anti-counterfeiting measures.
<b><i>Central Vault</i></b>	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.
<b><i>Banking Settlements Department</i></b>	provides for the functioning of interbank settlement systems, performs settlements on operations and transactions in the financial markets.

<b><i>Information Systems Department</i></b>	provides automated processing of data on the modern information technologies and ensures technical maintenance thereof.
<b><i>Payments System Department</i></b>	develops and implements measures for maintenance of the effective operation of the payment system, its reliability and safety.
<b><i>Accounting and Reporting Department</i></b>	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.
<b><i>Human Resources Department</i></b>	performs selection and deployment of staff; organizes the staff training and professional development; works out and implements the tools for motivation of staff for efficient work.
<b><i>Planning and Budgeting Department</i></b>	organizes the NBKR's planning and budgeting process; ensures control over the effective and targeted use of the NBKR's financial resources.
<b><i>Legal Department</i></b>	provides comprehensive legal support of the activity of the NBKR and its structural units; develops and promotes banking legislation.
<b><i>General Services Division</i></b>	Organizes the system of the flow of documents and records management in the NBKR, including control over execution and keeping the archive.
<b><i>External and Public Relations Division</i></b>	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.
<b><i>Internal Audit Division</i></b>	inspects and evaluates the operating internal control system and elaborates recommendations on its improvement.
<b><i>Banking Information Systems Implementation Division</i></b>	provides for optimization of business processes of the Bank with the use of modern information technologies.
<b><i>Construction Division</i></b>	provides for arrangements for construction and assembly works at NBKR facilities.
<b><i>Risk Control Division</i></b>	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 the Bank, and coordinates the work of units on the risk management issues.
<b><i>Project Implementation Division</i></b>	supports implementation of 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 regulatory and legal acts effective at the NBKR.

<b><i>Credits Management Division</i></b>	ensures return of NBKR assets by managing credits, including monitoring of them.
<b><i>Board Secretariat</i></b>	provides for organizational support of the work of the Board of the NBKR
<b><i>Security and Information Protection Department</i></b>	provides for safe functioning of the National Bank of the Kyrgyz Republic.
<b><i>Logistics Department</i></b>	provides for proper functioning of all types of power supply systems, engineering networks, equipment and the transportation means, logistics and maintenance of buildings and structures.
<b><i>Regional Departments and Representative Offices of the NBKR</i></b>	provide the commercial banks and their branches with cash; perform supervisory activities for compliance with the banking legislation by finance and credit institutions, licensed and regulated by the National Bank.

**Organizational Chart of the National Bank of the Kyrgyz Republic as of December 31, 2011**



## 6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2011

According to the Law “On the National Bank of the Kyrgyz Republic”, the Board is the supreme governing body of the National Bank and approves the main directions of its activity. The Board is a collective body. The Board members are appointed by the President of the Kyrgyz Republic as advised by the Governor of the NBKR. The Board is governed by the Governor of the National Bank, who is elected by the Jogorku Kenesh of the Kyrgyz Republic on the proposal of the President of the Kyrgyz Republic.

*General information*

The Board considers and determines the monetary policy, as well as the policy of banking supervision and payment system development, approves statutory acts, annual report, set the order of issuance of new designs and denominations of banknotes and the order of withdrawal from circulation of banknotes and coins. In accordance with the Regulation of the Board of the National Bank, the Board also considers other issues within its competence, including: the issuance, suspension of banking license, the application of measures and sanctions against banks and other financial institutions.

During the reporting period, activity of the Board of the NBKR was carried out in accordance with the approved annual and quarterly Action Plans. In 2011, 71 meetings were held, 542 issues were discussed, and 356 of them were followed up by adoption of relevant Resolutions.

During 2011, the Board of the NBKR on quarterly basis considered the Monetary Policy Reports, which reflected outcomes and factors that determined dynamics of inflation, analysis of economic development results and proposals on the monetary program for the forthcoming period, with recommendations for its implementation, guiding the Monetary Policy Committee in operational decision-making.

*Consideration of Monetary Policy issues*

In February 2011, in order to reduce an inflationary pressure, the Board of the NBKR made a decision to increase the amount of required reserves of commercial banks, which came into effect starting March 2011.

In December 2011, the Board of the NBKR approved the text of the Statement of the National Bank of the Kyrgyz Republic on the Monetary Policy for 2012, which specifies a quantitative benchmark of the Monetary Policy (rate of inflation) and reflects the major activities of the NBKR for the forthcoming period. The document was submitted to the Ministry of Economic Regulation for development of the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on economic policy for 2012.

In December 2011, the Board of the NBKR approved the Main Monetary Policy Guidelines for 2012-2014, where the objectives of the Monetary Policy for the medium-term period were defined, and analysis of the economic situation and forecast for development of the key economic sectors were provided. The Document was developed with consideration of the trends on the global financial and commodity markets, the external and internal factors affecting economy development in medium-term perspective, potential risks, forecasts for the public finance sector, medium-term forecasts for socio-economic development of the Kyrgyz Republic, parameters of the Mid-Term Country Development Program, as well as the Memorandum on Economic and Financial Policy for 2011-2014.

As part of implementation of measures to prevent the adverse impact of shocks on the national economy, the analytical overviews of situation on the global and domestic financial and commodity markets were examined on the Board’ informational meetings on a monthly basis.

In order to develop the interbank currency market, in December the Board of the National Bank approved transition to definition of official rates for the Euro, Russian ruble and Kazakh tenge on a daily basis, which would allow to reduce foreign exchange risks of foreign exchange transactions and optimize the process of accounting of foreign currencies.

As part of improvement of the statutory base for regulation of the government securities market, the Board of the National Bank approved amendments and addenda to the Statutory and Legal Acts of the NBKR regulating issuance, circulation, accounting and repayment of government securities to determine the mechanism of additional (off-auction) placement of GT-Bills and the order of depository accounting of GT-Bonds.

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, the NBKR manages the international reserves, guided by the principles of liquidity and safety of reserve assets. In order to comply with the established principles, the Board of the National Bank determines the investment strategy, the structure of investment portfolio, the ratio of risk/yield indicators and approves the relevant normative documents.

The Board annually reviews and approves the benchmark portfolio of investment assets, which defines the set of tools, their maximal term and the share of investments.

In order to replenish the international reserves at the expense of domestic resources the Board reviews and approves the monetary gold purchase amount on the domestic market of the Kyrgyz Republic for the coming year.

To evaluate the effectiveness of management of the international reserves, the Board annually reviews and approves the report on management of international reserves.

Total of 33 Resolutions on the monetary policy issues were adopted in 2011.

*Consideration of  
issues on supervision  
over bank and  
nonbank institutions*

The Board paid much attention to control of efficiency, safety and reliability of the banking system of the Republic. The issues related to supervision and regulation of commercial banks were considered. As part of monitoring of the impacts of the events of April 2010, a special attention was paid to ensuring steady operation of the banking system, safeguarding the assets in the interests of depositors and other creditors of the banks, as well as undertaking measures to raise trust in banks. On a quarterly basis, the Board considered information about commercial banking system development trends.

During 2011, in order to protect the interests of depositors and creditors of the banks and to avoid destabilization of the situation, special regimes were maintained at some commercial banks. The Board of the National Bank on a monthly basis considered the reports of Conservators on financial condition and activities undertaken for the financial recovery of banks that were under conservation regime.

In 2011, the National Bank worked with the General Prosecutor’s Office of the Kyrgyz Republic and the Ministry of State Property of the Kyrgyz Republic to resolve the issues related to nationalized property, which was collateral for loans extended to the OJSC “IB Issyk-Kul”, the OJSC “KyrgyzCredit Bank”, and the CJSC “Manas Bank”.

The Board of the NBKR addressed issues on a number of commercial banks under pretrial settlement.

The outcomes of the “Banking Sector Development Strategy for the period until the end of 2011” were summarized. In general, the activity plan to implement the “Banking Sector Development Strategy until the end of 2011” was fulfilled.

The Board of the NBKR adopted the “Main Directions of Banking Sector Development until 2014” in order to enhance stability in the banking sector, to increase the role of the banking sector in the economy of the Kyrgyz Republic, to sustain the effectiveness, safety and reliability of the banking activity, as well as to prevent involvement of commercial banks in fraudulent and unsafe banking practices.

In order to improve the banking legislation and to raise the banking system safety in view of some developments in certain banks in 2010, the Board approved the Draft Law “On Amendments and Addenda to the Law “On Banks and Banking Activity in the Kyrgyz Republic”.

During the reporting period, the Board also adopted a series of statutory and legal acts aimed at improving the regulatory framework of banking supervision and regulation. The approved statutory and legal acts related to the issues of establishment of economic standards and other requirements to banks, including dealing with securities, licensing of banking, bank risk management, prevention of transactions on CFT/AML, pre-trial settlement of disputes between the National Bank and banks, banking and payment transactions by banks where the special regimes were introduced.

As part of implementation of the Legislation of the Kyrgyz Republic providing for creation of conditions for development of Islamic banking in the Kyrgyz Republic, the Board approved a number of Regulations on the issues of corporate governance, regulatory reporting of banks, capital adequacy of banks, as well as ensuring the activities of microfinance institutions and credit unions.

In order to improve the legislative framework and promote further development of the microfinance sector, the Board approved the Draft Law “On Introduction of Amendments and Addenda to some Legislative Acts of the Kyrgyz Republic”, thus amending and introducing additions to the Laws “On Microfinance Institutions in the Kyrgyz Republic”, “On Credit Unions”, “On Transactions in Foreign Currency”, and the draft of Microfinance Development Strategy for 2011-2015. To optimize the regulation of exchange transactions with foreign currency cash, the Board approved the Draft Law “On Amendments to the Law “On Transactions in Foreign Currency” and approved a new edition of the Regulation “On the Licensing Procedure for the Right to Conduct Exchange Transactions with Foreign Currency Cash”.

In order to prevent risks on transactions with affiliated persons, the Board approved amendments and addenda to the “Interim Rules Regulating the Activities of Microfinance Companies on the Territory of the Kyrgyz Republic”.

In overall, 95 Resolutions were adopted on issues related to the activities of individual commercial banks and other finance and credit institutions licensed by the NBKR and 24 Resolutions pertaining to the regulatory framework governing their activities were also adopted in the reporting period.

According to the Article 3 of the Law “On the National Bank of the Kyrgyz Republic”, implementation of functions of the NBKR in payment system is aimed at provision of its effective and uninterrupted functioning. In order to develop the policy on overall structure and practices of the payment system of the Kyrgyz Republic, the Board of the National Bank carried out the work on regulation of the payment system functioning in the country. In 2011, 13 Resolutions aimed at further development of the payment system development, reducing risks and expanding the range of payment instruments used were adopted.

*Consideration of  
the payment system  
issues*

In 2011, the Draft Laws “On the Payment System of the Kyrgyz Republic”, “On Amendments to the Law “On Licensing”, and “On Amendments to the Civil Code of the Kyrgyz Republic” were adopted. In addition, amendments were made to the Regulation “On Bank Payment Cards in the Kyrgyz Republic” aimed at further development of the payment system, risk reduction and expanding the range of payment instruments used.

The Board of the National Bank reviewed the reports on the current state of the payment system on a quarterly basis.

*Other issues*

The Board also considered the general issues and issues on organization of activity of the NBKR. Twenty-five Resolutions on the regulatory framework of the NBKR, and 159 Resolutions on other issues were adopted in the reporting year. Moreover, nine Resolutions pertaining to legal framework of the Kyrgyz Republic were adopted over the same period. The Board reviewed 186 issues as information messages during the meetings.

### 6.3. Improvement of Banking Legislation

In 2011, the National Bank has worked to improve and develop the legislative framework governing the banking activity in the Kyrgyz Republic.

During the reporting period, in the sphere of Banking Legislation amendments and addenda were made to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” by the Laws of the Kyrgyz Republic No 11 as of April 11, 2011 and No 21 as of May 12, 2011, aimed at bringing the standards of the given Law in compliance with the Constitution of the Kyrgyz Republic, which was adopted by the Referendum on June 27, 2010 and endorsed by the Law as of June 27, 2010.

*Proposed  
Amendments to the  
Laws*

For further improvement of the Banking Legislation in the Kyrgyz Republic, the National Bank developed a number of Draft Laws in 2011, namely:

- On Amendments to the Civil Code of the Kyrgyz Republic. The given Draft Law was developed in order to increase the share of noncash turnover, increase of tax base and rise of budget income, as well as reduction of shadow economy level;
- On Amendments and Addenda to some Legislative Acts providing for amendments and addenda to the Laws “On Microfinance Institutions in the Kyrgyz Republic”, “On Credit Unions”, and “On Transactions in Foreign Currency”. This Draft Law is developed in order to increase the capacity of microfinance institutions and credit unions in terms of transactions and is aimed at protection the rights of borrowers and development of market competition, as well as expanding the list of persons authorized to conduct transactions in foreign currency on a professional basis, and change in the concept of the exchange bureau;
- On Amendments and Addenda to the Code of the Kyrgyz Republic on Administrative Liability. This Draft Law is developed in order to increase and specify the size of fines for administrative violations in the field of Banking Legislation;
- On Amendments and Addenda to the Law “On Banks and Banking Activity in the Kyrgyz Republic”, aimed at improving the reliability and stability of banking system in the Republic in terms of providing opportunities to the National Bank to effectively monitor changes in the composition of bank shareholders and obtain information about the new bank owners.

In 2011, the work continued on the draft Laws on the payment system and on introducing addenda to the Law “On Licensing”, which were developed to regulate functioning of the national payment system in line with the Government Policy on organization of an effective money circulation, as well as to regulate the activities of legal entities, non-financial and non-credit institutions providing

services on receiving payments in favor of third persons on the territory of the Kyrgyz Republic and intermediary services on receiving, processing and providing information (processing) related to the settlement of payments and accounts.

Representatives of the National Bank took part in 13 Interagency Working Groups Sessions on the following issues:

- preparation of proposals for implementation of the Action Plan “The Economy and Security” as part of realization of the Program of the Government of the Kyrgyz Republic for 2011, in particular, on introduction of the Long-term Mortgage Lending Model;
- reform in the field of accounting;
- preparation of drafts of statutory and legal acts to improve the mechanisms for mortgage lending of agricultural lands;
- improvement of the statistics of export / import of goods;
- development of the draft Construction Industry Development Strategy in the Kyrgyz Republic;
- study of the issue of taxation on gold purchased by the National Bank;
- definition of shadow component of the economy of the Kyrgyz Republic;
- develop a mechanism for data and analytical materials exchange between ministries and agencies;
- restructuring of foreign debt of the Kyrgyz Republic;
- study of the situation between borrowers and commercial banks;
- reform of the business regulation system;
- inventory of statutory and legal acts;
- consideration of issues relating to the registration of chattel mortgage in the Central Mortgage Office and increase of the threshold amount.

In 2011, the work continued on improving the legal framework, governing the activities of banks and other financial and credit institutions licensed and supervised by the National Bank. In particular, by the Resolutions of the National Bank the regulatory and legal acts governing banking activities were approved, including:

*Improvement of  
RLA*

- January 30, 2011 – “On Approval of the Statement “On the Periodic Regulatory Report of the Banks Operating in Accordance with the Islamic Principles of Banking and Financing”.
- April 26, 2011 – On approval of the draft Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Approval of the Model Regulation on the Pattern of Issuing Loans Secured by Farmlands”;
- July 27, 2011– “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic as of March 2, 2006 No 5/7 “On Approval of the Regulation “On Licensing of Banks’ Activities”;
- August 24, 2011 – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic as of March 18, 2005, No 5/5 “On Approval of Regulation “On Pretrial Regulation of Disputes Between the National Bank of the Kyrgyz Republic and Commercial Banks, Organizations Conducting Separate Types of Banking Operations and their Founders (participants), Legal Entities and Individuals”.
- September 14, 2011 – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic as of March 19, 2005, No 6/2 “On Approval of the New Edition of the Regulation “On the NBKR Supervision Committee”;

- September 29, 2011 – “On Amendments and Addenda to some Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic” (to the Regulation “On Minimal Requirements to Internal Control in Commercial Banks to Combat the Financing of Terrorism (Extremism) and Anti-Money Laundering” and the Instructions on dealing with deposits);

- October 26, 2011 – “On Regulation “On the Order of Conducting Separate Banking and Payment Transactions by the Banks of the Kyrgyz Republic at Introduction of the Procedure of Temporary Management, Conservation, and Bankruptcy”;

- November 16, 2011 – “On Amendments and Addenda to the Regulation on Minimal Requirements for Credit Risk Management in Commercial Banks and Other Finance and Credit Institutions, Licensed by the National Bank of the Kyrgyz Republic, approved by the Resolution of the Board as of June 30, 2010, No 52/4”;

- November 30, 2011 – “On Amendments and Addenda to some Normative and Legal Acts of the National Bank of the Kyrgyz Republic” (to the Regulation “On Periodic Regulatory Banking Report” and the Instructions “On Definition of the Capital Adequacy Standards for the Banks Operating in Accordance with the Islamic Principles of Banking and Financing”);

- November 30, 2011 – On Amendments to the Regulations “On Bank Payment Cards in the Kyrgyz Republic”.

In addition, the National Bank adopted the following normative and legal acts, aimed at regulating the activity of the nonbank financial institutions:

- July 27, 2011 – “On Approval of the Regulation “On the Licensing Procedure for the Right to Conduct Exchange Transactions with Foreign Currency Cash”;

- August 1, 2011 – “On the Sale of 100 Percent Share of the Capital of the LLC “FCSDCU” to the Credit Unions”.

- September 29, 2011 – “On Entry into Force of the Regulation “On Approval of the Regulation “On Obligatory Reserve Requirements of the Microfinance Companies Engaged in Accepting Deposits”, approved by the Resolution of the Board No 1/1 as of January 30, 2010”.

- October 31, 2011 – “On Amendments and Addenda to the Interim Rules Regulating the Activities of the Micro-Finance Companies on the Territory of the Kyrgyz Republic, approved by the Resolution of the Board No 4/2 as of February 19, 2003”.

In 2011, the National Bank started work on development of the Bank Code of the Kyrgyz Republic – the codified statutory legal act. It is assumed that the development of the Bank Code will allow:

- analyze all of the accumulated normative database of banking laws and relevant legislation, for the purpose of their mutual consistency and conformity;

- consolidate the good practices of the formed banking system and identify ways of further improvement;

- streamline the hierarchical structure of banking legislation, determine its composition and order of priority;

- clarify the legal status of members of legal banking relationships, define their relationships, as well as the fundamental relationships both within and outside the banking system;

- systematize and harmonize all parts of the banking legislation in order to avoid variant reading, conflicts and contradictions.

#### 6.4. Fulfillment of Financial Advisor Functions

In 2011 the National Bank, as part of fulfillment of function of the Financial Adviser of the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic on the state of affairs at the financial market of the Republic, carried out the following activities:

- regularly informed the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic on implementation of the monetary policy, the status of banking system, the status of the payment system;
- examined the legislations and other normative legal acts and decisions affecting the financial and banking issues, or the scope of authority of the National Bank;
- provided consultations to the Government of the Kyrgyz Republic in preparation and consideration of the draft national budget;
- carried out consultations and provided recommendations to the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic (including ministries and agencies) on the issues of financial and banking systems.

*Informing and provision of analytical materials*

Over the year 2011, the National Bank provided analytical information to the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic. In addition, the information was regularly provided on implementation of the monetary policy by the National Bank and the current situation in the foreign and domestic financial markets. In particular, newsletters were sent to the Government of the Kyrgyz Republic on the results of research on the topic of statistical accounting of foreign trade transactions, as well as on external risks caused by an uncontrolled increase of the debt load in the private sector. Proposals were made on proactive measures to prevent possible risks.

As part of implementation of consultations and development of recommendations for the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic, the Government of the Kyrgyz Republic (including ministries and agencies) on the issues of financial and banking systems, the National Bank provided information on the banking system development trends in the Kyrgyz Republic, on the impact of government spending on inflation, on coordination of the fiscal and monetary policies, on placement of the government securities on the trading floor of the stock exchange, and others.

In total, the National Bank sent more than 200 letters on these issues to the State authorities during the reporting period.

The National Bank conducted expertise of more than 35 Draft Laws, including:

*Expertise of the Draft Laws*

- on providing the state support to legal entities and individuals with permanent residence in the mountainous and remote areas of the Kyrgyz Republic;
- on Amendments to the Civil Code of the Kyrgyz Republic;
- on Amendments and Addenda to the Law of the Kyrgyz Republic “On the Joint Stock Companies”;
- on Amendment to the Law of the Kyrgyz Republic “On Enactment of the Tax Code of the Kyrgyz Republic”;
- on Amendments and Addenda to the Law of the Kyrgyz Republic “On the State Forecast of the Socio-Economic Development of the Kyrgyz Republic”;
- on Amendments and Addenda to the Law of the Kyrgyz Republic “On Protection of Bank Deposits”;
- on Amendments and Addenda to the Law of the Kyrgyz Republic “On the Public and Non-Public Debt of the Kyrgyz Republic”;

- on Amendments to the Law of the Kyrgyz Republic “On Organization of the Insurance in the Kyrgyz Republic”;
- on Amendment to the Law of the Kyrgyz Republic “On Licensing”;
- on the Development Bank of the Kyrgyz Republic;
- on the special legal status of the offshore companies on the territory of the Kyrgyz Republic, and others.

*Expertise  
of the RLA*

In 2011, the National Bank also carried out expert review and developed proposals on more than 70 draft Resolutions of the Government of the Kyrgyz Republic, including:

- on approval of the Action Plan of the Government of the Kyrgyz Republic on further implementation of system reforms to improve the business environment and its practical implementation on the field in the framework of international indexes for 2011-2013;
- on the medium-term forecast of socio-economic development of the Kyrgyz Republic for 2012-2014;
- on approval the State Forecasting System and the Schedule of Forecasting of the socio-economic development of the Kyrgyz Republic;
- on the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on economic policy for 2011;
- on implementation of the Law “On Investment of Funds for Financing the Cumulative Part of the Pension on the State Social Insurance in the Kyrgyz Republic”;
- on establishment of the Committee on the Public Finance Management System Reform;
- on approval of the Action Plan “The Economics and Security” for 2011 in line with implementation of the Program of the Government of the Kyrgyz Republic;
- on the new approaches to implementation of social housing construction in the Kyrgyz Republic;
- on Amendments to the Resolution of the Government of the Kyrgyz Republic “On Criteria of Selection of Commercial Banks for Serving the Financial Flows of the State Budget of the Kyrgyz Republic, the Social Fund of the Kyrgyz Republic, and the Government Enterprises”;
- on approval of the Project “Affordable Credits for Farmers”;
- on measures to support businesses affected by the looting, pillage and fire in June 2010 on the South of the Kyrgyz Republic;
- on reforming the system of State regulation of business activity and improvement of State policy in the sphere of business regulation;
- on approval of the Model Regulation on the Pattern of Crediting Loans Secured by Farmlands, and others.

*Participation in  
development and  
implementation of the  
State Programs*

During 2011, the National Bank took part in the development and implementation of the State Programs and Plans, including:

- Medium-Term Development Program of the Kyrgyz Republic for 2012-2014;
- Action Plan “The Economics and Security” in line with implementation of the Program of the Government of the Kyrgyz Republic for 2011;
- Microfinance Development Strategy for 2011-2015;
- Legislative Work Plan of the Government of the Kyrgyz Republic for 2011, and others.

*Expertise of International  
Agreements*

In the framework of membership of the Kyrgyz Republic in international and intergovernmental organizations during 2011, the National Bank conducted

expertise of the international treaties and agreements affecting the financial and banking systems of the Kyrgyz Republic, including:

- Draft Financing Agreement between the Government of the Kyrgyz Republic and the International Development Association on Economic Recovery Support Operation;
- Draft Minutes of the Expert Meeting on preparation of materials on regard to cross-border lending on the territory of EurAsEC for the Agenda of the 24<sup>th</sup> Meeting of the Council of Governors of the Central (National) Banks of EurAsEC Member States;
- Draft Agreement between the Government of the Kyrgyz Republic and the Eurasian Development Bank (EADB) on the conditions of residence of the EADB on the territory of the Kyrgyz Republic;
- Draft Framework Agreement between the Kyrgyz Republic and the European Investment Bank;
- Draft Financing Agreement between the Government of the Kyrgyz Republic and the European Union “Sector Policy Support Programme, Social Protection and Public Finance Management in the Kyrgyz Republic- 2010”;
- Draft Agreement on Debt Remission between the Governments of Turkey and the Kyrgyz Republic;
- Framework Agreement “On the Activity of the European Investment Bank in the Kyrgyz Republic” between the Kyrgyz Republic and the European Investment Bank;
- Draft Agreement on Promotion and Protection of Investments between the Kyrgyz Republic and the Belgian-Luxemburg Economic Union, the Government of the Republic of Austria, the Government of the Czech Republic, the Government of the Republic of Hungary, the Kingdom of Morocco, the Government of the Republic of Italy;
- Draft Agreement on the basic policy principles in the sphere of currency regulation and currency control in the CIS Member States, and others.

As a financial Agent of the Government of the Kyrgyz Republic, the National Bank continued the work on servicing the accounts of the Government of the Kyrgyz Republic related to the servicing of foreign debt of the Government of the Kyrgyz Republic, payments of shared contributions and membership fees to international organizations, where the Kyrgyz Republic has a membership, and carried out the opening, maintenance and closing of accounts for the Government of the Kyrgyz Republic in the National Bank.

In addition, the National Bank acted as the Agent on placement and servicing of issues of government securities of the Government of the Kyrgyz Republic (GT-Bills and GT-Bonds).

### **6.5. Internal Audit and Internal Control System**

Audits and revision inspections in 2011 were carried out in accordance with the plan approved by the Audit Committee of the National Bank for the period 2009-2011. In 2011, a special attention was paid to the audit of the information systems of the National Bank.

The Internal Audit Service, represented in the National Bank by the Department of Internal Audit, carries out a holistic assessment of the effectiveness of internal control system in accordance with the Policy requirements. Organization of the internal control system in the NBKR complies with the principles of the Internal Control Systems, recommended by the Basel Committee on Banking

Supervision and is a continuous process aimed at achieving the goal of the NBKR and the observance of the established rules.

Following the inspections, the internal auditors and controllers issued relevant recommendations for improvement of the internal control system and minimization of the risks, specific to activities of the structural subdivisions and subsidiary organizations; submitted independent information to the Management of the National Bank on the conformity of activities of the subdivisions to the objectives and functions assigned to them; and reported on the revealed violations and problem areas of activity.

An independent audit of the National Bank for 2011 was conducted by the audit organization LLC “KPMG Bishkek”, selected based on tender for the external audit of the National Bank for 2011 and approved by the Jogorku Kenesh of the Kyrgyz Republic in accordance with the Legislation of the Kyrgyz Republic. Based on the external audit outcomes the Activity Plan on implementation of the recommendations was developed and approved by the Board of the National Bank, with the obligatory performance by the respective structural subdivisions.

The work on improving the methodological basis of the department was continued and finalized by the approval of new procedures for planning the internal audit process to ensure compliance of internal audits and consultancy services to the International professional standards of internal audit and international best practice in this area.

International Monetary Fund carried out regular assessment of the safeguard mechanisms of the National Bank within the framework of the Central Banks Safeguard Mechanisms Assessment Program (IMF Safeguard Assessment). The conclusions have been provided on the mechanism of external audit, legal status and independence, financial reporting, internal audit, and internal control system. Based on the results of assessment the recommendations were provided, according to which the Board of the National Bank approved the Activity Plan on improvement of the control and risk reduction systems.

As part of interaction with the Audit Committee of the National Bank, the Internal Audit Department organized and held the Meetings of the Committee.

The Audit Committee is represented by three members, two of which are independent Experts not connected with the activities of the National Bank, and one is a member of the Board of the National Bank.

Activities of the Audit Committee in accordance with its basic functions was to assess the independence of activity of external auditors, the quality of financial reporting of the National Bank, and the appropriate organization of the internal control system.

In 2011, eight Meetings of the Audit Committee were held, where the issues were considered and decisions were made within its competence in accordance with the assigned tasks and functions. The Audit Committee has heard the report of the Internal Audit Department on the results of 2011, considered and approved its Work Plan for 2012-2014, the internal normative documents on the internal audit methodology. Special attention was paid to the issues of security of computer and software systems and development of measures to ensure the operability of the systems in emergencies.

The Audit Committee analyzed the work concerning assessment of the external activity, internal audit, and internal control system of the National Bank and the recommendations were given to the Board of the National Bank on improvement of operations and minimization of risks.

*Assessment  
of safeguard  
mechanisms of the  
NBKR*

*Audit Committee*

In order to minimize the risks associated with the activities of the National Bank, the Committee on Risks continued its work in 2011 and held 11 Meetings. In accordance with the Risk Management Strategy and Risk Management Policy, the approaches to creation of an incidents database and summary risk map of the National Bank were improved. Based on the risk maps of the structural subdivisions of the National Bank, the Risk Reference Book and the List of Control Measures were developed and approved, which allowed bringing together information on the risk events of various structural subdivisions into a common database. The Committee on Risks on a quarterly basis analyzed the maps of risk events, which may lead to operational risks. Following this work, recommendations were provided to the respective structural subdivisions of the National Bank on minimization of risks with ultimate aim of improving the effectiveness of the activity of the National Bank.

*Committee on Risks*

In order to use the best practices of the internal audit organization, cooperation between the Internal Audit Services of the Central Banks is in progress on a continuing basis, in the framework of Training Sessions held at the Training Centers of the Central Banks of the European Union and the EurAsEC Member States.

*Cooperation to gain experience*

## 6.6. Public Information

In the reporting year, the National Bank continued to inform the wide public about activities of the Central Bank, on the monetary policy pursued by the Bank and clarify the processes occurring in the financial and banking sectors of the Republic. Public information was provided by issuing the official publications, posting information on the official website of the NBKR, through publications in the mass media, organization of television and radio programs, organization of briefings and press conferences, as well as organization of information and educational activities.

*Information and explanatory activity of the NBKR*

In the reporting year, the National Bank continued to hold press conferences on the outcomes of monetary policy with participation of the Management of the National Bank. The regular press conferences also were held in order to explain the situation in banking sector of the Republic, during which the answers were given to the questions about inflation, the measures have been taken by the National Bank to control the growth of the general price level, exchange rate fluctuations of foreign currencies, and the status of the banking system. Interviews with the National Bank Management, special news reports on the situation on the foreign exchange and financial markets, the state of banking system and individual commercial banks, as well as explanations on the exchange rate issues were regularly posted on newspapers, websites of the news agencies and the NBKR.

In 2011, the National Bank promptly informed the public about the measures taken to safeguard the stability of the banking system, on the situation on financial markets of the Republic, the ongoing monetary policy, on the main macroeconomic indicators and the status of gold and foreign currency reserves of the National Bank. In addition, information was posted on the implementation of measures to introduce the noncash payment system, including a new way to pay for utility services and telecommunications services - direct debiting. An article was published on the benefits and the stages of using direct debiting of the bank account for payment for utility services, and a the list of utility companies, whose services can be paid by this method was provided.

In the print media in order to raise awareness of business community on the need to obtain a license for conducting currency exchange operations with

*Activity of nonbank financial institutions*

foreign currency cash and reduce the facts of unlicensed activity, the articles were published on Kyrgyz and Russian in Republican and Oblast newspapers. Experts of the NBKR took part in the TV programs “Natsbank Soobshaet ...” (The National Bank Informs...). On a continuing basis the information on registration, withdrawal and suspension of licenses, as well as other news of non-bank financial institutions were published in the Press releases with their subsequent placement on the Website of the National Bank.

In July of 2011, the Central Asian Summit on Micro-Financing was held with participation of the President of the Kyrgyz Republic. The Summit became a platform for professional discussion of issues in the microfinance sector between investors, donors, and leading experts of the governmental, micro-financial and civil sectors from Azerbaijan, Kazakhstan, Kyrgyzstan, Russian Federation, USA, Tajikistan and Europe. The prospects of microfinance sector development in the Central Asian region and, in particular, in the Kyrgyz Republic, were also discussed. The Summit’s participants developed proposals, which were incorporated into the Microfinance Development Strategy for 2011-2015.

*Collection coins*

In view of introduction into circulation of the four types of numismatic collection coins dedicated to the 20th anniversary of independence of the Kyrgyz Republic, and issuance of collection silver coins in the framework of international program of the EurAsEC countries on issue and sale of collection coins made of precious metals, presentations thereof were held with participation of the mass media and articles were posted on the website of the National Bank of the Kyrgyz Republic.

During the year, following requests made by the representatives of the mass media, the National Bank clarified the situation on the problematic banks and trials associated with them, held an interview on the topics of introduction of new collection coins and prospects of the microfinance sector development. The written answers were prepared, interviews, press conferences and briefings were organized.

*Public Chamber  
Activity*

In 2011, the work was continued on sustaining interaction between the National Bank and the population within the framework of the Public Chamber activity, which operated in Bishkek and in each Oblast management and representation of the NBKR. The activities of the Public Chamber focused on providing consultations and information to the public on all matters within the competence of the NBKR; on organization of meetings with the Management and Experts of the Bank on issues relating to the banking sector; on work with the written applications and appeals. In total during 2011, the National Bank has received 1,546 written requests from the citizens. The included:

- 737 inquiries from citizens on how to get information on the correlation between exchange rates relative to Kyrgyz Som and discount rate of the National Bank;
- 320 applications from citizens about problem loans in commercial banks of the Kyrgyz Republic;
- 159 applications from citizens with respect to problem loans in microcredit organizations of the Kyrgyz Republic;
- 103 appeals on the procedure of exchange of worn-out banknotes and the protective features of the national currency;
- 227 other issues.

For all questions raised, the answers were provided in a timely manner.

During the whole reporting period, explanatory work was carried out among the borrowers of commercial banks and microcredit organizations. In addition, the meetings were organized between the Management of the National Bank and the

borrowers of commercial banks and micro-credit organizations to discuss the issues on restructuring of the loans.

Traditionally, together with the Association of Legal Entities “The Union of Banks of Kyrgyzstan”, the annual Round Table was organized with participation of the Heads of commercial banks and government agencies. During the Round Table the issues related to problems of financial institutions were discussed. The issues on improvement of legislation regulating the activities of financial institutions, as well as Draft Laws “On Amendments and Addenda to the Law “On Banks and Banking Activity”, “On Amendments and Addenda to the Law “On Microfinance Organizations”, and “On Transaction in Foreign Currency”, were considered. In addition, the issues on improving effectiveness of measures on combating financing of terrorism and anti-money laundering, on interaction of commercial banks with the Republican Encashment Management, and the Senior Management of the State Specialized Security Service of the Ministry of Interior Affairs of the Kyrgyz Republic were discussed. The issues on the development of leasing in the Kyrgyz Republic have also been discussed in detail.

*Round table with the heads of commercial banks*

The joint work in the framework of the Round Table is a continuation of cooperation on the development of statutory acts on activities of the bank and nonbank financial sectors.

During the year, the National Bank has continued holding informational introductory Workshops on “The Role and Functions of the National Bank” in order to increase public awareness about the monetary policy of the National Bank, explaining the objectives and functions of the Central Bank, as well as on the situation in the financial and banking sectors of the Republic . These Workshops were attended by students of economic faculties of higher educational institutions and mass media representatives.

*Workshop “Role and Functions of the NBKR”*

In 2011, the National Bank continued to regularly produce TV programs “Natsbank Soobshaet...” (The National Bank Informs...) and Radio Program “Uluttuk Bank Bildiret” (The National Bank Informs...) highlighting the major developments in the NBKR and the banking sector of the Republic. During the reporting period in TV and Radio programs such topics as “New collection coins of the NBKR”, “Analysis of counterfeiting in 2011”, “On Non-Cash Payments in the Kyrgyz Republic”, “On Protective Properties of the National Currency Banknotes”, “Domestic Foreign Exchange Market Trends”, “Licensing of Exchange Offices”, “Banking System Development Trends”, and others were covered.

*TV and Radio Programs “Natsbank Soobshaet...”*

Official website of the National Bank is an important tool to inform the public, promptly providing equal access to information to all its external users. In 2011, the work has been continued on creation of new sections and subsections of the website. Maintenance, updating and informational development of the NBKR’ website is carried out in three languages: Kyrgyz, Russian, and English.

*Website of the NBKR*



# III

**CONSOLIDATED  
FINANCIAL STATEMENTS  
OF THE NATIONAL BANK  
OF THE KYRGYZ REPUBLIC  
FOR THE YEAR ENDED  
31 DECEMBER 2011**

## Contents

	pages
7.1. Independent Auditors' Report .....	1 (93)
7.2. Consolidated Statement of Financial Position as at 31 December 2011 .....	3 (94)
7.3. Consolidated Income Statement for the year ended 31 December 2011 .....	4 (96)
7.4. Consolidated Statement of Comprehensive Income for the year ended 31 December 2011 .....	5 (97)
7.5. Consolidated Statement of Cash Flows for the year ended 31 December 2011 .....	6 (98)
7.6. Consolidated Statement of Changes in Equity for the year ended 31 December 2011 .....	8 (100)
7.7. Notes to the Consolidated Financial Statements for the year ended 31 December 2011 .....	10 (102)



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## Independent Auditors' Report

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 2011, the consolidated income statements, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *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 requirements of the Law of Kyrgyz Republic "On the National Bank of the Kyrgyz Republic", and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *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 about 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.

KPMG Bishkek LLC, a company incorporated under the Laws of Kyrgyz Republic, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in Note 2, which was established by management in order to satisfy the requirements of the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic".

*Other Matter*

The consolidated financial statements of the National Bank as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 31 March 2011 expressed unmodified opinion on those statements.

**KPMG Bishkek LLC**

28 March 2012

*7.2. National Bank of the Kyrgyz Republic  
Consolidated Statement of Financial Position as at 31 December 2011*

	Note	2011 KGS'000	2010 KGS'000
<b>ASSETS</b>			
Precious metals	4	6,140,237	5,500,912
Due from banks and other financial institutions	5	57,975,624	59,399,711
Amounts receivable from contracts of purchase and resale of securities		-	200,193
Loans extended	6	1,324,781	823,963
Investments available-for-sale	7	20,688,268	15,572,974
Investments held-to-maturity	8	2,913,864	3,456,074
Investments held-to-maturity, pledged under repurchase agreements	8	207,252	70,793
Property and equipment	9	556,268	526,437
Intangible assets	10	2,552	6,707
Other assets	11	1,034,223	994,451
<b>Total assets</b>		<b>90,843,069</b>	<b>86,552,215</b>
<b>LIABILITIES</b>			
Banknotes and coins in circulation	12	49,866,936	43,290,296
Due to banks and other financial institutions	13	5,606,284	5,612,963
Due to the Government of the Kyrgyz Republic	14	6,492,329	7,246,698
Amounts payable under agreement of sale and repurchase of securities		207,410	70,806
Debt securities issued	15	1,359,219	667,860
Loans received	16	5,590,609	6,803,926
Liabilities to the IMF in respect of SDR allocations	17	6,030,055	6,096,568
Other liabilities	18	94,096	139,185
<b>Total liabilities</b>		<b>75,246,938</b>	<b>69,928,302</b>
<b>EQUITY</b>			
Charter capital	19	1,000,000	1,000,000
Obligatory reserve		2,278,165	1,805,025
Revaluation reserve for investments available-for-sale		57,047	1,123
Precious metal and foreign currency revaluation reserve		10,009,818	12,200,552
Retained earnings		2,251,101	1,617,213
<b>Total equity</b>		<b>15,596,131</b>	<b>16,623,913</b>
<b>Total liabilities and equity</b>		<b>90,843,069</b>	<b>86,552,215</b>

Asankojoeva Z.M.  
Governor

28 March 2012

Bishkek  
Kyrgyz Republic

Aidarkulov Sh.A.  
Chief Accountant

28 March 2012

Bishkek  
Kyrgyz Republic

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

7.3. National Bank of the Kyrgyz Republic  
Consolidated Income Statement for the year ended 31 December 2011

	Note	2011 KGS'000	2010 KGS'000
Interest income	20	1,371,738	944,288
Interest expense	20	(270,268)	(75,427)
<b>Net interest income</b>		<b>1,101,470</b>	<b>868,861</b>
Fee and commission income		13,168	11,672
Fee and commission expense		(1,111)	(740)
<b>Net fee and commission income</b>		<b>12,057</b>	<b>10,932</b>
Recoveries of/(provision for) impairment	21	36,027	(45,479)
Net gain on precious metals and foreign currencies operations	22	1,650,096	1,354,237
Other income		89,110	18,369
<b>Net non-interest income</b>		<b>1,775,233</b>	<b>1,327,127</b>
<b>Operating income</b>		<b>2,888,760</b>	<b>2,206,920</b>
Banknotes and coins production expenses		(194,403)	(174,279)
Administrative expenses	23	(459,479)	(410,428)
Other expenses		(23,857)	(8,811)
<b>Operating expenses</b>		<b>(677,739)</b>	<b>(593,518)</b>
<b>Profit for the year</b>		<b>2,211,021</b>	<b>1,613,402</b>

Asankojoeva Z.M.  
Governor

28 March 2012

Bishkek  
Kyrgyz Republic

Aidarkulov Sh.A.  
Chief Accountant

28 March 2012

Bishkek  
Kyrgyz Republic

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

*7.4. National Bank of the Kyrgyz Republic  
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011*

	<b>2011</b> <b>KGS'000</b>	<b>2010</b> <b>KGS'000</b>
<b>Profit for the year</b>	<b>2,211,021</b>	<b>1,613,402</b>
<b>Other comprehensive income</b>		
Revaluation reserve for foreign currency and precious metals:		
- Net (loss)/gain on foreign currency and precious metals	(675,650)	4,808,756
- Net gain on foreign currency and precious metals transferred to profit or loss	(1,515,084)	(1,323,545)
Net gain/(loss) on investments available-for-sale	55,924	(755)
<b>Other comprehensive income for the year</b>	<b>(2,134,810)</b>	<b>3,484,456</b>
<b>Total comprehensive income for the year</b>	<b>76,211</b>	<b>5,097,858</b>

\_\_\_\_\_  
Asankojoeva Z.M.  
*Governor*

28 March 2012

Bishkek  
Kyrgyz Republic

\_\_\_\_\_  
Aidarkulov Sh.A.  
*Chief Accountant*

28 March 2012

Bishkek  
Kyrgyz Republic

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

*7.5. National Bank of the Kyrgyz Republic  
Consolidated Statement of Cash Flows for the year ended 31 December 2011*

	<b>2011</b>	<b>2010</b>
	<b>KGS'000</b>	<b>KGS'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and fee and commission received	958,650	691,010
Interest and fee and commission payments	(178,115)	(32,072)
Realized gain on foreign exchange operations	135,012	30,695
Other income	43,664	11,884
Payroll expenses	(261,483)	(234,061)
Administrative expenses	(356,809)	(339,911)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>340,919</b>	<b>127,545</b>
<b>(Increase)/decrease in operating assets</b>		
Precious metals	(63,663)	-
Due from banks and other financial institutions	3,631,723	(3,812,319)
Investments available-for-sale	(5,605,179)	6,917,388
Loans extended	(499,493)	(760,048)
Amounts receivable from the contracts of purchase and resale of securities	200,000	(200,000)
Other assets	(28,622)	(89,532)
<b>Increase/(decrease) in operating liabilities</b>		
Banknotes and coins in circulation	6,576,640	7,551,608
Due to banks and other financial institutions	2,590	(3,265,046)
Accounts of the Government of the Kyrgyz Republic	(955,857)	3,147,947
Debt securities issued/(redeemed) in the normal course of business	686,237	(391,963)
Amounts payable under agreements of sale and repurchase of securities	136,046	70,790
Other liabilities	(40,451)	49,149
<b>Net cash provided from operating activities</b>	<b>4,380,890</b>	<b>9,345,519</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

*7.5. National Bank of the Kyrgyz Republic  
Consolidated Statement of Cash Flows for the year ended 31 December 2011*

	<b>2011</b>	<b>2010</b>
	<b>KGS'000</b>	<b>KGS'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, equipment and intangible assets	(93,639)	(89,971)
Proceeds on redemption of investments held-to-maturity	578,940	164,352
Proceeds from disposal of unconsolidated subsidiary	45,755	-
Purchase of investments held-to-maturity	(800,000)	-
Interest received on investments held-to-maturity	153,257	122,414
Dividends received	-	6,792
<b>Cash flows (used in)/from investing activities</b>	<b>(115,687)</b>	<b>203,587</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	9,418	-
Repayment of loans	(1,176,809)	(1,062,323)
<b>Cash flows used in financing activities</b>	<b>(1,167,391)</b>	<b>(1,062,323)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,097,812</b>	<b>8,486,783</b>
Effect of changes in exchange rates on cash and cash equivalents	(382,896)	1,908,100
Cash and cash equivalents as at the beginning of the year	26,104,458	15,709,575
<b>Cash and cash equivalents as at the end of the year (Note 5)</b>	<b>28,819,374</b>	<b>26,104,458</b>

Asankojoeva Z.M.  
*Governor*

28 March 2012

Bishkek  
Kyrgyz Republic

Aidarkulov Sh.A.  
*Chief Accountant*

28 March 2012

Bishkek  
Kyrgyz Republic

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

7.6. National Bank of the Kyrgyz Republic  
Consolidated Statement of Changes in Equity for the year ended 31 December 2011

KGS'000	Charter capital	Obligatory reserve	Revaluation reserve for investments available-for-sale	Precious metal and foreign currency revaluation reserve	Retained earnings	Total
Balance as at 1 January 2010	300,000	1,614,322	1,878	8,715,341	720,487	11,352,028
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	1,613,402	1,613,402
<b>Other comprehensive income</b>						
Net loss on investments available-for-sale	-	-	(755)	-	-	(755)
Net gain on foreign currencies and precious metals	-	-	-	4,808,756	-	4,808,756
Net gain on foreign currencies and precious metals transferred to profit or loss	-	-	-	(1,323,545)	-	(1,323,545)
<b>Total other comprehensive income</b>	-	-	(755)	3,485,211	-	3,484,456
<b>Total comprehensive income for the year</b>	-	-	(755)	3,485,211	1,613,402	5,097,858
<b>Transactions recorded directly in equity</b>						
Increase in charter capital	619,000	-	-	-	-	619,000
Transfer of retained earnings to charter capital	81,000	-	-	-	(81,000)	-
Distribution of prior year profit to the state budget	-	-	-	-	(444,973)	(444,973)
Transfer to obligatory reserve	-	190,703	-	-	(190,703)	-
<b>Total</b>	<b>700,000</b>	<b>190,703</b>	<b>-</b>	<b>-</b>	<b>(716,676)</b>	<b>174,027</b>
<b>Balance as at 31 December 2010</b>	<b>1,000,000</b>	<b>1,805,025</b>	<b>1,123</b>	<b>12,200,552</b>	<b>1,617,213</b>	<b>16,623,913</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

7.6. National Bank of the Kyrgyz Republic  
Consolidated Statement of Changes in Equity for the year ended 31 December 2011

KGS'000	Charter capital	Obligatory reserve	Revaluation reserve for investments available-for-sale	Precious metal and foreign currency revaluation reserve	Retained earnings	Total
Balance as at 1 January 2011	1,000,000	1,805,025	1,123	12,200,552	1,617,213	16,623,913
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	2,211,021	2,211,021
<b>Other comprehensive income</b>						
Net gain on investments available-for-sale	-	-	55,924	-	-	55,924
Net loss on foreign currencies and precious metals	-	-	-	(675,650)	-	(675,650)
Net gain on foreign currencies and precious metals transferred to profit or loss	-	-	-	(1,515,084)	-	(1,515,084)
<b>Total other comprehensive income</b>	-	-	<b>55,924</b>	<b>(2,190,734)</b>	-	<b>(2,134,810)</b>
<b>Total comprehensive income for the year</b>	-	-	<b>55,924</b>	<b>(2,190,734)</b>	<b>2,211,021</b>	<b>76,211</b>
<b>Transactions recorded directly in equity</b>						
Distribution of prior year profit to the state budget	-	-	-	-	(1,103,993)	(1,103,993)
Transfer to obligatory reserve	-	473,140	-	-	(473,140)	-
<b>Total</b>	-	<b>473,140</b>	-	-	<b>(1,577,133)</b>	<b>(1,103,993)</b>
<b>Balance as at 31 December 2011</b>	<b>1,000,000</b>	<b>2,278,165</b>	<b>57,047</b>	<b>10,009,818</b>	<b>2,251,101</b>	<b>15,596,131</b>

Asankoioeva Z.M.  
Governor

28 March 2012  
Bishkek  
Kyrgyz Republic

Aidarkulov Sh.A.  
Chief Accountant

28 March 2012  
Bishkek  
Kyrgyz Republic

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

*7.7. National Bank of the Kyrgyz Republic**Notes to the Consolidated Financial Statements for the year ended 31 December 2011***1 Background****(a) Organisation and operations**

These consolidated financial statements include the financial statements of the National Bank of Kyrgyz Republic (the “NBKR”) and its subsidiary Specialised Fund for Banks Refinancing LLC (together referred to as the “National Bank”).

The National Bank of the Kyrgyz Republic 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”, which regulates the activities of the National Bank at the current moment, with all amendments and addendums.

The primary role of the NBKR is ensuring price stability in Kyrgyz Republic. To accomplish the main goal, the functions of the National Bank are the following: determine and carry out monetary policy of the country; promote effective development of the settlement and interbank payment system; issue banknotes and coins for circulation; manage international foreign exchange reserves; regulate and supervise commercial banks; license banking and other financial and lending activities; act as an agent of the Government of the Kyrgyz Republic.

The address of the NBKR’s registered office is 101 Umetaliyev Street, Bishkek, Kyrgyz Republic, 720040.

As at 31 December 2011 and 2010 the NBKR has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2011 and 2010 the number of the National Bank’s employees is 565 and 570, respectively. The NBKR is the 100% shareholder of Specialised Fund for Banks Refinancing LLC. Besides, the NBKR controls Republic Administration of Money Collection State Enterprise.

The financial statements of Financial Company for Support and Development of Credit Unions LLC and Republic Administration of Money Collection State Enterprise are not consolidated in the financial statements of the National Bank for the years ended 31 December 2011 and 2010 and the impact of non-consolidation of these subsidiaries are not material.

The financial statements of Specialised Fund for Banks Refinancing LLC are consolidated into these consolidated financial statements.

These consolidated financial statements were authorised for issue by the Management Board of the NBKR on 28 March 2012.

**(b) Business environment**

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 the still unstable situation on capital markets and slowdown of economic growth in other countries.

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 or if they become known and estimable.

## 2 Basis of preparation

### (a) Statement of compliance

In accordance with the Law of the Kyrgyz Republic “On National Bank of the Kyrgyz Republic” the National Bank determines policies and methods of accounting for itself based on International Financial Reporting Standards (“IFRS”), with certain modifications as described below.

These consolidated financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Management Board of the National Bank on 10 December 2003 with all amendments last of which was made on 31 March 2010 and which the National Bank considers to be appropriate to the nature of central bank activities. In accordance with the Law of the Kyrgyz Republic “On National Bank of the Kyrgyz Republic” the National Bank determines policies and methods of accounting for itself based on International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) except for a modification required by the legislation of the Kyrgyz Republic as 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 recognised directly in equity. The total net unrealised loss from the mark to market of gold and silver and foreign currency assets and liabilities revaluation is recognised in the consolidated income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised as other comprehensive income directly in equity. At the time of derecognition of precious metals and foreign currency assets and liabilities, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement.

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that precious metals, financial instruments at fair value through profit or loss and investments available-for-sale are stated at fair value.

### (c) Functional and presentation currency

The functional currency of the National Bank is the Kyrgyz Som (KGS) as, being the national currency of the Kyrgyz Republic, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KGS is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in KGS is rounded to the nearest thousand.

### (d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the Notes 5 and 6 –impairment estimates on term deposits and loans issued to local commercial banks.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

**(a) Basis of consolidation**

Subsidiaries, which are those entities in which the National Bank has power to exercise control over their operations, are consolidated except for subsidiaries listed in Note 2(a). 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 unrealised gains on transactions between group companies are eliminated; unrealised 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.

**(b) Precious metals**

Precious metals in the consolidated financial statements are recorded at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gain on revaluation of gold are recorded directly on consolidated accounts of other comprehensive income. Losses resulting from revaluation are recognised in the consolidated income statement in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gains and losses on gold are recorded in the consolidated income statement.

**(c) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currency of the National Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Gain on foreign currency differences arising on retranslation are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in the consolidated income statement in the amount exceeding previously accumulated gains on accounts of other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realised gains and losses on foreign currencies are recorded in the consolidated income statement.

**Rates of exchange**

The exchange rates used by the National Bank in the preparation of the consolidated financial statements as at 31 December 2011 and 2010 are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
- Som/US Dollar	46.4847	47.0992
- Som/Euro	60.0652	61.7949
- Som/Special drawing rights	71.1402	71.9011
- Som/Canadian Dollar	45.5353	46.6435
- Som/Australian Dollar	47.1936	47.2353
- Som/Swiss Franc	49.3678	48.8843
- Som/Great British Pound Sterling	71.6585	72.6077

**3 Significant accounting policies, continued****(d) 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 cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with other banks.

**(e) Financial instruments**

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The National Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value) are reported as assets. All trading derivatives in a net payable position (negative fair value) are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the National Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies, continued****(e) Financial instruments, continued**

*Investments held-to-maturity* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the National Bank has the positive intention and ability to hold to maturity, other than those that:

- the National Bank upon initial recognition designates as at fair value through profit or loss;
- the National Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

*Investments available-for-sale* are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

**(i) Recognition**

Financial assets and liabilities are recognised in the consolidated statement of financial position when the National Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

**(ii) Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

**(iii) Fair value measurement principles**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the National Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

**3 Significant accounting policies, continued****(e) Financial instruments, continued****(iii) Fair value measurement principles, continued**

If a market for a financial instrument is not active, the National Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the National Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

**(iv) Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in the consolidated income statement using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies, continued****(e) Financial instruments, continued****(v) Derecognition**

The National Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the National Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The National Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the National Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the National Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the National Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The National Bank writes off assets deemed to be uncollectible.

**(vi) Amounts receivable from contracts of purchase and resale of securities and amounts payable under agreement of sale and repurchase of securities**

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability accounted for as amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in the consolidated income statement over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in the consolidated income statement over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

**(vii) Derivative financial instruments**

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

**3 Significant accounting policies, continued****(e) Financial instruments, continued****(vii) Derivative financial instruments, continued**

Changes in the fair value of derivatives are recognised immediately in the consolidated income statement.

**(viii) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(f) Property and equipment****(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

**(ii) Depreciation**

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	50 years;
- Constructions	20 years;
- Furniture and equipment	5 years;
- Computer equipment	3 to 5 years;
- Motor vehicles	5 years.

**(g) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 years.

**(h) Impairment****(i) Financial assets carried at amortised cost**

Financial assets carried at amortised cost consist principally of loans, investments held-to-maturity and other receivables (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies, continued****(h) Impairment, continued****(i) Financial assets carried at amortised cost, continued**

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the National Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The National Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the National Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the National Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The National Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

**(ii) Financial assets carried at cost**

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the consolidated income statement and cannot be reversed.

**3 Significant accounting policies, continued****(h) Impairment, continued****(iii) Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed, with the amount of the reversal recognised in the consolidated income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(iv) Non financial assets**

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Banknotes and coins in circulation**

Banknotes and coins are recorded in the consolidated statement of financial position at their nominal value.

Banknotes and coins in circulation are recorded as a liability when cash is issued by the National Bank to commercial banks. Banknote and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense includes expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon issuance them to circulation and recorded as a separate item in the consolidated income statement.

**(j) 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 recognised at cost.

Obligatory reserve has been created through the capitalisation of net profit upon its distribution to the state budget. Obligatory reserve is recognised at cost.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies, continued****(k) Taxation**

In accordance with legislation of the Kyrgyz Republic, the NBKR is exempt from income tax. All other compulsory payments to the budget, which are assessed on the National Bank's activities, are accrued and paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as a tax agent and which are not recoverable are included as a component of administrative expenses in the consolidated income statement.

Subsidiaries of the National Bank are subject to all taxes.

**(l) Income and expense recognition**

Interest income and expense are recognised in the consolidated income statement as they accrue, using the effective interest method. The effective interest method is a method of calculating of the amortised cost of a financial asset or a financial liability and allocating of 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 recognised using the rate of interest used to discount the future cash flows.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fee and commission income is recognised in the consolidated income statement when the corresponding service is provided.

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received, if any are recognised as an integral part of the total lease expense, over the term of the lease.

**(m) Fiduciary assets**

The National Bank provides agency services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank.

**(n) Comparative information*****Prior period reclassification***

During the preparation of the National Bank's financial statements for the year ended 31 December 2011, management made certain reclassification affecting the 2010 corresponding figures to conform to the presentation of the financial statements for the year ended 31 December 2011, in particular in the statement of financial position as at 31 December 2010, liabilities to the IMF in respect of SDR allocations of KGS 6,096,568 thousand were presented together with other loans received. During 2011 the National Bank reconsidered the presentation of the above balances, and decided to present it separately as these amounts are not loans by their nature but an unconditional distribution of SDR amounts to IMF members by decision of the IMF.

The above reclassifications do not impact the net results for the year or equity.

Management has considered the requirement, in the case of changes in classifications to provide three statements of financial position and related notes, and determined that the changes in classifications do not impact the net financial position.

### 3 Significant accounting policies, continued

#### (o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the consolidated financial position and performance. The National Bank plans to adopt these pronouncements when they become effective. The National Bank has not yet analyzed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The National Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on National Bank's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The National Bank does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**3 Significant accounting policies, continued****(o) New standards and interpretations not yet adopted, continued**

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The National Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

**4 Precious metals**

	<b>2011</b>	<b>2010</b>
	<b>KGS'000</b>	<b>KGS'000</b>
<b>Gold and other precious metals in accounts with foreign banks</b>		
Gold in deposits	6,081,433	5,500,385
Silver in deposits	477	527
	<b>6,081,910</b>	<b>5,500,912</b>
<b>Gold bullion in the National Bank depository</b>	58,327	-
	<b>6,140,237</b>	<b>5,500,912</b>

Gold bullion in vaults represents gold with good delivery status.

As at 31 December 2011 the weight of gold amounts to 83,090.86 ounces in gold deposits, 796.91 ounces in gold bullion at the National Bank depository and the weight of silver amounts to 364.06 ounces (2010: weight of gold and silver amounts to 83,089.99 ounces and 364.06 ounces, respectively).

**Concentration of gold and precious metals in accounts with foreign banks**

As at 31 December 2011 the National Bank placed all gold deposits with one bank with AA-rating (31 December 2010: one bank with AA- rating).

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 5 Due from banks and other financial institutions

	2011 KGS'000	2010 KGS'000
<b>Placements with foreign banks and other financial institutions</b>		
<b>Nostro accounts with foreign banks</b>		
- rated AAA	17,537,589	12,750,656
- rated from AA- to AA+	540,342	510,185
- rated from BBB- to BBB+	8,479	8,788
- rated from BB- to BB+	5,586	5,660
- not rated	-	2,587
<b>Total nostro accounts with foreign banks</b>	<b>18,091,996</b>	<b>13,277,876</b>
<b>Term deposits with foreign banks</b>		
- rated from AAA	16,062,655	15,335,705
- rated from AA- to AA+	6,299,012	5,407,022
- not rated	179,712	182,087
<b>Total term deposits with foreign banks</b>	<b>22,541,379</b>	<b>20,924,814</b>
 Accounts with the Bank for International Settlements (BIS)		
- BIS Nostro	2,241,438	4,520,412
- BIS Deposit	7,128,517	12,921,646
Accounts with the International Monetary Fund	8,206,032	8,022,095
<b>Total due from banks and other financial institutions</b>	<b>58,209,362</b>	<b>59,666,843</b>
Impairment allowance	(233,738)	(267,132)
	<b>57,975,624</b>	<b>59,399,711</b>

As at 31 December 2011 and 2010 an impaired overdue term deposit of KGS 179,712 thousand placed with a Central Asian Bank of Cooperation and Development was overdue for more than 360 days, and the National Bank created an impairment reserve for the full outstanding amount.

### Concentration of due from banks and other financial institutions

As at 31 December 2011 the National Bank has balances with eight banks and other financial institutions, (2010: five banks and other financial institutions) rated from AAA to AA- whose amounts exceed 10% of equity: The gross value of these balances as at 31 December 2011 is KGS 54,861,536 thousand (2010: KGS 56,314,355 thousand).

### Cash and cash equivalents

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

	2011 KGS'000	2010 KGS'000
Nostro accounts	18,091,996	13,277,875
Nostro accounts with the Bank for International Settlements	2,241,438	4,520,412
Accounts with the IMF	8,206,032	8,022,095
Cash on hand in foreign currencies	279,908	284,076
<b>Cash and cash equivalents in the consolidated statement of cash flows</b>	<b>28,819,374</b>	<b>26,104,458</b>

None of cash and cash equivalents are impaired or past due.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**6 Loans extended**

	<b>2011</b> <b>KGS'000</b>	<b>2010</b> <b>KGS'000</b>
Unimpaired loans to local commercial banks	1,334,490	831,332
Impaired loans to local commercial banks	415,141	419,659
	<b>1,749,631</b>	<b>1,250,991</b>
Impairment allowance	(424,850)	(427,028)
<b>Net loans</b>	<b>1,324,781</b>	<b>823,963</b>

Loan impairment results from one or more events that occurred after the initial recognition of the loan, have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The National Bank estimates loan impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for loans for which no indications of impairment are identified.

As at 31 December 2011 and 2010 impaired loans represent loans to local commercial banks, which are under special administration since 1999 and are all overdue more than 360 days. The National Bank recognised 100% impairment allowance in respect of these loans and as at 31 December 2011 and 2010 the impairment allowance amounted to KGS 415,141 thousand and KGS 419,659 thousand, respectively.

Impairment charge on loans issued to local commercial banks for the years ended 31 December 2011 and 2010 are disclosed in Note 21.

**Analysis of collateral**

The following table provides information on collateral securing unimpaired loans issued to local commercial banks, by types of collateral as at 31 December, excluding the effect of overcollateralisation.

	<b>2011</b> <b>KGS'000</b>	<b>% of loan</b> <b>portfolio</b>	<b>2010</b> <b>KGS'000</b>	<b>% of loan</b> <b>portfolio</b>
Government securities	733,969	55	415,666	50
Loans to customers	387,002	29	249,400	30
Real estate	146,794	11	133,013	16
Term deposits	66,725	5	33,253	4
	<b>1,334,490</b>	<b>100</b>	<b>831,332</b>	<b>100</b>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. The fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

**Concentration of loans extended**

As at 31 December 2011, the Bank does not have loans to commercial banks, whose balances exceed 10% of equity (2010: none).

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 7 Investments available-for-sale

	2011 KGS'000	2010 KGS'000
<b>Debt instruments</b>		
<b>Government bonds</b>		
Australian Government Treasury bills	12,791,855	9,312,171
German Government Treasury bills	1,190,860	1,543,243
Swiss Government Treasury bills	1,283,563	-
French Government Treasury bills	649,156	-
British Government Treasury bills	-	1,481,475
<b>Total government bonds</b>	<b>15,915,434</b>	<b>12,336,889</b>
<b>Debt securities of international governmental and non-governmental financial institutions</b>		
- rated AAA	4,763,850	3,221,085
<b>Total debt instruments</b>	<b>20,679,284</b>	<b>15,557,974</b>
<b>Equity investments at cost</b>		
Corporate shares	8,984	15,000
	<b>20,688,268</b>	<b>15,572,974</b>

None of investments available-for-sale are impaired or part due.

### Investment without a determinable fair value

Available-for-sale investments stated at cost comprise unquoted equity securities of the subsidiary Financial Company for Support and Development of Credit Unions LLC (Note 1). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry. However, during 2011 additional investments to this subsidiary with a carrying amount of KGS 39,739 thousand were made and later the NBKR credited KGS 45,755 thousand, which reflected disposal of 83.59% of investments in Financial Company for Support and Development of Credit Unions LLC at carrying value to third parties which was registered in March 2012. Accordingly, management believes it unlikely that the fair value at the year end would differ significantly from that carrying amount.

## 8 Investments held-to-maturity

	2011 KGS'000	2010 KGS'000
<b>Held by the Bank</b>		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	2,913,864	3,456,074
<b>Pledged under sale and repurchase agreements</b>		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	207,252	70,793
	<b>3,121,116</b>	<b>3,526,867</b>

As at 31 December 2011 debt securities held to maturity at amortised cost of KGS 207,252 thousand (2010: KGS 70,793 thousand) were pledged under sale and repurchase agreements with three commercial banks (2010: two commercial banks) for periods not exceeding six months.

None of investments held-to-maturity are impaired or past due.

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 9 Property and equipment

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
<i>Cost</i>						
Balance at 1 January 2011	194,925	93,554	137,574	24,462	267,327	717,842
Additions	7,843	47,165	3,288	493	32,102	90,891
Disposals	(1,733)	(18,679)	(56,016)	(4,685)	-	(81,113)
Transfers	1,619	1,845	-	302	(3,766)	-
<b>Balance at 31 December 2011</b>	<b>202,654</b>	<b>123,885</b>	<b>84,846</b>	<b>20,572</b>	<b>295,663</b>	<b>727,620</b>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2011	(43,862)	(46,075)	(87,210)	(14,258)	-	(191,405)
Depreciation for the year	(7,128)	(24,821)	(23,931)	(4,446)	-	(60,326)
Disposals	1,275	18,460	55,959	4,685	-	80,379
<b>Balance at 31 December 2011</b>	<b>(49,715)</b>	<b>(52,436)</b>	<b>(55,182)</b>	<b>(14,019)</b>	<b>-</b>	<b>(171,352)</b>
<i>Carrying amount</i>						
At 31 December 2011	152,939	71,449	29,664	6,553	295,663	556,268

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 9 Property and equipment, continued

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
<i>Cost</i>						
Balance at 1 January 2010	190,766	96,902	142,078	25,697	200,657	656,100
Additions	812	15,813	8,606	2,919	71,164	99,314
Disposals	(29)	(20,279)	(13,110)	(4,154)	-	(37,572)
Transfers	3,376	1,118	-	-	(4,494)	-
<b>At 31 December 2010</b>	<b>194,925</b>	<b>93,554</b>	<b>137,574</b>	<b>24,462</b>	<b>267,327</b>	<b>717,842</b>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2010	36,849	46,948	72,917	13,389	-	170,103
Depreciation for the year	7,042	19,406	27,403	5,023	-	58,874
Disposals	(29)	(20,279)	(13,110)	(4,154)	-	(37,572)
<b>Balance at 31 December 2010</b>	<b>43,862</b>	<b>46,075</b>	<b>87,210</b>	<b>14,258</b>	<b>-</b>	<b>191,405</b>
<i>Carrying amounts</i>						
<b>At 31 December 2010</b>	<b>151,063</b>	<b>47,479</b>	<b>50,364</b>	<b>10,204</b>	<b>267,327</b>	<b>526,437</b>
At 1 January 2010	153,917	49,954	69,161	12,308	200,657	485,997

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2011 (2010: nil).

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**10 Intangible assets**

KGS'000	<u>Intangible assets</u>
<i>Cost</i>	
Balance at 1 January 2011	90,909
Additions	3,238
Disposals	(1,577)
<b>Balance at 31 December 2011</b>	<b><u>92,570</u></b>
<i>Amortisation and impairment losses</i>	
Balance at 1 January 2011	(84,202)
Amortisation for the year	(7,393)
Disposals	1,577
<b>Balance at 31 December 2011</b>	<b><u>(90,018)</u></b>
<i>Carrying amount</i>	
<b>At 31 December 2011</b>	<b><u>2,552</u></b>
Balance at 1 January 2010	91,398
Additions	2
Disposals	(491)
<b>At 31 December 2010</b>	<b><u>90,909</u></b>
<i>Amortisation and impairment losses</i>	
Balance at 1 January 2010	73,286
Amortisation for the year	11,407
Disposals	(491)
<b>Balance at 31 December 2010</b>	<b><u>84,202</u></b>
<i>Carrying amounts</i>	
<b>At 31 December 2010</b>	<b><u>6,707</u></b>
<b>At 1 January 2010</b>	<b><u>18,112</u></b>

**11 Other assets**

	<u>2011</u> <u>KGS'000</u>	<u>2010</u> <u>KGS'000</u>
Cash on hand in foreign currencies	279,908	284,076
Other receivables	195,877	166,865
Derivative financial instruments	-	2,421
Impairment allowance	(38,318)	(38,772)
<b>Total other financial assets</b>	<b><u>437,467</u></b>	<b><u>414,590</u></b>
Inventories	429,345	428,444
Prepayments	151,025	137,026
Other	16,386	14,391
<b>Total other non-financial assets</b>	<b><u>596,756</u></b>	<b><u>579,861</u></b>
	<b><u>1,034,223</u></b>	<b><u>994,451</u></b>

The charges for impairment losses on other assets for the years ended 31 December 2011 and 2010 are disclosed in Note 21.

*7.7. National Bank of the Kyrgyz Republic*  
*Notes to the Consolidated Financial Statements for the year ended 31 December 2011*

## 11 Other assets, continued

As at 31 December 2010 derivative financial instruments represent foreign currency swap contracts with two commercial banks.

	2010	
	Notional amount KGS'000	Fair value of assets KGS'000
Foreign exchange swap contracts	683,510	2,421
	683,510	2,421

## 12 Banknotes and coins in circulation

As at 31 December 2011 and 2010 banknotes and coins in circulation comprise:

	2011 KGS'000	2010 KGS'000
Banknotes and coins in circulation	51,931,005	44,996,956
Less banknotes and coins on hand and in vaults	(2,064,069)	(1,706,660)
	<b>49,866,936</b>	<b>43,290,296</b>

Banknotes and coins in circulation represents the face value of the amount of banknotes and coins in circulation held by the general public and financial institutions.

## 13 Due to banks and other financial institutions

	2011 KGS'000	2010 KGS'000
Current accounts of commercial banks	5,432,513	5,514,241
Current accounts of other financial institutions	173,771	98,722
	<b>5,606,284</b>	<b>5,612,963</b>

As at 31 December 2011 the National Bank has no banks (2010: no banks), whose balances exceed 10% of equity.

## 14 Due to the Government of the Kyrgyz Republic

Due to the Government of the Kyrgyz Republic comprise accounts of the Ministry of Finance of the Kyrgyz Republic.

	2011 KGS'000	2010 KGS'000
In national currency	5,384,743	3,223,443
In foreign currency	1,107,586	4,023,255
	<b>6,492,329</b>	<b>7,246,698</b>

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**15 Debt securities issued**

As at 31 December 2011 debt securities issued comprise the following issues:

<b>Emissions</b>	<b>Carrying amount</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Effective interest rate</b>
BD004120104	216,967	7-Dec-11	4-Jan-12	15.02%
BD004120111	298,738	14-Dec-11	11-Jan-12	15.01%
BD002120104	49,053	21-Dec-11	4-Jan-12	9.17%
BD004120118	297,976	21-Dec-11	18-Jan-12	14.72%
BD002120111	149,634	28-Dec-11	11-Jan-12	8.43%
BD004120125	346,851	28-Dec-11	25-Jan-12	14.11%
	<b>1,359,219</b>			

As at 31 December 2010 debt securities issued comprise the following issues:

<b>Emissions</b>	<b>Carrying amount</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Effective interest rate</b>
BD004110105	28,778	8-Dec-10	5-Jan-11	5.62%
BD004110112	39,029	15-Dec-10	12-Jan-11	5.70%
BD002110105	94,034	22-Dec-10	5-Jan-11	5.23%
BD004110119	59,929	22-Dec-10	19-Jan-11	5.64%
BD001110105	145,912	29-Dec-10	5-Jan-11	4.48%
BD002110112	125,794	29-Dec-10	12-Jan-11	5.10%
BD004110126	174,384	29-Dec-10	26-Jan-11	5.92%
	<b>667,860</b>			

**16 Loans received**

	<b>2011 KGS'000</b>	<b>2010 KGS'000</b>
Loans received from the International Monetary Fund (the "IMF")	5,491,525	6,651,112
Loans received from the Ministry of Finance of the Kyrgyz Republic	72,922	99,815
Loans received from EBRD	26,162	52,999
	<b>5,590,609</b>	<b>6,803,926</b>

As at 31 December 2011 and 2010 terms and conditions of loans received are as follows:

<b>Issuer</b>	<b>CCY</b>	<b>Interest rate</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>2011 KGS'000</b>	<b>2010 KGS'000</b>
IMF, PRGF	SDR	0%	19-Dec-01	30-May-18	3,122,556	4,256,976
IMF, ESF	SDR	0%	24-Dec-08	15-Mar-19	2,368,969	2,394,136
The Ministry of Finance of the Kyrgyz Republic	USD	1.50%	19-Oct-04	15-Jul-13	72,922	99,815
EBRD	USD	Libor 6m+1%	30-Aug-95	9-Oct-12	26,162	52,999
					<b>5,590,609</b>	<b>6,803,926</b>

*7.7. National Bank of the Kyrgyz Republic*  
*Notes to the Consolidated Financial Statements for the year ended 31 December 2011*

## 16 Loans received, continued

Borrowings in relation to the Poverty Reduction and Growth Facility (“PRGF”) are denominated in SDR and are part of the IMF poverty reduction program. The aims of the loans are support of fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility with a grace period on repayments of 5 and a half years. The conditions of PRGF credits are standard for all credit receivers. Under the PRGF borrowings, the National Bank of the Kyrgyz Republic has accepted certain obligations and requirements to meet specific performance criteria and to complete structural reforms in fiscal policy.

Borrowing in relation to the Exogenous Shocks Facility (“ESF”) is denominated in SDR and is given to support Kyrgyzstan authorities in addressing several exogenous shocks, including the rise in commodity prices until mid-2008, a shortfall in hydropower, banking sector difficulties in neighboring Kazakhstan and earthquake in the Nura region. The loan bears 0% interest rate in 2011, 2012, and 0.25% interest rate from 2013. This condition was declared for all recipients of ESF credits around the globe. Under the ESF borrowing, the National Bank of the Kyrgyz Republic has accepted certain obligations and requirements to meet specific performance criteria and to complete certain structural reforms.

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

The loan from the European Bank of Reconstruction and Development (“EBRD”) was issued in 1995 to the National Bank for lending to manufacturing businesses.

During the year ended 31 December 2011 the National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities (2010: nil).

## 17 Liabilities to the IMF in respect of SDR allocations

	2011 KGS'000	2010 KGS'000
Liabilities to the IMF in respect of SDR allocations	6,030,055	6,096,568

SDR allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is cooperative monetary response to the global financial crisis by providing of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, where needed in the face of deflation risks, designed to provide liquidity to the global economic system by supplementing the IMF member countries’ foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas. Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyzstan, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84,737 thousand. In 2011 this right was not utilized. Interest is accrued on the amount that country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**18 Other liabilities**

	<b>2011</b> <b>KGS'000</b>	<b>2010</b> <b>KGS'000</b>
Amounts due to the Central Banks of the CIS	53,597	57,075
Other payables	30,531	27,430
Accumulated account for forming of charter capital of commercial banks	-	40,900
<b>Total other financial liabilities</b>	<b>84,128</b>	<b>125,405</b>
Deferred income	9,968	13,723
Prepayment	-	48
Other	-	9
<b>Total other non-financial liabilities</b>	<b>9,968</b>	<b>13,780</b>
<b>Total other liabilities</b>	<b>94,096</b>	<b>139,185</b>

**19 Charter capital****Issued capital**

As at 31 December 2011 and 31 December 2010 charter capital of the National Bank in accordance with the Law "On the National Bank of the Kyrgyz Republic" amounts to KGS 1,000,000 thousand.

On 17 March 2010 the Government of the Kyrgyz Republic issued Treasury bills in the amount of KGS 619,000 thousand for restructuring of obligations of the Government of the Kyrgyz Republic to the National Bank. Those Treasury bills were used for replenishment of charter capital of the National Bank. The remaining part of charter capital amounting to KGS 81,000 thousand was paid in April 2010 through transfer of profit of 2009.

**Distribution to the state budget and obligatory reserve**

In accordance with the Law "On the National Bank of the Kyrgyz Republic" the National Bank's profit shall be distributable as follows:

- if the amount of the National Bank's charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 70% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank's obligatory reserve;
- if the amount of the National Bank's charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic as well as one third of the excess amount, which shall be paid out of the obligatory reserve but within the balance thereof.

Profit shall be distributed upon the financial year end, once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank.

On 13 April 2011 the net profit earned for 2010 distributable to the state budget of the Kyrgyz Republic was approved in the amount of KGS 1,103,993 thousand (2010: KGS 444,973 thousand), and KGS 473,140 thousand (2010: KGS 190,703 thousand) was transferred to the obligatory reserve.

**Capital management**

The capital of the National Bank comprises the residual value of the National Bank's assets after deduction of all its liabilities.

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 19 Charter capital, continued

### Capital management, continued

The National Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the National Bank and ability to perform its functions. The National Bank considers total capital under management to be equity shown in the consolidated statement of financial position.

No external capital requirements exist for the National Bank, except for the size of the charter capital stipulated by the Law "On the National Bank of the Kyrgyz Republic", which is KGS 1,000,000 thousand.

## 20 Net interest income

	2011 KGS'000	2010 KGS'000
<b>Interest income</b>		
Investments available-for-sale	581,488	409,672
Investments held-to-maturity	342,783	306,398
Due from banks and other financial institutions	330,156	192,108
Loans extended	105,584	29,268
Other	11,727	6,842
	<b>1,371,738</b>	<b>944,288</b>
<b>Interest expense</b>		
Debt securities issued	(126,323)	(10,501)
Due to the Government of the Kyrgyz Republic	(88,510)	(42,189)
Amounts payable under agreement of sale and repurchase of securities	(25,168)	(16)
Liabilities to the IMF in respect of SDR allocations	(24,716)	(17,531)
Other	(5,551)	(5,190)
	<b>(270,268)</b>	<b>(75,427)</b>
	<b>1,101,470</b>	<b>868,861</b>

No interest income was accrued on impaired assets (2010: nil).

## 21 Recoveries of/(provision for) impairment

	2011 KGS'000	2010 KGS'000
Due from banks and other financial institutions	33,395	(14,881)
Loans extended	2,178	(25,978)
Other assets	454	(4,620)
	<b>36,027</b>	<b>(45,479)</b>

## 22 Net gain on precious metals and foreign currencies operations

	2011 KGS'000	2010 KGS'000
Realised gain from operations with foreign currencies and precious metals	1,515,084	1,323,545
Income from spot transactions	135,012	30,692
	<b>1,650,096</b>	<b>1,354,237</b>

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**23 Administrative expenses**

	<b>2011</b>	<b>2010</b>
	<b>KGS'000</b>	<b>KGS'000</b>
<b>Personnel expenses</b>		
Employee compensation	225,709	197,383
Payments to the Social fund	38,628	34,634
	<b>264,337</b>	<b>232,017</b>
Depreciation and amortization	67,719	70,281
Repairs and maintenance	42,477	37,426
Security	26,687	22,349
Professional services	11,391	7,866
Communications and information services	8,457	9,466
Staff training	6,997	5,675
Publication and subscription	6,194	5,470
Expenses for social and cultural events	5,497	4,851
Travel expenses	5,102	4,708
Office supplies and stationery	4,755	2,953
Other	9,866	7,366
	<b>459,479</b>	<b>410,428</b>

**24 Analysis by segment**

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

**25 Risk management**

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

**(a) Risk management policies and procedures**

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The management of the National Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the National Bank's counterparties.

In accordance with Investment Strategy on International Reserve Management of the NBKR ("the Investment Strategy") approved by the Board on 16 December 2010, the main goals of risk management are safety and liquidity of the NBKR's assets and profitability growth within the limitations imposed by this policy.

In accordance with these goals gold and foreign currency assets of the NBKR are separated into the following portfolios: working portfolio and investment portfolio.

The operations of the NBKR's subsidiary are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' Board of Directors and internal control departments.

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and balance of risks and profitability.

### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

#### *Interest rate gap analysis*

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments is as follows:

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
<b>31 December 2011</b>						
<b>ASSETS</b>						
Precious metals	6,081,910	-	-	-	-	6,081,910
Due from banks and other financial institutions	32,803,147	-	21,242,706	-	-	54,045,853
Loans extended	125,777	125,777	229,926	837,924	5,377	1,324,781
Investments available- for-sale	3,767,474	6,620,258	5,802,823	4,488,729	-	20,679,284
Investments held-to- maturity	52,679	409,672	176,274	1,664,633	610,606	2,913,864
Investments held-to- maturity, pledged under repurchase agreements	-	207,252	-	-	-	207,252
	<b>42,830,987</b>	<b>7,362,959</b>	<b>27,451,729</b>	<b>6,991,286</b>	<b>615,983</b>	<b>85,252,944</b>
<b>LIABILITIES</b>						
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	1,359,219
Loans received	-	13,127	30,791	5,546,691	-	5,590,609
Liabilities to the IMF in respect of SDR allocation	6,030,055	-	-	-	-	6,030,055
	<b>7,596,684</b>	<b>13,127</b>	<b>30,791</b>	<b>5,546,691</b>	<b>-</b>	<b>13,187,293</b>
	<b>35,234,303</b>	<b>7,349,832</b>	<b>27,420,938</b>	<b>1,444,595</b>	<b>615,983</b>	<b>72,065,651</b>

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**25 Risk management, continued****(b) Market risk, continued****(i) Interest rate risk, continued**

<b>KGS '000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Carrying amount</b>
<b>31 December 2010</b>						
<b>ASSETS</b>						
Precious metals	5,500,912	-	-	-	-	5,500,912
Due from banks and other financial institutions	40,910,870	-	13,985,265	-	-	54,896,135
Amounts receivable from the contracts of purchase and resale of securities	200,193	-	-	-	-	200,193
Loans extended	28,453	-	232,063	559,794	3,653	823,963
Investments available-for-sale	8,310,296	7,247,678	-	-	-	15,557,974
Investments held-to- maturity	621,938	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
	<b>55,572,662</b>	<b>7,998,527</b>	<b>15,241,718</b>	<b>1,139,484</b>	<b>553,653</b>	<b>80,506,044</b>
<b>LIABILITIES</b>						
Amounts payable under agreements of sale and repurchase of securities	70,806	-	-	-	-	70,806
Debt securities issued	667,860	-	-	-	-	667,860
Loans received	-	13,685	31,198	6,759,043	-	6,803,926
Liabilities to the IMF in respect of SDR allocations	6,096,568	-	-	-	-	6,096,568
	<b>6,835,234</b>	<b>13,685</b>	<b>31,198</b>	<b>6,759,043</b>	<b>-</b>	<b>13,639,160</b>
	<b>48,737,428</b>	<b>7,984,842</b>	<b>15,210,520</b>	<b>(5,619,559)</b>	<b>553,653</b>	<b>66,866,884</b>

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Weighted average effective interest rate, %	Weighted average effective interest rate, %
<b>Interest bearing assets</b>		
<b>Precious metals</b>		
<i>Gold and other precious metals in accounts with foreign banks</i>	0.01	0.01
<b>Due from banks and other financial institutions</b>		
<i>Nostro accounts</i>		
- USD	0.01	0.20
- SDR	0.11	0.32
- EUR	0.47	0.54
- CAD	0.65	0.78
- AUD	3.50	4.00
- GBP	0.22	0.34
<i>Term deposits</i>		
- USD	0.35	0.26
- EUR	1.04	0.62
- CAD	1.04	1.07
- GBP	0.54	0.52
- AUD	4.17	4.63
- RUB	5.02	3.50
<b>Investments available-for-sale</b>		
- EUR	0.79	0.20
- USD	0.45	-
- AUD	4.22	4.80
- CHF	0.35	-
- CAD	-	0.85
- GBP	-	0.57
<b>Loans extended</b>		
- KGS	7.76	7.18
<b>Investments held-to-maturity, including investments held-to-maturity, pledged under repurchase agreements</b>		
- KGS	10.02	11.32
<b>Amounts receivable from contracts of purchase and resale of securities</b>		
- KGS	-	5.20
<b>Interest bearing liabilities</b>		
<b>Due to the Government of the Kyrgyz Republic</b>		
- KGS	2.11	1.30
- USD	0.25	0.25
- EUR	1.25	1.00
<b>Amounts payable under agreement of sale and repurchase of securities</b>	13.08	6.78
<b>Debt securities issued</b>		
- KGS	13.78	5.31
<b>Loans received</b>		
- USD	1.52	1.49
<b>Liabilities to the IMF in respect of SDR allocations</b>		
- SDR	0.11	0.32

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**25 Risk management, continued****(b) Market risk, continued****(i) Interest rate risk, continued****Interest rate sensitivity analysis**

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate (repricing risk) based on a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	<b>2011</b> <b>KGS'000</b>	<b>2010</b> <b>KGS'000</b>
20 bp parallel fall	(107,461)	(123,072)
20 bp parallel rise	107,461	123,072

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	<b>2011</b>		<b>2010</b>	
	<b>Profit or loss KGS'000</b>	<b>Equity KGS'000</b>	<b>Profit or loss KGS'000</b>	<b>Equity KGS'000</b>
20 bp parallel rise	(25,908)	(25,908)	(4,891)	(4,891)
20 bp parallel fall	25,999	25,999	4,891	4,891

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. In case of sharp negative fluctuations, 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 consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

**(ii) Currency risk**

The National Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the National Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2011 is presented in the table below:

	KGS'000	Gold	USD	EUR	CAD	SDR	AUD	CHF	GBP	Other	Total
<b>ASSETS</b>											
Precious metals	-	6,139,760	-	-	-	-	-	-	-	477	6,140,237
Due from banks and other financial institutions	-	-	20,078,501	12,657,897	8,172,139	8,206,032	1,275,376	3,372,093	3,517,319	696,267	57,975,624
Loans extended	1,324,781	-	-	-	-	-	-	-	-	-	1,324,781
Investments available-for-sale	-	-	1,156,656	5,447,198	-	-	12,791,867	1,283,563	-	-	20,679,284
Investments held-to-maturity	2,913,864	-	-	-	-	-	-	-	-	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	207,252	-	-	-	-	-	-	-	-	-	207,252
Other financial assets	172,835	-	234,599	30,033	-	-	-	-	-	-	437,467
<b>Total assets</b>	<b>4,618,732</b>	<b>6,139,76</b>	<b>21,469,756</b>	<b>18,135,128</b>	<b>8,172,139</b>	<b>8,206,032</b>	<b>14,067,243</b>	<b>4,655,656</b>	<b>3,517,319</b>	<b>696,744</b>	<b>89,678,509</b>
<b>LIABILITIES</b>											
Banknotes and coins in circulation	49,866,936	-	-	-	-	-	-	-	-	-	49,866,936
Due to banks and financial institutions	5,107,733	-	498,551	-	-	-	-	-	-	-	5,606,284
Due to the Government of the Kyrgyz Republic	5,384,743	-	840,502	267,084	-	-	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	-	-	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	-	-	-	-	-	1,359,219
Loans received	-	-	99,084	-	-	5,491,525	-	-	-	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	6,030,055	-	-	-	-	6,030,055
Other financial liabilities	30,531	-	-	-	-	-	-	-	-	53,597	84,128
<b>Total liabilities</b>	<b>61,956,572</b>	-	<b>1,438,137</b>	<b>267,084</b>	-	<b>11,521,580</b>	-	-	-	<b>53,597</b>	<b>75,236,970</b>
<b>Net balance sheet and off balance sheet positions</b>	<b>(57,337,840)</b>	<b>6,139,76</b>	<b>20,031,619</b>	<b>17,868,044</b>	<b>8,172,139</b>	<b>(3,315,548)</b>	<b>14,067,243</b>	<b>4,655,656</b>	<b>3,517,319</b>	<b>643,147</b>	<b>14,441,539</b>

**25 Risk management, continued****(b) Market risk, continued****(ii) Currency risk, continued**

The following table shows the currency structure of assets and liabilities at 31 December 2010:

	KGS	Gold	USD	EUR	CAD	SDR	AUD	CHF	GBP	Other	Total
<b>ASSETS</b>											
Precious metals	-	5,500,385	-	-	-	-	-	-	-	527	5,500,912
Due from banks and other financial institutions	-	-	23,980,712	14,354,473	5,048,896	8,022,095	1,152,348	4,448,424	2,065,725	327,038	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	-	-	-	4,063,074	701,254	-	9,312,171	-	1,481,475	-	15,557,974
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
<b>Total assets</b>	<b>4,666,421</b>	<b>5,500,385</b>	<b>24,249,007</b>	<b>18,448,444</b>	<b>5,750,150</b>	<b>8,022,095</b>	<b>10,464,519</b>	<b>4,448,424</b>	<b>3,547,200</b>	<b>327,565</b>	<b>85,424,210</b>
<b>LIABILITIES</b>											
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
Due to 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	-	-	6,651,112	-	-	-	-	6,803,926
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	6,096,568	-	-	-	-	6,096,568
Other financial liabilities	65,678	-	2,652	-	-	-	-	-	-	57,075	125,405
<b>Total liabilities</b>	<b>52,723,083</b>	-	<b>4,165,918</b>	<b>220,766</b>	-	<b>12,747,680</b>	-	-	-	<b>57,075</b>	<b>69,914,522</b>
<b>Net balance sheet position</b>	<b>(48,056,662)</b>	<b>5,500,385</b>	<b>20,083,089</b>	<b>18,227,678</b>	<b>5,750,150</b>	<b>(4,725,585)</b>	<b>10,464,519</b>	<b>4,448,424</b>	<b>3,547,200</b>	<b>270,490</b>	<b>15,509,688</b>
<b>The effect of derivatives held for risk management:</b>											
-inflows	-	-	683,510	-	-	-	-	-	-	-	683,510
-outflows	(683,510)	-	-	-	-	-	-	-	-	-	(683,510)
<b>Net balance sheet and off balance sheet positions</b>	<b>(48,740,172)</b>	<b>5,500,385</b>	<b>20,766,599</b>	<b>18,227,678</b>	<b>5,750,150</b>	<b>(4,725,585)</b>	<b>10,464,519</b>	<b>4,448,424</b>	<b>3,547,200</b>	<b>270,490</b>	<b>15,509,688</b>

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

Depreciation of KGS, as indicated in table below, against following currencies as at 31 December 2011 and 31 December 2010 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	2011		2010	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
10% appreciation of USD against KGS	2,003,162	2,003,162	2,076,902	2,076,902
10% appreciation of EUR against KGS	1,786,804	1,786,804	1,822,768	1,822,768
10% appreciation of SDR against KGS	(331,555)	(331,555)	(472,559)	(472,559)
10% appreciation of CAD against KGS	817,214	817,214	575,015	575,015
10% appreciation of AUD against KGS	1,406,724	1,406,724	1,046,452	1,046,452
10% appreciation of CHF against KGS	465,566	465,566	444,842	444,842
10% appreciation of GBP against KGS	316,559	316,559	319,248	319,248

A strengthening of the KGS against the above currencies at 31 December 2011 and 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### 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.

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.

#### (iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

As at 31 December 2011 and 2010 the National Bank was not exposed to price risk.

### (c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks on international reserve management.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**25 Risk management, continued****(c) Credit risk, continued**

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 of Moody's Investors Service 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.

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.

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The National Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	<b>2011</b>	<b>2010</b>
	<b>KGS'000</b>	<b>KGS'000</b>
<b>ASSETS</b>		
Precious metals	6,081,910	5,500,912
Due from banks and other financial institutions	57,975,624	59,399,711
Amounts receivable from the contracts of purchase and resale of securities	-	200,193
Loans extended	1,324,781	823,963
Investments available-for-sale, except equity investments	20,679,284	15,557,974
Investments held-to-maturity	2,913,864	3,456,074
Investments held-to-maturity, pledged under repurchase agreements	207,252	70,793
Other financial assets	437,467	414,590
<b>Total maximum exposure</b>	<b>89,620,182</b>	<b>85,424,210</b>

## 25 Risk management, continued

### (c) Credit risk, continued

#### Geographical concentration

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach allows the National Bank to minimize potential losses from investment climate fluctuations in those countries where the National Bank's currency reserves are placed.

The following table shows the geographical concentration of assets and liabilities at 31 December 2011:

KGS'000	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2011 Total
<b>ASSETS</b>					
Precious metals	-	6,081,910	-	-	6,081,910
Due from banks and other financial institutions	-	40,385,572	14,065	17,575,987	57,975,624
Loans extended	1,324,781	-	-	-	1,324,781
Investments available-for-sale	-	15,915,434	-	4,763,850	20,679,284
Investments held-to-maturity	2,913,864	-	-	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	207,252	-	-	-	207,252
Other financial assets	437,467	-	-	-	437,467
<b>Total assets</b>	<b>4,883,364</b>	<b>62,382,916</b>	<b>14,065</b>	<b>22,339,837</b>	<b>89,620,182</b>
<b>LIABILITIES</b>					
Banknotes and coins in circulation	49,866,936	-	-	-	49,866,936
Due to banks and other financial institutions	5,603,883	-	74	2,327	5,606,284
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	1,359,219
Loans received	72,922	-	-	5,517,687	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,030,055	6,030,055
Other financial liabilities	84,128	-	-	-	84,128
<b>Total liabilities</b>	<b>63,686,827</b>	-	<b>74</b>	<b>11,550,069</b>	<b>75,236,970</b>
<b>Net balance sheet position</b>	<b>(58,803,463)</b>	<b>62,382,916</b>	<b>13,991</b>	<b>10,789,768</b>	<b>14,383,212</b>

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (c) Credit risk, continued

#### Geographical concentration, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2010:

KGS'000	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2010 Total
<b>ASSETS</b>					
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 extended	823,963	-	-	-	823,963
Investments available-for-sale	-	12,336,889	-	3,221,085	15,557,974
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
<b>Total assets</b>	<b>4,968,200</b>	<b>56,266,625</b>	<b>8,788</b>	<b>24,180,597</b>	<b>85,424,210</b>
<b>LIABILITIES</b>					
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
Due to 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	-	-	6,704,111	6,803,926
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,096,568	6,096,568
Other financial liabilities	65,678	-	59,727	-	125,405
<b>Total liabilities</b>	<b>57,033,231</b>	<b>-</b>	<b>59,727</b>	<b>12,821,564</b>	<b>69,914,522</b>
<b>Net balance sheet position</b>	<b>(52,065,031)</b>	<b>56,266,625</b>	<b>(50,939)</b>	<b>11,359,033</b>	<b>15,509,688</b>

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 25 Risk management, continued

### (d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Due to banks and other financial institutions	5,606,284	-	-	-	-	5,606,284	5,606,284
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	-	6,492,329	6,492,329
Amounts payable under agreements of sale and repurchase of securities	142,542	64,868	-	-	-	207,410	207,410
Debt securities issued	1,366,400	-	-	-	-	1,366,400	1,359,219
Loans received	312,398	162,850	42,860	518,481	4,610,747	5,647,336	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	1,848	-	-	6,028,207	6,030,055	6,030,055
Other financial liabilities	19,177	98	3,415	-	61,439	84,129	84,128
<b>Total liabilities</b>	<b>13,939,130</b>	<b>229,664</b>	<b>46,275</b>	<b>518,481</b>	<b>10,700,393</b>	<b>25,433,943</b>	<b>25,370,034</b>

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**25 Risk management, continued****(d) Liquidity risk, continued**

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Due to banks and other financial institutions	5,612,963	-	-	-	-	5,612,963	5,612,963
Due to the Government of the Kyrgyz Republic	7,246,698	-	-	-	-	7,246,698	7,246,698
Amounts payable under agreements of sale and repurchase of securities	-	71,326	-	-	-	71,326	70,806
Debt securities issued	669,200	-	-	-	-	669,200	667,860
Loans received	312,898	162,065	155,873	538,307	5,676,993	6,846,136	6,803,926
Liabilities to the IMF in respect of SDR allocations	-	1,867	-	-	6,094,701	6,096,568	6,096,568
Other financial liabilities	16,372	1,365	43,552	7,041	57,075	125,405	125,405
<b>Total</b>	<b>13,858,131</b>	<b>236,623</b>	<b>199,425</b>	<b>545,348</b>	<b>11,828,769</b>	<b>26,668,296</b>	<b>26,624,226</b>

The tables above show the undiscounted cash flows of non-derivative financial liabilities.

*7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011*

## 25 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2011:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
<b>ASSETS</b>							
Precious metals	1,156,667	4,983,570	-	-	-	-	6,140,237
Due from banks and other financial institutions	32,377,640	4,355,278	21,242,706	-	-	-	57,975,624
Loans extended	41,926	83,851	355,703	837,924	5,377	-	1,324,781
Investments available-for-sale	3,339,497	427,977	12,423,081	4,488,729	-	-	20,679,284
Investments held-to-maturity	-	52,679	585,946	1,664,633	610,606	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	-	-	207,252	-	-	-	207,252
Other financial assets	283,147	4,650	11,047	61,185	77,438	-	437,467
	<b>37,198,877</b>	<b>9,908,005</b>	<b>34,825,735</b>	<b>7,052,471</b>	<b>693,421</b>	<b>-</b>	<b>89,678,509</b>
<b>LIABILITIES</b>							
Banknotes and coins in circulation	-	-	-	-	-	49,866,936	49,866,936
Due to banks and other financial institutions	5,606,284	-	-	-	-	-	5,606,284
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	142,542	64,868	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	-	1,359,219
Loans received	312,358	162,198	554,918	3,253,222	1,307,913	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	1,848	-	-	6,028,207	-	6,030,055
Other financial liabilities	27,018	98	3,415	-	-	53,597	84,128
	<b>13,939,750</b>	<b>229,012</b>	<b>558,333</b>	<b>3,253,222</b>	<b>7,336,120</b>	<b>49,920,533</b>	<b>75,236,970</b>
<b>Net position</b>	<b>23,259,127</b>	<b>9,678,993</b>	<b>34,267,402</b>	<b>3,799,249</b>	<b>(6,642,699)</b>	<b>(49,920,533)</b>	<b>14,441,539</b>

**25 Risk management, continued****(d) Liquidity risk, continued**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2010:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
<b>KGS'000</b>							
<b>ASSETS</b>							
Precious metals	993,495	4,507,417	-	-	-	-	5,500,912
Due from banks and other financial institutions	32,011,163	13,403,283	13,985,265	-	-	-	59,399,711
Amounts receivable from contracts of purchase and resale of securities	-	200,193	-	-	-	-	200,193
Loans extended	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
Other financial assets	288,193	3,765	7,789	44,507	70,336	-	414,590
	<b>39,101,581</b>	<b>21,266,615</b>	<b>22,224,437</b>	<b>1,627,898</b>	<b>653,679</b>	<b>550,000</b>	<b>85,424,210</b>
<b>LIABILITIES</b>							
Banknotes and coins in circulation	-	-	-	-	-	43,290,296	43,290,296
Due to banks and other financial institutions	5,612,963	-	-	-	-	-	5,612,963
Due to the Government of 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	312,839	162,065	693,052	3,627,343	2,008,627	-	6,803,926
Liabilities to the IMF in respect of SDR allocations	-	1,867	-	-	6,094,701	-	6,096,568
Other financial liabilities	16,372	1,365	43,552	7,041	-	57,075	125,405
	<b>13,856,732</b>	<b>236,103</b>	<b>736,604</b>	<b>3,634,384</b>	<b>8,103,328</b>	<b>43,347,371</b>	<b>69,914,522</b>
<b>Net position</b>	<b>25,244,849</b>	<b>21,030,512</b>	<b>21,487,833</b>	<b>(2,006,486)</b>	<b>(7,449,649)</b>	<b>(42,797,371)</b>	<b>15,509,688</b>

*7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011*

## **26 Commitments**

### **(a) 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 National Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### **(b) Litigation**

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

### **(c) Taxation contingencies**

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

These circumstances may create tax risks in the Kyrgyz Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kyrgyz tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

## **27 Agency functions**

### **Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”)**

In 1992 the Kyrgyz Republic joined 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 the IMF financing. As at 31 December 2011 and 2010 the quota of the Kyrgyz Republic amounted to SDR 88,800 thousand.

To secure a part of the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities in favour 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 authorised to carry out transactions with the IMF on behalf of the Government of the Kyrgyz Republic.

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**27 Agency functions, continued****Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”), continued**

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:

	2011 KGS’000	2010 KGS’000
<b>IMF membership quota</b>	<b>6,309,910</b>	<b>6,428,168</b>
Securities in favour of the IMF	6,293,780	6,411,736
IMF current accounts	16,130	16,432
	<b>6,309,910</b>	<b>6,428,168</b>

**IMF loans issued to the Ministry of Finance of the Kyrgyz Republic**

On 24 September 2010 the IMF provided a loan to the Kyrgyz Republic amounting to SDR 22,200 thousand within the framework of Rapid Credit Facility (RCF) for supporting the state budget. On 28 June and 19 December 2011 the IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19,028 thousand within the framework of Extended Credit Facility (“ECF”) for supporting the state budget. These loans are not accounted in the consolidated statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank dated 2 September 2010 under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2011 the outstanding balance of this loan amounted to KGS 2,932,968 thousand (2010: KGS 1,596,204 thousand).

**Loan from the Export and Credit Bank of Turkey (the “Eximbank”)**

Eximbank of Turkey granted a loan to the Government of the Kyrgyz Republic. According to the agreement # D-3-2-5/409 dated 25 March 2003 signed by the National Bank and the Ministry of Finance of the Kyrgyz Republic, the National Bank acts as a depository agent on this loan.

As at 31 December 2011 the outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank of Turkey under a debt restructuring agreement are KGS 2,288,250 thousand (2010: KGS 2,333,073 thousand).

**28 Related party transactions****(a) Control relationships**

In accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” the Bank is central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The Bank independently manages its activities within the limits of authority determined by the Law.

**(b) Transactions with the members of the Management Board**

The remuneration to the members of the National Bank’s Management Board for the years ended 31 December 2011 and 2010 comprised KGS 6,486 thousand and KGS 7,324 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2011 and 2010 comprised KGS 7,853 thousand and KGS 5,801 thousand, respectively. The loans are in KGS and repayable by 2024 and 2026. Interest income from loans to the Management Board for the years ended 31 December 2011 and 2010 comprised KGS 383 thousand and KGS 362 thousand respectively.

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 28 Related party transactions, continued

### (c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2011 and related income statement amounts of transactions for the year ended 31 December 2011 with the Ministry of Finance and other related parties are as follows:

Consolidated statement of financial position	The Ministry of Finance of the Kyrgyz Republic		State commercial banks and other state financial institutions controlled by the Government of the Kyrgyz Republic		Unconsolidated subsidiaries		Total KGS'000
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	
<b>ASSETS</b>							
Investments held-to-maturity	3,121,116	9.7	-	-	-	-	3,121,116
Investments available-for-sale	-	-	-	-	8,984	-	8,984
Loans extended	-	-	904,640	7.47	-	-	904,640
<b>LIABILITIES</b>							
Due to banks and other financial institutions	-	-	1,336,995	-	-	-	1,336,995
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	-	-	6,492,329
Loans received	72,922	1.50	-	-	-	-	72,922
<b>Consolidated income statement</b>							
Interest income	342,783	-	71,389	-	-	-	414,172
Interest expense	90,140	-	49,846	-	-	-	139,986

**28 Related party transactions, continued****(c) Transactions with other related parties, continued**

The outstanding balances and the related average interest rates as at 31 December 2010 and related income statement amounts of transactions for the year ended 31 December 2010 with the Ministry of Finance and other related parties are as follows:

Consolidated statement of financial position	The Ministry of Finance of the Kyrgyz Republic		State commercial banks and other state financial institutions controlled by the Government of the Kyrgyz Republic		Unconsolidated subsidiaries		Total KGS'000
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	
<b>ASSETS</b>							
Investments available-for-sale	-	-	-	-	15,000	-	15,000
Investments held-to-maturity	3,526,867	11.32	-	-	-	-	3,526,867
Loans extended	-	-	631,731	5.04	-	-	631,731
<b>LIABILITIES</b>							
Due to banks and other financial institutions	-	-	1,112,936	-	-	-	1,112,936
Due to the Government of the Kyrgyz Republic	7,246,698	-	-	-	-	-	7,246,698
Loans received	99,815	1.50	-	-	-	-	99,815
<b>Consolidated income statement</b>							
Interest income	306,398	-	20,128	-	-	-	326,526
Interest expense	44,332	-	4,974	-	-	-	49,306

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 29 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

KGS'000	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Precious metals	-	6,081,910	-	-	6,081,910	6,081,910
Due from banks and other financial institutions	-	57,975,624	-	-	57,975,624	57,975,624
Loans extended	-	1,324,781	-	-	1,324,781	1,324,781
Investments available- for-sale	-	-	20,679,284	-	20,679,284	20,679,284
Investments held-to- maturity	2,913,864	-	-	-	2,913,864	2,797,214
Investments held-to- maturity, pledged under repurchase agreements	207,252	-	-	-	207,252	197,497
Other financial assets	-	437,467	-	-	437,467	437,467
	<b>3,121,116</b>	<b>65,819,782</b>	<b>20,679,284</b>	<b>-</b>	<b>89,620,182</b>	<b>89,493,777</b>
Banknotes and coins in circulation	-	-	-	49,866,936	49,866,936	49,866,936
Due to banks and other financial institutions	-	-	-	5,606,284	5,606,284	5,606,284
Due to the Government of the Kyrgyz Republic	-	-	-	6,492,329	6,492,329	6,492,329
Amounts payable under agreements of sale and repurchase of securities	-	-	-	207,410	207,410	207,410
Debt securities issued	-	-	-	1,359,219	1,359,219	1,373,462
Loans received	-	-	-	5,590,609	5,590,609	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,030,055	6,030,055	6,030,055
Other financial liabilities	-	-	-	84,128	84,128	84,128
	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,236,970</b>	<b>75,236,970</b>	<b>75,251,213</b>

## 7.7. National Bank of the Kyrgyz Republic

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

**29 Financial assets and liabilities: fair values and accounting classifications, continued****(a) Accounting classifications and fair values, continued**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

KGS'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Total carrying amount	Fair value
Precious metals	-	-	5,500,912	-	5,500,912	5,500,912
Due from banks and other financial institutions	-	-	59,399,711	-	59,399,711	59,399,711
Amounts receivable from contracts of purchase and resale of securities	-	-	200,193	-	200,193	200,193
Loans extended	-	-	823,963	-	823,963	823,963
Investments available-for-sale	-	-	-	15,557,974	15,557,974	15,557,974
Investments held-to-maturity	-	3,456,074	-	-	3,456,074	3,244,113
Investments held-to-maturity, pledged under repurchase agreements	-	70,793	-	-	70,793	70,516
Other financial assets	2,421	-	412,169	-	414,590	414,590
	<b>2,421</b>	<b>3,526,867</b>	<b>66,336,948</b>	<b>15,557,974</b>	<b>85,424,210</b>	<b>85,211,972</b>
Banknotes and coins in circulation	-	-	-	43,290,296	43,290,296	43,290,296
Due to banks and other financial institutions	-	-	-	5,612,963	5,612,963	5,612,963
Due to the Government of the Kyrgyz Republic	-	-	-	7,246,698	7,246,698	7,246,698
Amounts payable under agreements of sale and repurchase of securities	-	-	-	70,806	70,806	70,806
Debt securities issued	-	-	-	667,860	667,860	670,538
Loans received	-	-	-	6,803,926	6,803,926	6,803,926
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,096,568	6,096,568	6,096,568
Other financial liabilities	-	-	-	125,405	125,405	125,405
	<b>-</b>	<b>-</b>	<b>-</b>	<b>69,914,522</b>	<b>69,914,522</b>	<b>69,917,200</b>

7.7. National Bank of the Kyrgyz Republic  
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

## 29 Financial assets and liabilities: fair values and accounting classifications, continued

### (a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

### (b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Total
Available-for-sale financial assets			
- Debt and other fixed income instruments	20,679,284	-	20,679,284
	<b>20,679,284</b>	<b>-</b>	<b>20,679,284</b>

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Total
Available-for-sale financial assets			
- Debt and other fixed income instruments	15,557,974	-	15,557,974
	<b>15,557,974</b>	<b>-</b>	<b>15,557,974</b>



# IV

## ATTACHMENTS

### Chronology of Major Events in the Monetary Sphere in 2011

Data	Content
December 29, 2010	The Board of the NBKR considered and adopted the Resolution “On Main Monetary Policy Guidelines for 2011-2013”.
January 26	The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> <li>- On Introducing Amendments to the Resolution of the NBKR Board No 32/2 as of July 29, 2009 “On Approval of the NBKR Policy on Determining the Official Exchange Rates of Foreign Currencies in Relation to the Kyrgyz Som”;</li> <li>- On Draft Law of the Kyrgyz Republic “On Payment System of the Kyrgyz Republic”.</li> </ul>
January 27	Official visit of the Executive Director of the World Bank and the Executive Director of the International Monetary Fund to the Kyrgyz Republic to get acquainted with the socio-economic and political situation in the Republic, as well as to discuss the new program of cooperation.
January 28	The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> <li>- On Introduction of the Conservation Regime for the OJSC “KyrgyzCreditBank” for up to 18 Months;</li> <li>- On Introduction of the Conservation Regime for the CJSC “Manas Bank” for up to 18 Months.</li> </ul>
January 31 – February 4	The IMF Mission visited the Kyrgyz Republic in order to assess the outcomes of the economic program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for September-December 2010, supported under the framework of the Rapid Credit Facility (RCF).
February 4	Press conference was held at the “KABAR” Kyrgyz National News Agency with participation of the Acting Governor of the NBKR and Deputies of the Governor of the NBKR on the Monetary Policy results for 2010.
February 24	<ul style="list-style-type: none"> <li>• Press conference was held at the “KABAR” Kyrgyz National News Agency with participation of the Deputy Governor of the NBKR on cash turnover issues;</li> <li>• Press conference was held at the “KABAR” Kyrgyz National News Agency with participation of the Acting Governor of the NBKR on the problem banks issues.</li> </ul>
February 25	The Board of the NBKR adopted the Resolution “On the Level of Required Reserves”.

- March 1 The Board of the NBKR adopted the following resolutions:
- On the Monetary Policy Report for 2010 and the Monetary Program for the Forthcoming Period;
  - On Commercial Banking System Development Trends of the Kyrgyz Republic as of December 31, 2010;
  - On the Report “On the Payment System Status of the Kyrgyz Republic for the Fourth Quarter of 2010”.
- March 14 The Board of the NBKR approved the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Economic Policy for 2011.
- March 25 The 21<sup>st</sup> Meeting of the Working Group for monitoring of implementation of the “Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010” was held, where the outcomes of implementation of the strategy activities were considered.
- March 30 The Board of the NBKR adopted the Resolution “On Approval of the Regulations “On the Periodic Regulatory Report of the Banks Operating in Accordance with the Islamic Principles of Banking and Financing”.
- April 7 The Board of the NBKR adopted the Resolution “On Introduction of Conservation Regime in the OJSC “Akylinvestbank” for the period up to 18 months”.
- April 11 The Representation of the OJSC “Investtradebank” in the Kyrgyz Republic was filed in the Register of the Commercial Banks Representations.
- April 20 -  
May 4 IMF Mission visited the Kyrgyz Republic in order to discuss the program of cooperation between Kyrgyzstan and the IMF. The negotiations resulted in development of the Economic Program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for 2011-2014, supported under the framework of the Extended Credit Facility (ESF).
- April 25 Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic approved the Joint Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Establishment of the Inter-Departmental Commission to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic”.
- April 26 Press conference was held at the “KABAR” Kyrgyz National News Agency with participation of the Deputy Governor of the NBKR on the Monetary Policy outcomes for the First Quarter of 2011.
- May 12 The Workshop for journalists was held at the NBKR on “The Banking System of the Kyrgyz Republic and Supervision”. The aim of the Workshop was to familiarize the public with the problems in banking system, the prospects of development and clarification of the situation with the OJSC “AUB”.

- May 16 The Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Economic Policy for 2011 was approved by the Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic.
- May 23 A meeting was held between Management of the NBKR and the Deputy Governor of the National Bank of Hungary within the framework of the IMF Regional Project on the National Debt Management and Government Securities Market Development. During the meeting the issues on inflationary targeting, reasons of price rises, instruments of monetary policy, and exchange rate were discussed.
- May 26 The Board of the NBKR adopted the following resolutions:
- On approval of the draft Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Approval of the Standard Regulation on the Order of Extending Loans Secured by Farmlands”;
  - On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the New Edition of the Regulations on the Procedure of Auction on Placement of Government Treasury Bills of the Kyrgyz Republic through the NBKR”.
- June 1 The Board of the NBKR adopted the following resolutions:
- On the Monetary Policy Report for the First Quarter of 2011 and the Monetary Program for the Forthcoming Period;
  - On Commercial Banking System Development Trends in the Kyrgyz Republic as of March 31, 2011;
  - On the Report “On the Payment System Status of the Kyrgyz Republic for the First Quarter of 2011”.
- June 9 The Board of the NBKR adopted the Resolution “On Liquidation of the LLC “Specialized Fund for Banks Refinancing” starting from August 1, 2011”.
- June 10 A meeting was held between NBKR Management and the Mission of the Islamic Development Bank. During the meeting, the parties discussed the issues on further implementation and development of Islamic Financial Services in the Kyrgyz Republic. In addition, the issues on cooperation within the framework of IDB technical assistance were considered.

- June 14
- In order to protect the IMF's resources and fulfillment of obligations to the IMF the Agreement was signed between the Ministry of Finance and the National Bank on management of foreign exchange resources /tools, including those intended to support the budget.
  - The Round Table was held at the NBKR on "The Role of Government in Development of Microfinance Sector: Microfinance Development Strategy for 2011-2015". The meeting was attended by representatives of the Administration of the President of the Kyrgyz Republic, the Government of the Kyrgyz Republic, Ministries and Agencies, the Association of MFIs and the CUs, the Union of Banks of the Kyrgyz Republic, CIB «Ishenim», the international financial institutions and donors.
- June 20
- The IMF Executive Board made a decision to support the Economic Program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for 2011-2014 in the framework of the Extended Credit Facility (ESF).
- July 5
- A meeting was held between the Governor of the NBKR with the Delegation from European Bank for Reconstruction and Development, headed by the Director for Central Asia. During the meeting the issues on current cooperation were discussed.
- July 11
- A meeting was held between the Governor of NBKR and the Delegation of International Finance Corporation (IFC). During the meeting the parties discussed issues of further cooperation, with focus on the role of IFC in improving the level of corporate management and conducting its assessment.
- July 14
- The Board of the NBKR adopted the Resolution "On Removal of Limitations on the Right in Reception of Time Deposits from Individuals and Legal Entities by the CJSC MFC "Bai Tushum and Partners".
- July 15
- A meeting was held between NBKR Management and the Delegation of the Russian Embassy in the Kyrgyz Republic, headed by the Ambassador Extraordinary and Plenipotentiary of the Russian Federation in the Kyrgyz Republic. During the meeting, the parties discussed issues of further cooperation under the framework of the Agreements of Central (National) Banks of EurAsEC Member States.
- July 17
- The Round Table was held at the NBKR with participation of Mass Media on issues of inflation.
- July 20
- Press conference was held at the "KABAR" Kyrgyz National News Agency with participation of the Deputy Governor of the NBKR on the monetary policy results for the first half year of 2011.

- July 27
- The Board of the NBKR adopted the following resolutions:
    - On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic as of March 2, 2006 No 5/7 “On Approval of the Regulation “On Licensing of Banks Activities”;
    - On the Joint Resolution of the Government of the Kyrgyz Republic and the National Bank “On Approval of Micro-financing Development Strategy for 2011-2015”;
    - On Approval of the Regulation “On the Licensing Procedure for the Right to Conduct Exchange Transactions with Cash Foreign Currency”;
    - On withdrawal of the License of the LLC “Specialized Fund for Banks Refinancing” for the right to conduct separate banking operations in national currency starting from August 1, 2011, due to fulfillment of the main objective of this LLC, which was to extend loans for commercial banks and microfinance institutions during the economic downturn.
- August 1
- The Board of the NBKR adopted the Resolution “On the Sale of 100 Percent of the Share of Capital of the LLC “Financial Company for Support and Development of Credit Unions in the Kyrgyz Republic” to the Credit Unions”.
  - In the framework of the sale of the LLC “FCSDCU” to the Credit Unions, based on the decision of the Board, the basic and additional subscriptions were implemented.
- August 24
- The Board of the NBKR adopted the following resolutions:
- On the Draft Law of the Kyrgyz Republic “On Amendments to the Law of the Kyrgyz Republic “On Transactions in Foreign Currency”;
  - On Amendments and Addenda to the Regulation “On Pre-Trial Regulation of Disputes Between the National Bank of the Kyrgyz Republic and Commercial Banks, Organizations Conducting Separate Types of Banking Operations and their Founders (participants), Legal Entities and Individuals”.
- August 24-26
- The Delegation of the Swiss National Bank visited the NBKR. During the visit, several meetings were held with the leadership and managers of the NBKR and the prospects of further cooperation and implementation of existing projects were discussed within the framework of technical cooperation.
- August 26
- The Board of the NBKR adopted the following resolutions:
- On the Monetary Policy Report for the First Half of 2011 and the Monetary Program for the Forthcoming Period;
  - On Commercial Banks Development Trends as of June 30, 2011;
  - On the Report “The Payment System Status of the Kyrgyz Republic for the Second Quarter of 2011”.

- September 3-4 The Governor of the NBKR as a member of Kyrgyz Delegation attended the meeting of the IMF/World Bank Representation Group in the City of Turkmenbashi (Turkmenistan). As part of this event, the Workshop “Macroeconomic Stability and Development of the Banking Sector” was held.
- September 7-21 The IMF Mission visited Kyrgyzstan to conduct the first review in the framework of implementation of the Economic Program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic supported by the Extended Credit Facility (ESF) of the IMF.
- September 14 The Board of the NBKR adopted the following resolutions:
- On Some Normative Legal Acts of the National Bank of the Kyrgyz Republic (Resolution approved the Regulation “On the Work of Banks with Securities”; Amendments and Addenda to the Regulation “On the Economic Standards and Requirements, Mandatory for Commercial Banks and Financial Institutions Licensed by the National Bank of the Kyrgyz Republic”, and to the Interim Rules Regulating the Activities of Microfinance Companies on the Territory of the Kyrgyz Republic);
  - On Approval of the Legislation “On Amendments and Addenda to the Law of the Kyrgyz Republic “On the Conservation, Liquidation and Bankruptcy of the Banks”;
  - Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic as of January 26, 2011 No4/6 “On Appointment of Members of the Board of Directors of the Deposits Protection Agency under the Ministry of Finance of the Kyrgyz Republic”.
- September 16-17 The annual Bank Round Table was organized and held by the NBKR and the Legal Entities Union “The Union of Banks of Kyrgyzstan”. At the Round Table, the issues on improvement of the Legislation regulating the activities of financial and credit institutions, the problems of financial and credit institutions, as well as improvement of the effectiveness of measures to combat financing of terrorism and anti-money laundering were discussed.
- September 19-21 The regular 25<sup>th</sup> Meeting of the Heads of the Central (National) Banks of the EurAsEC States was held by the National Bank.
- September 23-25 The Governor of the NBKR as the IMF Governor for the Kyrgyz Republic with a delegation of the Kyrgyz Republic took part in the IMF and World Bank Annual Meeting in Washington, DC, USA.

- September 29           The Board of the NBKR adopted the following resolutions:
- Amendments and Addenda to the Regulation “On Minimal Requirements to Internal Control in Commercial Banks to Combat the Financing of Terrorism (Extremism) and Anti-Money Laundering”.
  - Amendments and Addenda to the Instructions for the Work with Deposits;
  - Amendments to the Regulations on the Procedure of Conducting by the National Bank of the Kyrgyz Republic REPO Transactions with Government Securities of the Kyrgyz Republic, approved by the Board of the NBKR No 32/4 as of June 27, 2007;
  - Approval of the “Regulations on the Procedure of NBKR Foreign Exchange Swap Operations”;
  - Amendments and Addenda to the Provisional Regulation “On the Depository Account of the Government Securities Placed through the National Bank of the Kyrgyz Republic”, approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No 13/3 as of March 26, 2008”;
  - Entry into force of the Regulation “On Reserve Requirements of the Microfinance Companies Engaged in Accepting Deposits, approved by the Regulation of the Board of the National Bank of the Kyrgyz Republic No 1/1 as of January 30, 2010”.
- October 6-7           Representatives of the NBKR Bank took part in the Workshop “Inter-Agency Cooperation Within the Country” organized by the World Bank, on which the issues on Combating the Financing of Terrorism and Anti-Money Laundering were considered.
- October 7–10           Management of the NBKR participated in the 25<sup>th</sup> Meeting of the Central Banks Governors Club, the membership of which includes banks of twenty-one countries of Central Asia, Black Sea area and Balkans.
- October 13           In order to improve and establish the order of cash payments in the Kyrgyz Republic, as well as in connection with termination of issuance and further use of the coins of 10 Tyiyns value in all types of cash payments, the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic adopted the Joint Resolution No 631/35/10 “On the procedure of rounding amounts of the Tyiyn balance for cash payments in the Kyrgyz Republic”.
- October 21           A Meeting between the Deputy Governor of the NBKR and representatives of the International Finance Corporation (IFC) was held, where the parameters of new IFC program on risk-certification, as well as further cooperation on the development of the Credit History Bureau Market were discussed.
- November 10           NBKR specialists held a lecture for the students of the American University in Central Asia on the topic “The Role and Functions of the NBKR”, and also discussed the history of Kyrgyz Currency Development.

- November 22 The Board of the NBKR adopted the Resolution “On Extension of the Conservation Regime for the OJSC “Ak-Bank”.
- November 23
- A meeting was held between the Governor of the NBKR and the European Union Delegation. The prospects for economic development were discussed, including the aspects of national budget and development of the Kyrgyz Republic after the Presidential elections.
  - A meeting was held between the representatives of the NBKR and the World Bank Mission, where the emerging issues of the bank supervision regulatory framework and automation of the reporting system were discussed.
- November 28 The Board of the NBKR adopted the following resolutions:
- On the Monetary Policy Report for January-September 2011 and the Monetary Program for the Forthcoming Period;
  - On the Commercial Bank System Development Trends as of September 30, 2011.
  - On the Report “The Status of the Payment System of the Kyrgyz Republic for the Third Quarter of 2011”.
- December 6* A meeting was held between the Governor of the NBKR with the Manager of Macroeconomics Sector Department on Poverty Reduction and Economic Management in the Europe and Central Asia Region of the World Bank. The issues related to economic development, monetary policy and banking and financial sector of the Kyrgyz Republic were discussed.
- December 7 The IMF Executive Board approved the First Review of the Economic Program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for 2011–2014, supported in the framework of the Extended Credit Facility (ESF).
- December 14 The Board of the NBKR adopted the following resolutions:
- On the Statement of the National Bank of the Kyrgyz Republic on the Monetary Policy for 2012;
  - On Main Monetary Policy Guidelines for 2012-2014;
  - On Addenda and Amendments to the “Interim Procedure of Transactions with the GT-Bills on the Secondary Market through Electronic Trading System of the NBKR”, approved by the Resolution of the Board of the National bank of the Kyrgyz Republic No 3/3 as of March 10, 1998;
  - On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 32/2 as of July 29, 2009 “On approval of “The Rules of Determining by the National Bank of the Kyrgyz Republic of Official Exchange Rates for Foreign Currencies in Relation to the Kyrgyz Som”;
  - On Removal of Some Restrictions in the License of the OJSC «Aiył Bank».
  - A meeting was held between the Governor of the NBKR and representatives of the Embassies of the France and the Russian Federation in the Republic of Kazakhstan. During the meeting, the issues of macroeconomic analysis and management of reserves were considered.

- December 21            The Board of the NBKR adopted the Resolution “On Main Directions of Development of the Banking Sector of the Kyrgyz Republic until 2014”.
- December 29            The Board of the NBKR adopted the Resolution “On Main Directions of Development of the Supervisory Unit for 2012-2014”.

**Appendix 2**  
to the NBKR Report for 2011

**Statistical information (Tables and Charts)**

<b>Titles of Tables</b>	
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 (end of period)
Table 5.	Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (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 (end of period)
Table 16.	Consolidated Regulatory Report of Commercial Banks of the KR
Table 17.	Information on Head Offices and Branches of Commercial Banks as of the end - 2011
Table 18.	Cash Turnover in Commercial Banks and its Collectability in 2011
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 Payment Cards in Points of Sale
<b>Titles of Charts</b>	
Chart 1.	Rates of Growth of Real Gross Domestic Product
Chart 2.	Rates of Growth of Consumer and Producer Prices
Chart 3.	Monetary Aggregates M2X Structure
Chart 4.	Rates of Growth of Money Supply and Inflation
Chart 5.	Structure of Deposit Base in Commercial Banks (end of period)
Chart 6.	Interest Rates on Credits Extended by Commercial Banks
Chart 7.	Interest Rates of Deposits and Yield of GT-Bills
Chart 8.	Nominal and Real Discount Rate Developments
Chart 9.	Nominal and Real Effective Exchange Rates

**Table 1.**

## Macroeconomic Indicators

	Unit of Measurement	2007	2008	2009	2010	2011
<b>Real Sector<sup>1</sup></b>						
Nominal GDP	<i>in millions of KGS</i>	141,897.7	187,991.9	201,222.9	220,369.3	273,107.8 *
Rate of Growth of Real GDP	<i>percent</i>	8.5	8.4	2.9	-0.5	5.7 *
Rate of Growth of Industrial Output	<i>percent</i>	7.3	14.9	-6.4	9.8	11.9 *
Rate of Growth of Gross Agricultural Output	<i>percent</i>	1.5	0.8	7.0	-2.6	2.3 *
Retail Turnover	<i>in millions of KGS</i>	85,896.2	123,262.0	129,487.4	135,815.6	172,110.4
Paid Services <sup>2</sup>	<i>in millions of KGS</i>	24,671.0	-	-	-	-
Rendered market Services <sup>2</sup>	<i>in millions of KGS</i>	-	248,432.9	258,156.8	267,633.0	335,393.0
Consumer Prices (in % to the previous period)		20.1	20.0	0.0	19.2	5.7
- food products		31.5	20.9	-7.4	27.0	3.5
- alcoholic beverages and tobacco products		9.1	13.0	5.2	12.9	9.8
- non-food products		9.8	16.0	10.4	14.2	9.2
- services		10.6	34.4	4.4	11.9	11.1
Producer' Prices (in % to the previous period)		11.9	26.4	12.0	22.9	21.8
Unemployment Rate	<i>percent</i>	3.3	2.9	2.6	2.6	2.5
Average Nominal Wage	<i>KGS</i>	3,990.4	5,422.0	6,253.0	7,142.0	9,352.0
Estimated Minimal Consumer Budget	<i>KGS</i>	2,795.9	3,571.0	3,263.2	3,502.7	4,390.0
<b>Financial Sector<sup>3</sup></b>						
NBKR Discount Rate (end of period)	<i>percent</i>	8.8	15.2	0.9	5.5	13.6
Government Treasury Bills Market (average yield for the period)	<i>percent</i>					
Maturity Period:						
- 3 months		4.8	12.7	10.9	4.6	8.0
- 6 months		5.7	14.3	12.3	7.4	13.0
- 12 months		7.0	15.2	13.6	12.1	16.9
- 18 months		9.6	15.2	-	-	-
- 24 months		11.4	16.4	-	-	-
Interbank Market						
Credits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	1,644.7	2,372.0	2,193.7	451.1	905.0
- interest rate (average for the period)	<i>percent</i>	3.2	7.6	7.8	4.5	9.1
Credits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	824.4	1,088.7	711.2	131.3	69.1
- interest rate (average for the period)	<i>percent</i>	6.7	5.7	6.0	2.9	3.5
REPO Transactions						
- turnover volume	<i>in millions of KGS</i>	6,988.9	6,864.1	8,613.1	4,597.9	5,116.8
- interest rate (average for the period)	<i>percent</i>	3.9	8.9	8.3	3.7	9.4
Foreign Exchange Market						
Operations at Interbank Foreign Exchange Auctions	<i>US\$ thousand</i>	614,645.0	883,483.6	670,840.0	648,340.0	907,600.0
Deposit and credit Market						
Credits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	8,367.2	9,082.7	9,993.5	11,947.3	15,162.3
- interest rate (average for the period)	<i>percent</i>	23.2	25.9	26.7	23.7	23.8
- interest rate (end of period)	<i>percent</i>	21.3	23.7	25.3	22.9	22.4
Credits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	16,145.2	15,280.9	12,005.4	10,872.1	16,742.4
- interest rate (average for the period)	<i>percent</i>	18.5	20.3	21.5	19.8	19.6
- interest rate (end of period)	<i>percent</i>	18.1	19.5	20.6	19.3	17.8
Deposits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	21,973.3	31,446.2	33,842.4	56,034.1	95,086.1
- interest rate (average for the period)	<i>percent</i>	2.1	2.5	2.8	2.0	2.2
- interest rate (end of period)	<i>percent</i>	4.6	6.0	5.3	4.6	5.3
Deposits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	51,600.9	51,678.1	49,761.5	73,429.2	108,083.6
- interest rate (average for the period)	<i>percent</i>	0.9	0.9	1.7	1.1	0.8
- interest rate (end of period)	<i>percent</i>	2.2	1.6	2.1	2.9	2.8
<b>State Budget<sup>4</sup></b>						
Revenues	<i>in millions of KGS</i>	35,529.6	45,479.5	55,322.1	57,384.5	77,344.4
including taxes	<i>percent</i>	74.7	79.0	65.3	63.4	68.5
Expenditures	<i>in millions of KGS</i>	29,480.7	36,944.0	50,034.3	61,583.2	82,393.8
Net purchase of nonfinancial assets	<i>in millions of KGS</i>	5,918.9	6,970.9	8,211.1	6,569.2	8,488.4
Deficit (-) / Surplus (+)	<i>in millions of KGS</i>	130.0	1,564.7	-2,923.3	-10,767.9	-13,537.8
in percent of GDP	<i>percent of GDP</i>	0.1	0.8	-1.5	-4.9	-5.0
<b>External Economic Sector</b>						
Export of Goods and Services	<i>percent of GDP</i>	52.8	53.9	54.8	53.7	57.1 *
Import of Goods and Services	<i>percent of GDP</i>	84.1	92.4	79.0	84.9	85.3 *
Current Account Balance <sup>5</sup> (including transfers)	<i>percent of GDP</i>	-5.9	-13.7	-2.2	-8.4	-3.0 *
Reserve Assets	<i>months of imports of goods and services</i>	3.0	4.0	4.9	4.1	3.8 *

\* preliminary data

<sup>1</sup> NSC KR data<sup>2</sup> 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 include a more expanded list of services.<sup>3</sup> NBKR data<sup>4</sup> CT MF KR data<sup>5</sup> - Positive balance – "+"; Negative balance – "-"

From 2007 the data are given according to the modified Budget Classification (the MoF KR Order No 254-P as of December 27, 2006, registration number of the MoJ KR No 4 as of January 11, 2007)

From 2009 the data are given inclusive of PIP

"- " - no transactions

**Table 2.**

## GDP Structure

*(in percent)*

	2007	2008	2009	2010	2011 *
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Agriculture, Hunting, and Forestry	26.9	23.5	18.8	17.4	18.0
Mineral resource industry	0.5	0.5	0.5	0.6	0.8
Processing industry	9.9	13.2	14.2	17.0	16.8
Production and distribution of electricity, gas, and water	2.7	1.4	2.2	3.1	3.1
Construction	3.6	5.3	6.7	5.5	4.9
Trade, repair of motor vehicles, household goods, and personal use items	17.9	16.3	16.8	16.0	16.1
Hotels and restaurants	1.2	1.3	1.3	1.3	1.3
Transportation and communication	7.4	7.9	8.8	8.6	8.2
Other	16.4	17.4	19.7	20.3	19.3
Net taxes on products	13.5	13.1	11.0	10.2	11.5

*NSC KR data*\* *preliminary data***Table 3.**

## Structure of Capital Investments by Sources of Financing

*(in percent)*

	2007	2008	2009	2010	2011 *
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Domestic investments</b>	<b>78.5</b>	<b>64.0</b>	<b>70.6</b>	<b>76.6</b>	<b>71.3</b>
including those financed by:					
Republican budget	8.8	10.9	13.1	7.3	9.5
Local budget	2.4	1.8	2.1	1.5	1.3
Funds of enterprises and organizations	40.8	22.9	18.7	36.3	34.9
Credit to Banks	0.6	0.8	5.9	7.0	0.6
Funds of the population and others	25.9	27.6	30.8	24.5	25.0
Charitable aid	-	-	-	0.02	-
<b>Foreign investments</b>	<b>21.5</b>	<b>36.0</b>	<b>29.4</b>	<b>23.4</b>	<b>28.7</b>
including those financed by:					
Foreign credits	10.7	12.7	17.5	12.6	18.5
Foreign direct investments	7.0	19.7	9.3	7.3	6.8
Foreign grants and humanitarian aid	3.9	3.6	2.6	3.5	3.4

*NSC KR data*\* *preliminary data*"- " - *no transactions*

**Table 4.**

## Monetary Base and Monetary Aggregates (end of period)

*(in millions of KGS)*

	2007	2008	2009	2010	2011
Base money	31,575.9	35,150.8	41,587.7	48,597.3	54,803.2
Currency in circulation	27,561.9	30,803.3	35,738.7	43,290.3	49,866.9
Currency outside Banks (M0)	26,674.7	29,385.1	33,882.3	41,471.2	47,219.6
Monetary aggregate (M1)	31,555.2	34,270.2	40,181.7	50,092.8	56,946.3
Broad money (M2)	34,766.2	38,209.3	43,490.0	53,745.4	62,125.3
Monetary aggregate (M2X)	43,018.0	48,453.2	57,126.4	69,207.7	79,527.8
Multiplier M1	1.00	0.97	0.97	1.03	1.04
Multiplier M2	1.10	1.09	1.05	1.11	1.13
Multiplier M2X	1.36	1.38	1.37	1.42	1.45
M1 Velocity	5.52	5.80	5.97	5.13	5.30
M2 Velocity	5.06	5.13	5.52	4.75	4.88
M2X Velocity	4.01	4.14	4.27	3.71	3.77
Currency outside Banks/Deposits	1.63	1.54	1.46	1.50	1.46
Deposits/Broad money (M2X)	0.38	0.39	0.41	0.40	0.41

*Prior to January 1st, 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 from January 1st, 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 notes and coins 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.**

Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (end of period)

*(in millions of KGS)*

	2007	2008	2009	2010	2011
<b>Net foreign assets</b>	34,438.5	39,675.7	54,308.5	65,126.7	71,419.5
Net international reserves	36,381.6	41,660.6	62,329.4	73,474.9	79,629.0
Gold	2,468.0	2,837.4	4,002.5	5,500.4	6,139.8
Foreign currency (assets)	39,188.7	45,322.6	65,847.9	75,315.7	78,980.7
Foreign currency (liabilities)	-5,275.1	-6,499.4	-7,521.0	-7,341.3	-5,491.5
Other external assets	85.2	116.0	133.3	134.3	135.0
Allocation of SDRs	0.0	0.0	-5,863.2	-6,096.4	-6,030.1
Long-term external liabilities	-2,028.4	-2,100.9	-2,291.1	-2,386.1	-2,314.4
<b>Net domestic assets</b>	-2,949.7	-5,133.9	-13,247.8	-16,529.4	-16,616.3
<i>Net domestic credit</i>	-1,088.8	-1,410.9	-4,383.8	-2,489.2	-1,712.7
Net claims on General Government	328.8	569.4	-1,644.2	-2,052.6	-1,158.3
Net claims on Government	328.8	569.4	1,001.3	-1,982.5	-1,143.3
Securities	4,123.6	3,505.1	2,907.5	3,026.8	3,121.1
Credit in foreign currency to the Government	1,750.8	1,972.9	2,196.1	2,333.1	2,288.2
Deposits	-5,420.3	-4,769.8	-3,975.5	-7,242.5	-6,479.7
Budgetary accounts	-1,834.1	-2,488.6	-1,583.1	-2,725.4	-5,082.8
Counterpart funds	0.0	0.0	0.0	0.0	0.0
Other Government accounts	-307.4	-412.4	-493.2	-493.8	-289.4
Government deposits in foreign currency	-3,278.8	-1,868.8	-1,899.2	-4,023.3	-1,107.6
Government credit	-125.4	-138.8	-126.8	-99.8	-72.9
Net claims on special funds	0.0	0.0	-2,645.5	-70.2	-15.0
Net claims on other depository corporations	-1,417.6	-1,946.1	-1,264.0	86.8	-398.0
Loans	291.5	304.7	322.6	342.7	1,664.8
including: overnight loans	0.0	0.0	0.0	0.0	0.0
loans in foreign currency	177.1	190.4	208.3	228.4	216.1
Securities	-1,622.0	-1,641.8	-1,059.5	-738.7	-1,566.6
including: NBKR issued notes	-1,426.5	-1,641.8	-1,059.5	-667.9	-1,359.2
Securities on REPO agreements	-195.5	0.0	0.0	-70.8	-207.4
Deposits	-87.1	-609.0	-527.0	-207.2	-496.2
including: deposits in foreign currency	-87.1	-609.0	-527.0	-207.2	-496.2
Derivatives	0.0	0.0	0.0	690.0	0.0
Net claims on other financial institutions	0.0	-34.3	-1,475.5	-523.3	-156.3
<i>Capital accounts</i>	-2,405.4	-3,892.6	-11,243.2	-16,582.8	-15,595.7
<i>Other items</i>	544.5	169.6	2,379.1	2,542.5	692.1
<b>Monetary Base</b>	31,488.8	34,541.8	41,060.7	48,597.3	54,803.2
Currency in circulation	27,561.9	30,803.3	35,738.7	43,290.3	49,866.9
Reserves of other depository corporations in national currency	3,927.0	3,738.5	5,322.0	5,307.0	4,936.3
<i>For reference only:</i>					
<b>Monetary base - broad definition</b>	31,575.9	35,150.8	41,587.7	48,804.5	55,299.5
Currency in circulation	27,561.9	30,803.3	35,738.7	43,290.3	49,866.9
Reserves of other depository corporations	4,014.0	3,835.1	5,446.7	5,514.2	5,275.6
Reserves of other depository corporations in national currency	3,927.0	3,738.5	5,322.0	5,307.0	4,936.3
Reserves of other depository corporations in foreign currency	87.1	96.6	124.8	207.2	339.3
Deposits in foreign currency	0.0	512.4	402.3	0.0	156.9

*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 200.

2. Starting January 1st, 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 2007-2009 are given according to the new structure of the Analytic Balance Sheet of the NBKR.

**Table 6.**

## External Economic Indicators

	Unit of Measurement	2007	2008	2009	2010	2011 *
<b>Balance of Payments Indicators</b>						
Total balance	<i>US\$ million</i>	316.5	93.3	234.8	54.6	101.2
	<i>in percent of GDP</i>	8.3	1.8	5.0	1.2	1.7
Current account balance <sup>1</sup>	<i>US\$ million</i>	-225.9	-705.4	-104.6	-385.1	-178.3
	<i>in percent of GDP</i>	-5.9	-13.7	-2.2	-8.4	-3.0
Export of goods (FOB)	<i>US\$ million</i>	1,337.8	1,874.4	1,693.8	1,778.7	2,276.6
	<i>in percent of GDP</i>	35.0	36.5	36.3	38.7	38.3
Import of goods (FOB)	<i>US\$ million</i>	2,613.6	3,753.5	2,813.6	2,980.9	3,945.7
	<i>in percent of GDP</i>	68.3	73.1	60.3	64.8	66.4
Reserve assets	<i>months of import of goods and services of the following year</i>	3.0	4.0	4.9	4.1	3.8
<b>Public External Debt</b>						
Public external debt <sup>2</sup>	<i>US\$ million</i>	2,079.5	2,083.8	2,502.9	2,645.3	2,845.4
	<i>in percent of GDP</i>	54.3	40.6	53.7	57.5	47.9
	<i>in percent of export of goods and services</i>	102.8	75.2	98.0	107.0	83.8
Public external debt servicing (schedule) <sup>3</sup>	<i>US\$ million</i>	69.1	80.2	85.2	91.4	94.9
	<i>in percent of GDP</i>	1.8	1.6	1.8	2.0	1.6
	<i>in percent of export of goods and services</i>	3.4	2.9	3.3	3.7	2.8
Public external debt servicing (fact)	<i>US\$ million</i>	66.3	76.8	77.5	85.1	93.6
	<i>in percent of GDP</i>	1.7	1.5	1.7	1.8	1.6
	<i>in percent of export of goods and services</i>	3.3	2.8	3.0	3.4	2.8

\* - preliminary data

<sup>1</sup> - positive balance – “+” ; negative balance – “-”<sup>2</sup> - including IMF loans<sup>3</sup> - 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	2007	2008	2009	2010	2011
<b>NBKR Credits</b>						
Credits (overnight)	<i>in millions of KGS</i>	-	1,284.5	635.8	2,656.0	4,050.7
Intraday credits	<i>in millions of KGS</i>	-	-	-	-	129.0
Last resort credits	<i>in millions of KGS</i>	-	-	-	-	-
<b>NBKR Discount Rate (end of period)</b>	<i>in percent</i>	8.8	15.2	0.9	5.5	13.6
<b>NBKR Notes</b>						
	<i>in millions of KGS</i>					
maturity:						
7 days						
sales volume	<i>in millions of KGS</i>	-	2,504.8	4,987.6	1,772.5	3,998.4
average yield	<i>in percent</i>	-	9.2	4.8	1.9	6.2
14 days						
sales volume	<i>in millions of KGS</i>	1,773.7	8,323.5	7,182.0	1,871.7	6,974.2
average yield	<i>in percent</i>	5.0	10.2	6.9	2.3	7.7
28 days						
sales volume	<i>in millions of KGS</i>	2,417.4	7,794.1	8,346.1	5,279.8	11,889.2
average yield	<i>in percent</i>	5.8	11.6	7.6	2.8	10.9
91 days						
sales volume	<i>in millions of KGS</i>	38.1	482.2	156.0	-	-
average yield	<i>in percent</i>	9.6	11.8	18.4	-	-
182 days						
sales volume	<i>in millions of KGS</i>	-	20.0	-	-	-
average yield	<i>in percent</i>	-	10.5	-	-	-
<b>Open Market Transactions</b>						
Direct REPO	<i>in millions of KGS</i>	-	-	-	-	-
Reverse REPO	<i>in millions of KGS</i>	3,562.6	1,751.3	556.8	70.8	2,278.5
<b>NBKR Deposit Transactions in National Currency</b>						
volume	<i>in millions of KGS</i>	1,664.0	-	-	-	-
average interest rate	<i>in percent</i>	1.9	-	-	-	-
<b>NBKR Deposit Transactions in Foreign Currency</b>						
volume	<i>in millions of US\$</i>	-	13.0	21.5	11.0	32.5
<b>NBKR Foreign Exchange Interventions</b>						
Purchase		282.3	228.5	66.8	28.9	120.5
Sale	<i>in millions of US\$</i>	43.0	175.6	221.9	263.7	281.2
<b>NBKR SWAP Foreign Exchange Transactions</b>						
Purchase		-	-	-	14.7	-
Sale	<i>in millions of US\$</i>	48.9	69.0	-	-	-
<b>Reserve Requirements</b>						
Reserve requirement ratio (end of period)	<i>in percent</i>	10.0	10.0	9.5	8.0	9.0
Required reserves (annual average)	<i>in millions of KGS</i>	1,779.4	2,290.1	2,904.9	2,744.7	2,802.1
Excess reserves (annual average)	<i>in millions of KGS</i>	961.4	1,449.9	1,341.8	1,720.0	1,565.4

"- " - no transactions

**Table 8.**

## Interest Rates of Deposits in National Currency (for the period)

(in percent)

	2007	2008	2009	2010	2011
<b>Deposits of Legal Entities</b>					
<i>demand deposits</i> <sup>1</sup>				<b>0.88</b>	<b>1.46</b>
<i>time deposits</i>	<b>4.71</b>	<b>4.95</b>	<b>7.69</b>	<b>8.83</b>	<b>8.74</b>
<i>of which:</i>					
up to 1 month	0.97	3.29	1.78	4.34	5.86
1-3 months	4.59	5.21	4.90	4.60	5.89
3-6 months	7.95	7.65	8.00	8.42	9.49
6-12 months	8.41	7.62	10.17	10.93	11.69
over 1 year	9.31	8.06	10.25	13.59	11.32
<b>Deposits of Individuals</b>					
<i>demand deposits</i>	<b>0.21</b>	<b>0.46</b>	<b>0.44</b>	<b>0.79</b>	<b>1.00</b>
<i>time deposits:</i>	<b>9.70</b>	<b>10.28</b>	<b>11.24</b>	<b>11.10</b>	<b>11.49</b>
<i>of which:</i>					
up to 1 month	3.01	3.20	4.23	4.75	4.62
1-3 months	5.73	5.88	6.39	5.74	6.26
3-6 months	8.31	8.79	9.50	9.52	9.54
6-12 months	10.44	11.11	12.38	12.28	12.50
over 1 year	11.85	12.65	14.03	13.98	14.27
<b>Deposits of Non-Residents</b> <sup>2</sup>					
<i>demand deposits</i>				<b>0.02</b>	<b>0.01</b>
<i>time deposits:</i>				<b>10.58</b>	<b>10.60</b>
<i>of which:</i>					
up to 1 month				6.07	6.79
1-3 months				6.24	6.48
3-6 months				8.98	9.33
6-12 months				11.68	11.25
over 1 year				13.93	14.25
<b>Average Weighted Rate</b>	<b>2.13</b>	<b>2.45</b>	<b>2.81</b>	<b>1.96</b>	<b>2.20</b>

<sup>1</sup> Starting January 1st, 2010 demand deposits are shown as a separate category of the deposits of legal entities<sup>2</sup> Starting January 1st, 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)

	2007	2008	2009	2010	2011
<b>Deposits of Legal Entities</b>					
<i>demand deposits</i> <sup>1</sup>				<b>0.32</b>	<b>0.65</b>
<i>time deposits</i>	<b>4.91</b>	<b>3.61</b>	<b>6.21</b>	<b>4.77</b>	<b>4.39</b>
<i>of which:</i>					
up to 1 month	2.51	2.38	1.38	3.18	0.92
1-3 months	4.88	3.83	3.66	2.99	2.81
3-6 months	4.55	3.79	6.27	4.45	5.90
6-12 months	7.59	5.38	9.58	6.68	7.40
over 1 year	6.05	5.17	9.91	8.26	7.58
<b>Deposits of Individuals</b>					
<i>demand deposits</i>	<b>0.02</b>	<b>0.02</b>	<b>0.04</b>	<b>0.03</b>	<b>0.01</b>
<i>time deposits</i>	<b>6.14</b>	<b>8.31</b>	<b>9.36</b>	<b>8.05</b>	<b>7.16</b>
<i>of which:</i>					
up to 1 month	2.15	1.58	2.16	1.99	2.04
1-3 months	4.29	4.40	5.10	4.30	4.01
3-6 months	6.63	7.21	8.64	6.96	6.29
6-12 months	8.93	9.51	11.13	9.85	8.94
over 1 year	7.11	10.93	12.62	11.21	10.53
<b>Deposits of Non-Residents</b> <sup>2</sup>					
<i>demand deposits</i>				<b>0.01</b>	<b>0.00</b>
<i>time deposits</i>				<b>8.58</b>	<b>8.10</b>
<i>of which:</i>					
up to 1 month				2.12	3.72
1-3 months				4.50	5.08
3-6 months				6.95	6.64
6-12 months				9.76	8.44
over 1 year				11.31	10.16
<b>Average Weighted Rate</b>	<b>0.87</b>	<b>0.92</b>	<b>1.67</b>	<b>1.13</b>	<b>0.82</b>

<sup>1</sup> Starting January 1st, 2010 demand deposits are shown as a separate category of the deposits of legal entities<sup>2</sup> Starting January 1st, 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)

	2007	2008	2009	2010	2011
<b>Average Weighted Rate</b>	<b>23.2</b>	<b>25.9</b>	<b>26.7</b>	<b>23.7</b>	<b>23.8</b>
Industry	22.7	24.8	25.4	24.8	22.0
Agriculture	19.9	25.4	26.8	23.0	20.2
Transportation and communication	24.6	25.3	27.8	26.0	24.2
Trade	25.8	26.6	27.8	23.9	24.2
Procurement and processing	16.8	23.0	27.0	21.3	20.6
Construction	19.1	22.2	22.5	22.9	21.7
Mortgage	18.3	19.2	20.5	20.7	20.1
To individuals	27.1	28.9	29.3	26.8	29.9
Other	21.8	25.6	24.0	23.7	21.7
including:					
<b>up to 1 month</b>	<b>23.7</b>	<b>27.5</b>	<b>27.5</b>	<b>29.1</b>	<b>31.1</b>
Industry	24.5	22.0	19.6	-	18.3
Agriculture	29.0	26.0	26.3	-	26.0
Transportation and communication	25.0	-	29.4	-	-
Trade	21.6	25.7	30.7	32.0	34.2
Procurement and processing	-	-	27.0	-	-
Construction	22.3	13.0	22.8	32.5	-
Mortgage	-	-	-	-	-
To individuals	29.9	32.7	31.9	30.5	31.7
Other	26.0	29.6	25.2	26.6	26.9
<b>1-3 months</b>	<b>24.6</b>	<b>23.3</b>	<b>21.7</b>	<b>29.4</b>	<b>33.9</b>
Industry	21.6	21.9	17.6	27.7	29.7
Agriculture	32.3	33.5	31.0	31.5	28.3
Transportation and communication	15.5	32.0	31.5	30.5	-
Trade	24.3	24.9	25.9	29.4	33.1
Procurement and processing	-	20.0	-	-	-
Construction	19.7	27.6	17.0	25.0	23.3
Mortgage	24.0	25.0	-	-	-
To individuals	32.1	26.0	31.9	33.7	40.9
Other	29.7	30.5	29.9	26.1	23.6
<b>3-6 months</b>	<b>23.7</b>	<b>24.1</b>	<b>26.0</b>	<b>31.2</b>	<b>37.0</b>
Industry	26.9	24.9	28.4	28.5	25.7
Agriculture	31.0	32.9	31.7	31.3	30.5
Transportation and communication	25.2	26.6	25.9	31.4	30.7
Trade	23.7	24.6	26.5	30.5	33.3
Procurement and processing	22.5	23.0	27.0	30.2	20.0
Construction	24.0	24.0	19.9	28.9	29.9
Mortgage	30.0	-	32.3	28.0	-
To individuals	28.3	35.5	38.4	40.5	45.9
Other	28.8	31.7	25.5	25.5	26.3
<b>6-12 months</b>	<b>27.0</b>	<b>28.8</b>	<b>28.8</b>	<b>27.5</b>	<b>28.1</b>
Industry	25.5	27.2	31.1	27.2	26.8
Agriculture	29.7	30.2	31.8	29.4	24.7
Transportation and communication	31.5	30.3	30.1	30.5	27.5
Trade	27.7	28.7	29.7	27.4	29.1
Procurement and processing	24.2	20.8	26.9	23.6	20.0
Construction	22.6	24.4	24.4	27.4	25.5
Mortgage	22.2	23.8	25.4	24.0	24.1
To individuals	29.7	31.1	30.2	29.6	34.1
Other	23.5	27.8	26.7	24.6	22.7
<b>over 1 year</b>	<b>20.8</b>	<b>24.4</b>	<b>26.2</b>	<b>22.4</b>	<b>21.9</b>
Industry	22.4	26.1	28.8	24.6	21.3
Agriculture	16.6	23.7	25.8	21.6	20.0
Transportation and communication	25.8	26.9	30.1	24.8	24.2
Trade	24.7	25.6	27.3	22.6	22.1
Procurement and processing	15.7	23.1	26.9	21.1	20.8
Construction	17.8	21.1	25.0	22.5	21.5
Mortgage	18.2	19.1	20.3	20.7	20.0
To individuals	24.2	26.2	28.2	24.2	25.9
Other	21.7	25.0	25.1	23.9	21.6

"- " - no transactions

**Table 11.**

Interest Rates on Credits of Commercial Banks in Foreign Currency (for the period)

(in percent)

	2007	2008	2009	2010	2011
<b>Average Weighted Rate</b>	<b>18.5</b>	<b>20.3</b>	<b>21.5</b>	<b>19.8</b>	<b>19.6</b>
Industry	16.6	18.5	19.1	18.1	16.5
Agriculture	20.5	21.7	26.5	21.9	21.6
Transportation and communication	20.2	21.8	24.5	21.6	22.1
Trade	19.2	20.9	21.6	20.0	20.8
Procurement and processing	17.9	18.0	18.0	21.4	17.2
Construction	16.2	17.8	18.2	19.1	18.2
Mortgage	16.7	18.2	20.1	19.9	18.1
To individuals	23.2	25.5	28.0	25.5	22.0
Other	17.9	19.6	20.2	18.4	16.5
including:					
<b>up to 1 month</b>	<b>21.8</b>	<b>25.1</b>	<b>26.5</b>	<b>29.9</b>	<b>30.5</b>
Industry	15.0	19.1	20.0	14.3	18.0
Agriculture	20.0	-	-	-	-
Transportation and communication	-	-	-	-	-
Trade	18.5	22.1	22.6	27.5	29.7
Procurement and processing	-	-	-	-	-
Construction	20.0	20.0	-	-	-
Mortgage	-	-	-	-	17.0
To individuals	31.4	31.5	34.0	33.4	32.1
Other	18.4	18.5	18.6	22.2	25.4
<b>1-3 months</b>	<b>18.0</b>	<b>21.0</b>	<b>21.7</b>	<b>21.9</b>	<b>26.0</b>
Industry	17.7	20.8	19.3	21.6	19.3
Agriculture	27.5	16.0	31.5	31.8	27.0
Transportation and communication	5.0	-	-	-	25.0
Trade	17.9	20.9	21.4	24.1	26.2
Procurement and processing	20.0	-	-	-	-
Construction	18.7	19.0	-	14.0	17.0
Mortgage	21.0	18.0	-	17.3	18.0
To individuals	20.9	21.8	20.0	32.3	27.6
Other	19.6	21.0	37.7	26.2	22.7
<b>3-6 months</b>	<b>16.8</b>	<b>18.8</b>	<b>18.2</b>	<b>19.4</b>	<b>19.4</b>
Industry	18.7	18.6	16.7	21.3	26.4
Agriculture	24.0	26.2	29.9	26.5	22.4
Transportation and communication	22.0	-	30.2	22.0	31.0
Trade	16.7	18.9	18.0	19.1	18.2
Procurement and processing	20.0	0.0	-	30.2	25.2
Construction	16.8	17.6	20.0	14.0	22.8
Mortgage	17.5	26.0	-	-	-
To individuals	22.1	21.3	22.6	28.1	31.0
Other	20.4	21.6	24.6	23.3	19.1
<b>6-12 months</b>	<b>20.1</b>	<b>20.8</b>	<b>21.9</b>	<b>19.4</b>	<b>18.3</b>
Industry	16.3	17.8	19.3	18.0	17.6
Agriculture	23.5	23.2	29.2	26.8	25.7
Transportation and communication	24.0	26.7	28.6	26.1	24.9
Trade	20.3	21.3	21.8	20.1	18.2
Procurement and processing	18.7	-	18.0	-	22.0
Construction	18.1	19.7	22.9	24.3	24.1
Mortgage	19.7	21.7	24.5	20.6	18.2
To individuals	24.4	27.1	28.3	23.5	21.1
Other	19.1	20.4	20.8	18.9	19.0
<b>over 1 year</b>	<b>18.3</b>	<b>20.2</b>	<b>22.0</b>	<b>19.8</b>	<b>17.9</b>
Industry	17.1	18.5	19.1	19.1	16.5
Agriculture	19.7	23.0	25.2	20.8	20.7
Transportation and communication	20.6	21.6	23.8	20.9	21.9
Trade	19.9	21.6	22.6	20.1	18.4
Procurement and processing	18.0	18.0	18.0	19.7	16.5
Construction	15.8	17.6	18.1	19.4	17.6
Mortgage	16.7	18.1	19.8	20.0	18.2
To individuals	20.2	23.1	26.1	23.4	20.6
Other	17.6	19.4	20.2	18.6	16.1

"-" - no transactions

**Table 12.**

Annual Average Interest Rate on Interbank Credits  
(excluding transactions with non-residents)  
(in percent)

	2007	2008	2009	2010	2011
<b>Interbank REPO Transactions</b>	<b>3.9</b>	<b>8.9</b>	<b>8.3</b>	<b>3.7</b>	<b>9.4</b>
up to 1 day	4.2	8.8	10.4	3.9	9.0
2 - 7 days	3.8	8.9	8.3	3.7	9.4
8 - 14 days	4.9	9.7	7.8	3.7	9.5
15 - 30 days	4.2	11.7	4.8	-	12.0
31 - 60 days	6.8	6.6	-	-	-
61 - 90 days	-	6.3	7.0	-	-
91 - 180 days	-	7.1	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	9.5	-	-	-	-
<b>Interbank Credits in National Currency</b>	<b>3.2</b>	<b>7.6</b>	<b>7.8</b>	<b>4.5</b>	<b>9.1</b>
up to 1 day	4.5	8.8	11.6	-	10.3
2 - 7 days	3.3	8.1	9.1	4.8	9.5
8 - 14 days	3.5	8.4	7.8	4.2	9.8
15 - 30 days	3.0	6.9	3.9	5.0	7.0
31 - 60 days	2.4	8.6	13.0	-	10.0
61 - 90 days	2.8	5.7	5.5	-	-
91 - 180 days	-	6.8	4.7	-	-
181 - 360 days	-	6.1	-	-	-
over 360 days	-	-	-	-	-
<b>Interbank Credits in Foreign Currency</b>	<b>6.7</b>	<b>5.7</b>	<b>6.0</b>	<b>2.9</b>	<b>3.5</b>
up to 1 day	7.0	5.8	3.8	-	3.0
2 - 7 days	5.5	3.9	6.3	2.9	1.0
8 - 14 days	3.5	6.1	1.8	-	-
15 - 30 days	5.5	3.9	4.3	-	-
31 - 60 days	6.1	4.3	-	3.5	5.0
61 - 90 days	6.8	3.9	-	-	-
91 - 180 days	8.5	10.2	9.7	-	5.0
181 - 360 days	8.2	4.4	-	-	-
over 360 days	-	-	-	-	-

"-" - no transactions

**Table 13.**

## Balance of Payments of the Kyrgyz Republic

*(in millions of US Dollars)*

	2007	2008	2009	2010	2011 *
<b>Current Account</b>	<b>-225.9</b>	<b>-705.4</b>	<b>-104.6</b>	<b>-385.1</b>	<b>-178.3</b>
Goods and services	-1,195.5	-1,975.9	-1,128.8	-1,433.3	-1,678.6
Trade balance <sup>1</sup>	-1,275.8	-1,879.2	-1,119.8	-1,202.2	-1,669.1
Export (FOB)	1,337.8	1,874.4	1,693.8	1,778.7	2,276.6
CIS	753.9	1,011.7	752.8	784.2	1,034.3
Non-CIS	583.9	862.7	941.0	994.5	1,242.3
Import (FOB)	2,613.6	3,753.5	2,813.6	2,980.9	3,945.7
CIS	1,420.7	2,025.4	1,593.7	1,590.2	2,023.6
Non-CIS	1,192.9	1,728.1	1,219.9	1,390.6	1,922.2
Balance of services	80.3	-96.8	-9.1	-231.1	-9.5
Transportation services	-197.8	-342.4	-277.5	-266.6	-332.0
Travels	233.6	210.1	191.9	12.5	220.0
Construction services	5.0	10.4	0.5	21.0	13.7
Other services	59.4	45.1	96.6	22.7	110.6
Technical assistance	-20.0	-20.0	-20.5	-20.7	-21.7
Income	-48.9	-205.5	-182.9	-343.1	-317.2
Income from direct investments	-37.2	-176.6	-120.1	-286.4	-265.8
Income from portfolio investments	0.2	0.5	4.2	0.2	0.1
Income from other investments	8.9	-5.1	-41.2	-24.6	-20.8
Interests on credits	-24.5	-28.5	-44.4	-35.2	-37.3
Other income from other investments	33.4	23.4	3.2	10.5	16.5
Remuneration of labour	-20.8	-24.3	-25.8	-32.3	-30.8
Current transfers	1,018.5	1,476.0	1,207.1	1,391.3	1,817.6
Official transfers	30.9	45.9	194.9	78.2	101.5
Private transfers	987.6	1,430.1	1,012.1	1,313.1	1,716.1
<b>Capital and Financial Account</b>	<b>272.7</b>	<b>-50.2</b>	<b>715.6</b>	<b>535.3</b>	<b>331.8</b>
Capital account	-74.9	-44.9	-14.0	-62.1	-22.7
Capital transfers	-74.9	-44.9	-14.0	-62.1	-22.7
Financial account	347.6	-5.3	729.5	597.4	354.5
Direct investments <sup>1</sup>	208.9	377.1	189.6	437.6	391.0
Portfolio investments <sup>2</sup>	-14.3	-230.0	161.9	164.3	-39.6
Financial derivatives	0.0	0.0	0.0	0.0	0.0
Other investments	153.0	-152.4	378.1	-4.5	3.1
Assets ("-" increase)	19.4	-362.7	-217.2	106.8	-177.1
Commercial banks	37.7	-115.9	-157.9	199.9	-10.7
Accounts receivable	-27.6	-224.0	-7.5	-82.3	-50.2
Accounts of enterprises abroad	-10.9	-3.4	-49.5	-10.8	-116.3
Other assets	20.3	-19.3	-2.3	0.0	0.0
Liabilities ("+" increase)	133.6	210.3	595.2	-111.3	180.2
Commercial banks	66.6	48.4	50.4	-204.0	-3.4
Credits	53.6	40.3	453.7	75.3	136.5
Credits to public sector	38.5	12.9	332.9	110.8	93.6
Credits to private sector	15.1	27.5	120.8	-35.4	42.9
Accounts payable	13.3	121.6	-41.0	17.3	47.1
Other liabilities	0.0	0.0	132.2	0.0	0.0
<b>Errors and Omissions</b>	<b>269.7</b>	<b>848.9</b>	<b>-376.2</b>	<b>-95.5</b>	<b>-52.3</b>
<b>Total Balance</b>	<b>316.5</b>	<b>93.3</b>	<b>234.8</b>	<b>54.6</b>	<b>101.2</b>
<b>Financing</b>	<b>-316.5</b>	<b>-93.3</b>	<b>-234.8</b>	<b>-54.6</b>	<b>-101.2</b>
NBKR reserves	-306.8	-121.3	-267.7	-112.3	-112.8
NBKR foreign liabilities	-20.7	18.7	3.5	9.1	-9.1
Late payments	11.0	9.2	29.5	48.6	20.7
Financing gap	0.0	0.0	0.0	0.0	0.0

\* - preliminary data

<sup>1</sup> - including NBKR estimates<sup>2</sup> - including NBKR data

**Table 14.**

## Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors

*(in millions of US Dollars)*

	2007	2008	2009	2010	2011 *
<b>External Public and Government Guaranteed Debt (1+2+3):</b>	<b>2,079.5</b>	<b>2,083.8</b>	<b>2,502.9</b>	<b>2,645.3</b>	<b>2,845.4</b>
<b>1. Multilateral debt:</b>	<b>1,461.7</b>	<b>1,462.1</b>	<b>1,490.8</b>	<b>1,486.9</b>	<b>1,549.5</b>
World Bank	656.5	648.2	656.0	649.2	655.5
Asian Development Bank	586.2	586.7	610.1	590.7	619.1
International Monetary Fund	149.8	164.5	167.1	176.2	184.9
Islamic Bank of Reconstruction and Development	36.3	35.2	34.9	46.6	60.3
European Bank for Reconstruction and Development	10.4	6.0	2.1	5.3	12.0
International Fund for Agricultural Development	10.3	10.3	10.1	9.6	9.4
Nordic Development Fund	7.4	6.8	6.9	6.6	6.2
OPEC	4.9	4.2	3.5	2.7	2.0
<b>2. Bilateral debt</b>	<b>616.1</b>	<b>620.7</b>	<b>1,011.8</b>	<b>1,158.4</b>	<b>1,295.9</b>
<b>2.1. CIS countries:</b>	<b>200.1</b>	<b>196.4</b>	<b>493.6</b>	<b>505.1</b>	<b>490.5</b>
Russia	191.5	193.6	493.6	505.1	490.3
Uzbekistan	8.6	2.9	-	-	-
Byelorussia	-	-	-	-	0.14
<b>2.2. Other:</b>	<b>416.0</b>	<b>424.3</b>	<b>518.2</b>	<b>653.3</b>	<b>805.5</b>
Japan	242.8	251.2	302.5	344.8	366.1
Germany	69.6	74.3	76.8	67.9	80.6
Turkey	49.3	50.1	49.8	49.5	49.2
Korea	18.2	13.6	14.6	15.0	14.5
Kuwait Fund	16.8	16.6	17.9	16.1	13.4
China	8.6	9.1	46.8	150.8	272.5
France	6.5	6.2	6.4	5.9	5.8
Denmark	3.2	3.3	3.4	3.3	3.3
India	1.0	-	-	-	-
<b>3. Government guaranteed external debt</b>	<b>1.7</b>	<b>1.0</b>	<b>0.3</b>	<b>-</b>	<b>-</b>

\* - preliminary data

"- " - no transactions

Table 15.

Information on Authorized (Shareholders') Capital of Commercial Banks (as of the end of period)

(in millions of KGS)

Bank	2007			2008			2009			2010			2011		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
	<b>Total</b>	<b>6,105.5</b>	<b>5,815.8</b>	<b>3,566.9</b>	<b>7,850.4</b>	<b>7,813.4</b>	<b>4,540.8</b>	<b>8,903.0</b>	<b>8,666.0</b>	<b>4,588.1</b>	<b>7,774.7</b>	<b>7,518.6</b>	<b>2,634.3</b>	<b>8,799.4</b>	<b>8,362.4</b>
OJSC "AsiaUniversalBank"	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 "Aiyi Bank"	400.0	300.0	-	480.0	480.0	0.0	560.0	560.0	0.0	560.0	560.0	0.0	600.0	600.0	0.0
OJSC Investment Joint Stock Commercial Bank "Akyi" <sup>1</sup>	-	-	-	-	-	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
OJSC Russia-Kyrgyz "AMANBANK"	263.0	263.0	43.9	300.0	263.0	0.2	300.0	263.0	0.2	300.0	300.0	0.2	300.0	300.0	0.2
OJSC "UniCredit Bank"	500.0	500.0	470.9	700.0	700.0	670.9	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0
CJSC "Bank of Asia"	79.8	79.8	-	126.0	126.0	0.0	146.0	146.0	108.8	202.1	146.0	108.8	202.1	201.6	150.2
OJSC "BAKAI BANK"	125.0	125.0	-	160.0	160.0	0.0	200.0	200.0	0.0	216.0	216.0	0.0	265.2	265.2	0.0
CJSC "BTA Bank"	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	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"	180.0	180.0	-	200.0	200.0	0.0	242.0	242.0	0.0	270.7	270.7	0.0	270.7	270.7	0.0
OJSC "Zalkar Bank"	-	-	-	-	-	-	-	-	-	40.9	40.9	0.0	40.9	40.9	0.0
OJSC Investment Bank "Issyk-Kul"	271.0	71.3	0.3	271.0	271.0	0.3	271.0	271.0	0.1	271.0	271.0	0.3	271.0	271.0	0.3
OJSC "Kazkommertsbank Kyrgyzstan"	100.0	100.0	93.7	120.5	120.5	114.2	120.5	120.5	114.0	153.5	153.5	147.0	153.5	153.5	147.0
CJSC "Kyrgyz Investment Credit Bank"	355.0	355.0	319.5	394.2	394.2	354.8	440.9	440.9	396.8	471.0	471.0	423.9	471.0	471.0	423.9
OJSC "KyrgyzCreditBank"	200.0	200.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1
OJSC "Kyrgyzpromstroibank" <sup>2</sup>	110.0	110.0	-	-	-	-	-	-	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	160.9	160.9	-	160.9	160.9	0.0	160.9	160.9	2.2	160.9	160.9	3.3	420.2	420.2	0.0
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	377.7	377.7	377.7
OJSC "SSC Bank" <sup>3</sup>	116.2	116.2	-	425.0	425.0	0.0	844.0	844.0	0.0	844.0	844.0	0.0	1,244.0	844.0	0.0
CJSC JSCB "Tolubai"	88.0	88.0	1.7	105.0	105.0	2.0	125.0	125.0	2.3	144.0	144.0	2.5	200.0	163.5	2.9
OJSC "FinanceCreditBank KAB"	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	0.0	300.0	300.0	0.0	300.0	300.0	281.7
OJSC "Halyk Bank Kyrgyzstan"	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
OJSC "EcolIslamicBank"	258.7	258.7	-	372.4	372.4	0.0	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	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1	201.5	201.5	201.5	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

<sup>1</sup> Since May 31, 2009, OJSC Investment Joint Stock Commercial Bank "Akyi" was included in the banking system of the Kyrgyz Republic (former Investment Joint Stock Bank "Akyi"), the Licence for which was restored and reissued on February 27, 2009, due to its rehabilitation.<sup>2</sup> Since November 1, 2008, OJSC "Kyrgyzpromstroibank" was merged with OJSC "Isat Universal Bank"<sup>3</sup> Since October 3, 2008, OJSC "The Settlement and Savings Company" was renamed as OJSC "SSC Bank"

**Table 16.**

## Consolidated Regulative Report of Commercial Banks of the KR

*(in millions of KGS)*

	2007	2008	2009	2010	2011
<b>ASSETS</b>					
Cash assets	2,088.1	2,967.2	3,738.7	3,870.5	6,305.3
Correspondent account in NBKR	4,014.0	3,835.0	5,446.1	5,513.7	5,431.1
Correspondent accounts in other banks	3,694.8	8,280.0	16,777.9	7,389.8	7,904.9
Deposits with in other banks	1,374.3	1,655.1	1,834.2	3,102.1	1,636.9
Securities portfolio	4,899.0	5,727.4	7,662.8	4,142.5	5,663.5
Short-term placements	149.1	684.2	739.1	1,004.2	93.0
Securities purchased on REPO agreements	334.2	257.7	300.1	101.8	245.2
Net credit and financial lease <sup>1/</sup>	21,868.6	26,584.8	24,709.3	24,552.5	30,784.2
Credits and financial lease to finance and credit institutions	1,515.3	1,770.3	797.2	1,064.5	1,596.6
Credits and financial lease to clients <sup>2/</sup>	20,797.6	25,573.6	25,120.7	26,310.8	31,141.8
(less) Special LLP on credits and financial lease	444.2	759.2	1,208.6	2,822.8	1,954.2
Fixed assets	2,250.1	3,427.6	3,781.6	3,954.8	4,091.8
Borrower's real assets accepted as asset pay down	37.2	34.6	188.0	323.9	558.3
Other borrower's property accepted as asset pay down	15.1	46.9	78.0	56.3	1.2
Investment in nonconsolidated companies	1.1	115.0	127.2	77.2	65.4
Other assets	1,408.8	1,310.7	2,601.9	3,841.6	3,973.7
<b>TOTAL: ASSETS</b>	<b>42,134.3</b>	<b>54,926.1</b>	<b>67,984.7</b>	<b>57,930.9</b>	<b>66,754.5</b>
<b>LIABILITIES</b>					
Demand deposits of legal entities <sup>3/</sup>	10,244.8	13,946.9	21,147.5	14,048.9	13,897.2
Deposits of individuals <sup>4/</sup>	6,235.2	6,882.0	9,606.9	12,106.4	16,149.2
Time deposits of legal entities	2,563.4	2,371.6	2,413.7	1,442.8	2,096.9
Liabilities to the NBKR	13.3	8.2	4.0	0.7	308.4
Correspondent accounts	225.9	39.8	531.7	443.2	77.0
Deposits of other banks <sup>5/</sup>	3,619.7	4,878.6	4,539.3	3,300.2	3,377.0
Short-term placements	284.0	142.6	62.7	0.0	0.0
Government deposits and credits	3,781.6	4,931.1	6,559.0	6,026.3	6,273.8
Securities sold on REPO agreements	140.8	170.3	300.1	231.0	82.4
Received credits	3,756.4	6,619.9	4,368.8	3,690.1	5,288.5
Subordinated bonds	324.9	127.5	132.6	129.0	124.2
Other liabilities	1,946.6	1,985.3	3,396.7	3,929.3	4,645.0
<b>TOTAL: LIABILITIES</b>	<b>33,136.6</b>	<b>42,103.8</b>	<b>53,063.1</b>	<b>45,347.9</b>	<b>52,319.5</b>
<b>CAPITAL</b>					
Stock capital	8,464.3	11,694.0	13,641.3	11,319.1	13,198.5
a) common shares	5,801.8	7,809.6	8,663.4	7,516.1	8,359.8
b) privileged shares	3.8	2.6	2.6	2.6	2.6
c) capital above the par	130.1	121.8	173.9	482.2	523.8
d) retained profit, total	2,528.7	3,760.1	4,801.4	3,318.4	4,312.3
Total reserves	533.4	1,128.3	1,280.4	1,263.8	1,236.6
a) reserve for revaluation of fixed assets	101.2	574.9	713.3	701.9	565.0
b) reserve for revaluation of marketable securities	4.6	-5.8	20.5	0.6	3.0
c) general LLP on credits and financial lease	427.1	557.6	544.0	560.3	662.6
d) general LLP on other classified assets	0.6	1.7	2.6	1.1	6.0
e) other general reserves	0.0	0.0	0.0	0.0	0.0
<b>TOTAL: CAPITAL</b>	<b>8,997.7</b>	<b>12,822.3</b>	<b>14,921.7</b>	<b>12,583.0</b>	<b>14,435.0</b>
<b>TOTAL: LIABILITIES and CAPITAL</b>	<b>42,134.3</b>	<b>54,926.1</b>	<b>67,984.7</b>	<b>57,930.9</b>	<b>66,754.5</b>

<sup>1/</sup> reduced by the amount of discount and special LLP on credits<sup>2/</sup> Includes loans to legal entities and individuals<sup>3/</sup> Includes settlement (current) accounts and demand deposits of legal entities<sup>4/</sup> Includes settlement (current) accounts, demand deposits and time deposits of individuals<sup>5/</sup> 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 the end - 2011

Bank	Head Office Location	Total Branches	Bishkek	Batken Oblast	Jalal-Abad Oblast	Issyk-Kul Oblast	Naryn Oblast	Osh Oblast	Talas Oblast	Chui Oblast
<b>Total branches</b>		<b>255</b>	<b>55</b>	<b>15</b>	<b>41</b>	<b>36</b>	<b>17</b>	<b>44</b>	<b>11</b>	<b>36</b>
<b>Branches of resident banks</b>										
OJSC "Aiyi Bank"	Bishkek	27	1	3	5	3	2	6	2	5
OJSC "Aky Investbank"	Bishkek	-	-	-	-	-	-	-	-	-
OJSC Russia-Kyrgyz "AMANBANK"	Bishkek	7	1	-	1	2	-	1	1	1
OJSC "Bank of Asia"	Bishkek	6	3	-	1	1	-	1	-	-
OJSC "Bakai Bank"	Bishkek	5	-	-	1	1	-	1	-	2
OJSC "BTA Bank"	Bishkek	14	2	1	2	3	-	4	-	2
OJSC "Demir Kyrgyz International Bank"	Bishkek	5	4	-	-	-	-	1	-	-
OJSC "Dos-Credobank"	Bishkek	9	1	-	1	2	2	1	-	2
OJSC "Zalkar Bank"	Bishkek	36	7	3	7	5	3	4	2	5
OJSC Investment Bank "Issyk-Kul"	Bishkek	6	2	-	1	2	-	1	-	-
OJSC "Kazkommertsbank Kyrgyzstan"	Bishkek	3	2	-	-	-	-	1	-	-
OJSC "Kyrgyz Investment Credit Bank"	Bishkek	8	2	-	2	1	1	2	-	-
OJSC "KyrgyzCredit Bank"	Bishkek	3	3	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	Bishkek	31	7	2	6	3	3	5	1	4
OJSC "Manas Bank"	Bishkek	1	-	-	-	-	-	1	-	-
OJSC "SSC Bank"	Bishkek	51	3	5	10	7	5	9	4	8
OJSC JSCB "Tolubai"	Bishkek	2	2	-	-	-	-	-	-	-
OJSC "FinanceCreditBank KAB"	Bishkek	8	1	-	1	1	1	2	-	2
OJSC "Halyk Bank Kyrgyzstan"	Bishkek	7	3	-	1	1	-	1	-	1
OJSC "EcolIslamicBank"	Bishkek	11	4	1	1	1	-	2	-	2
OJSC "UniCredit Bank"	Bishkek	14	6	-	1	3	-	1	-	2
<b>Non-resident bank branches</b>										
CABCD Bishkek branch <sup>1/</sup>	Almaty	-	-	-	-	-	-	-	-	-
Bishkek branch of the National Bank of Pakistan <sup>2/</sup>	Karachi	1	1	-	-	-	-	-	-	-

<sup>1/</sup> The temporary administration regime was introduced on July 31, 2002 in Bishkek Branch of CABCD. On July 15, 2002, the CABCD banking licence was withdrawn in the Almaty City

On July 30, 2003 the temporary administrator regime was introduced in Bishkek Branch of the CABCD CJSC

<sup>2/</sup> The branch of non-resident bank was included in the Register of Issued Banking Licences on April 24, 2000 authorizing to perform banking operations  
 " " - no branches

**Table 18.****Cash Turnover in Commercial Banks and its Collectability in 2011***(in millions of KGS)*

	Receipt				Issue				Total	Excess of Issue (receipt) over Receipt (9-4) (issue) (+/-)	Collectability (%) (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			
	1	2	3	4	5	6	7	8	9	10	11
<b>Total for the Republic</b>	<b>17,304.0</b>	<b>64,849.9</b>	<b>348,351.8</b>	<b>430,505.7</b>	<b>20,808.1</b>	<b>17,610.4</b>	<b>91,594.9</b>	<b>306,423.5</b>	<b>436,436.9</b>	<b>5,931.2</b>	<b>98.6</b>
Bishkek City	3,075.5	50,058.9	199,705.3	252,839.7	2,953.2	375.9	49,028.8	181,791.2	234,149.1	-18,690.6	108.0
Batken Oblast	308.5	1,412.0	11,045.5	12,766.0	1,692.2	1,570.5	4,381.9	9,024.9	16,669.5	3,903.5	76.6
Jalal-Abad Oblast	1,268.6	2,522.7	36,134.5	39,925.8	3,766.2	3,185.2	13,265.1	28,665.5	48,882.0	8,956.2	81.7
Issyk-Kul Oblast	453.8	562.3	14,421.8	15,437.9	1,568.1	1,941.0	2,121.0	13,711.8	19,341.9	3,904.0	79.8
Haryn Oblast	191.8	79.4	4,770.5	5,041.7	1,218.3	1,574.6	280.6	4,730.4	7,803.9	2,762.2	64.6
Osh City	3,912.1	8,342.0	51,932.6	64,186.7	2,154.2	953.6	14,275.1	42,597.8	59,980.7	-4,206.0	107.0
Osh Oblast	722.6	602.5	10,777.8	12,102.9	2,894.4	3,559.9	4,159.9	8,545.7	19,159.9	7,057.0	63.2
Talas Oblast	73.4	113.7	6,664.4	6,851.5	1,032.3	836.9	1,508.4	6,783.4	10,161.0	3,309.5	67.4
Chui Oblast	7,297.7	1,156.4	12,899.4	21,353.5	3,529.2	3,612.8	2,574.1	10,572.8	20,288.9	-1,064.6	105.2

NBKR data

**Table 19.** Pattern of Payments in the Gross System of Settlements

	2007		2008		2009		2010		2011	
	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number
payments below KGS 1 thousand	1	3 944	2	7 443	3	9 881	3	9 780	4	10 588
from KGS 1 to 100 thousand	722	27 246	1 028	34 995	1 264	43 624	1 333	47 662	1 419	52 575
from KGS 100 thousand to KGS 1 million	6 493	19 147	9 469	22 232	9 715	23 333	11 143	26 467	14 070	32 877
from KGS 1 million to KGS 10 million	63 693	20 291	79 867	24 002	80 121	24 545	84 306	25 878	103 549	32 045
from KGS 10 million to KGS 100 million	146 999	6 002	201 449	7 327	191 641	7 005	170 059	6 250	225 349	7 896
payments above KGS 100 million	24 487	160	83 717	500	134 887	624	116 140	576	175 236	760
<b>Total</b>	<b>242 395</b>	<b>76 790</b>	<b>375 532</b>	<b>96 499</b>	<b>417 632</b>	<b>109 012</b>	<b>382 985</b>	<b>116 613</b>	<b>519 628</b>	<b>136 741</b>

NBKR data

**Table 20.** Volume and Number of Clearing Transactions by Oblasts

	2007		2008		2009		2010		2011	
	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments
Bishkek and Chui Oblast	37 486	1 203 584	44 009	1 667 187	42 279	2 095 196	40 712	1 028 101	44 244	1 053 947
Batken Oblast	2 050	72 324	2 113	125 602	2 267	235 995	2 490	59 164	2 762	43 100
Jalal-Abad Oblast	3 515	205 419	4 510	254 025	4 779	350 287	4 976	122 639	5 682	96 941
Issyk-Kul Oblast	2 321	103 609	2 781	146 442	3 213	192 336	2 957	79 917	3 828	75 469
Naryn Oblast	1 004	37 197	1 116	51 893	1 316	67 195	1 356	37 379	1 636	46 321
Osh Oblast and Osh City	4 345	80 454	5 783	170 494	6 130	237 077	4 864	125 901	6 180	118 889
Talas Oblast	797	30 637	913	79 702	893	118 475	987	37 977	1 153	24 393
<b>Total</b>	<b>51 518</b>	<b>1 733 224</b>	<b>61 225</b>	<b>2 495 345</b>	<b>60 877</b>	<b>3 296 561</b>	<b>58 341</b>	<b>1 491 078</b>	<b>65 484</b>	<b>1 459 060</b>

NBKR data

**Table 21.** Information on Transactions with Payment Cards in Points of Sale (POS)

Types of Cards	2007		2008		2009		2010		2011	
	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS
Elcard	3 152	882	9 423	3 280	17 252	4 232	8 015	1 918	9 226	15 563
Alai-Card	38 991	17 076	36 205	17 911	38 272	42 164	28 442	15 009	40 821	21 634
Demir 24	17 467	6 866	8 114	4 683	3 442	1 918	-	-	-	-
Visa	33 506	134 865	35 495	174 271	48 508	148 033	66 935	345 435	242 881	884 107
Master Card	13 078	59 185	7 539	59 028	6 813	58 477	6 267	110 162	10 000	187 243
American Express	-	-	-	-	-	-	-	-	-	30 139

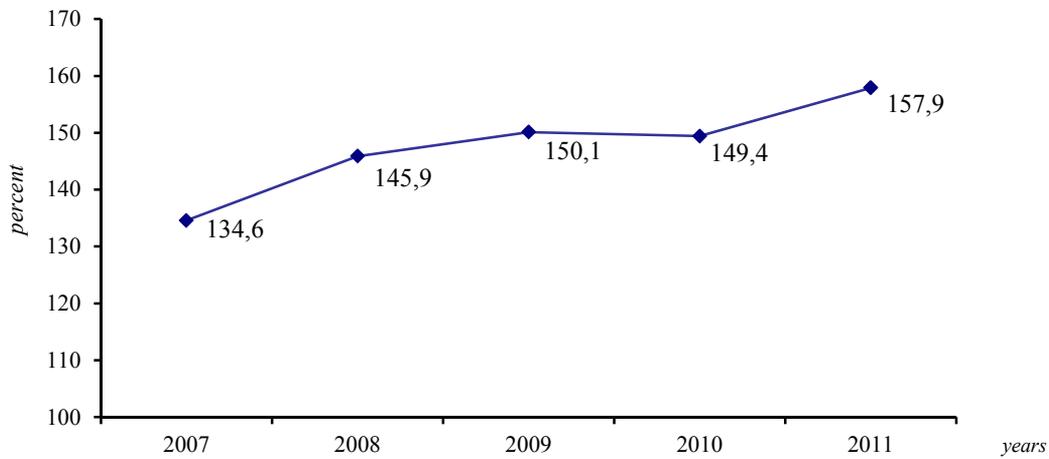
Data of commercial banks

"-": no transactions

**Chart 1.**

## Rates of Growth of Real Gross Domestic Product

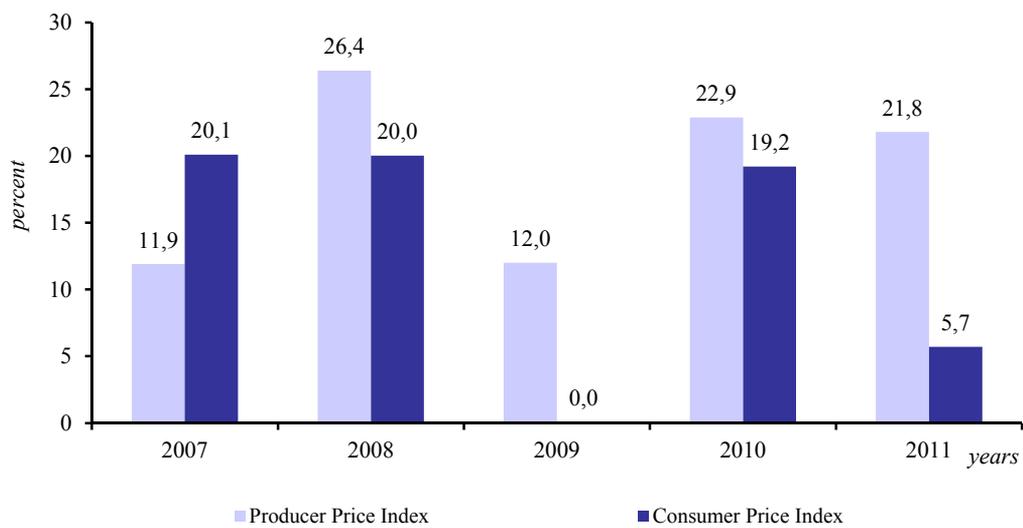
(2000 = 100 percent)



NSC KR data

**Chart 2.**

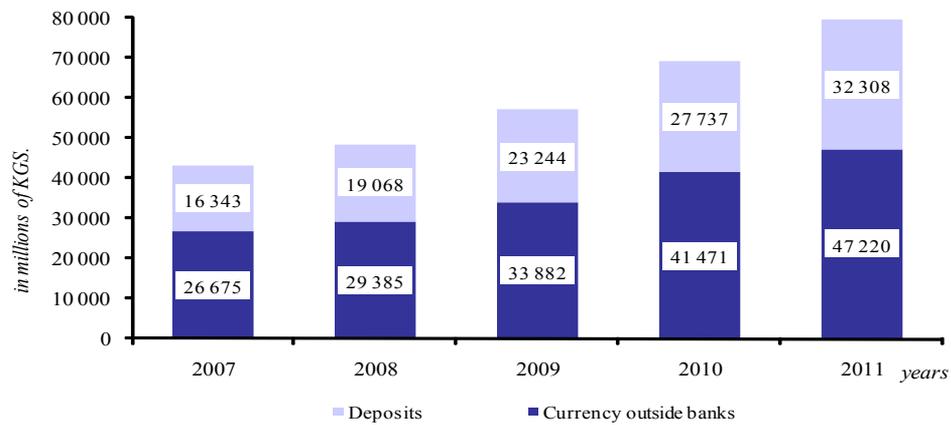
## Rates of Growth of Consumer and Producer Prices



NSC KR data

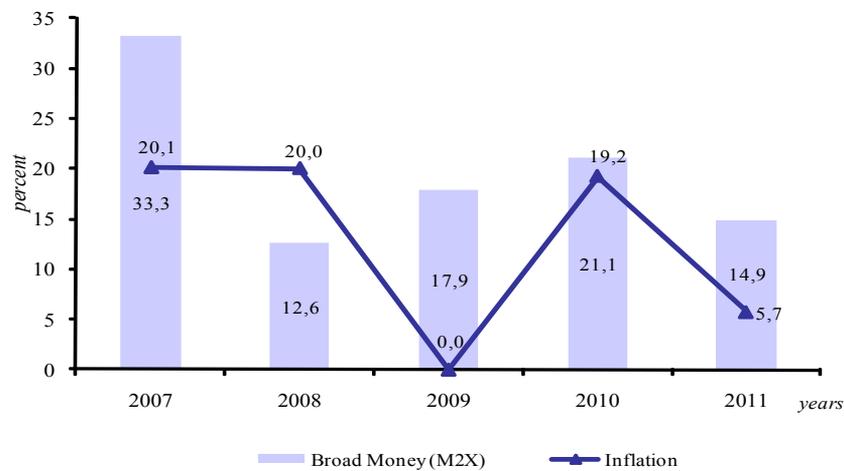
**Chart 3.**

Monetary Aggregates M2X Structure



**Chart 4.**

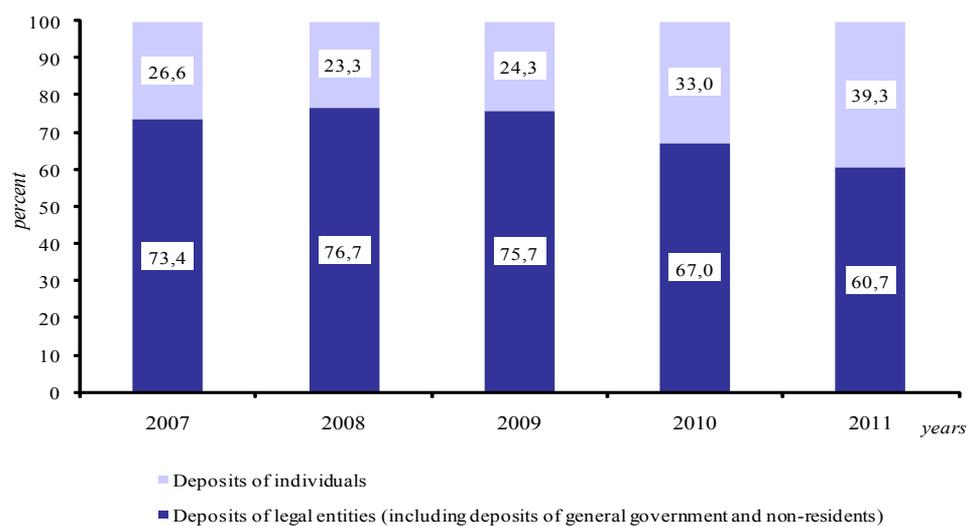
Rates of Growth of Money Supply and Inflation



According to data of NSC KR, NBKR and commercial banks

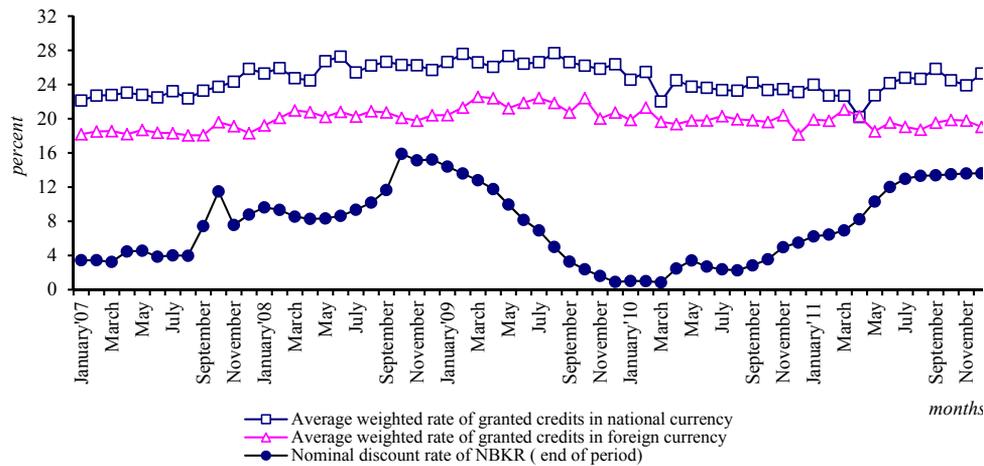
**Chart 5.**

Structure of Deposit Base in Commercial Banks (end of period)



**Chart 6.**

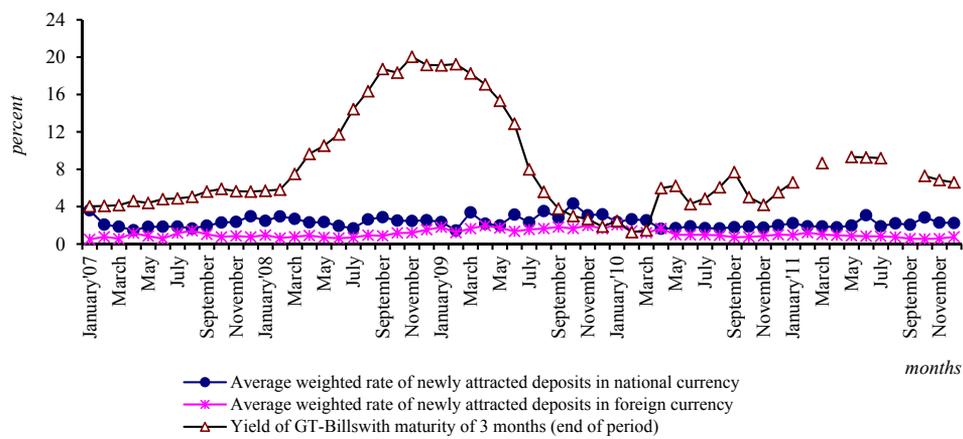
Interest Rates on Credits Extended by Commercial Banks



NBKR data and monthly regulatory reporting of commercial banks

**Chart 7.**

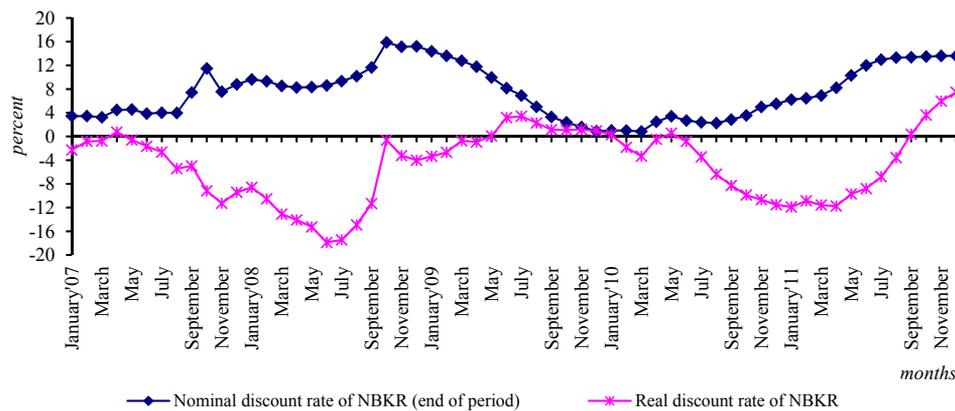
Interest Rates of Deposits and Yield of GT-Bills



NBKR data and monthly regulatory reporting of commercial banks

**Chart 8.**

Nominal and Real Discount Rate Developments



NBKR data

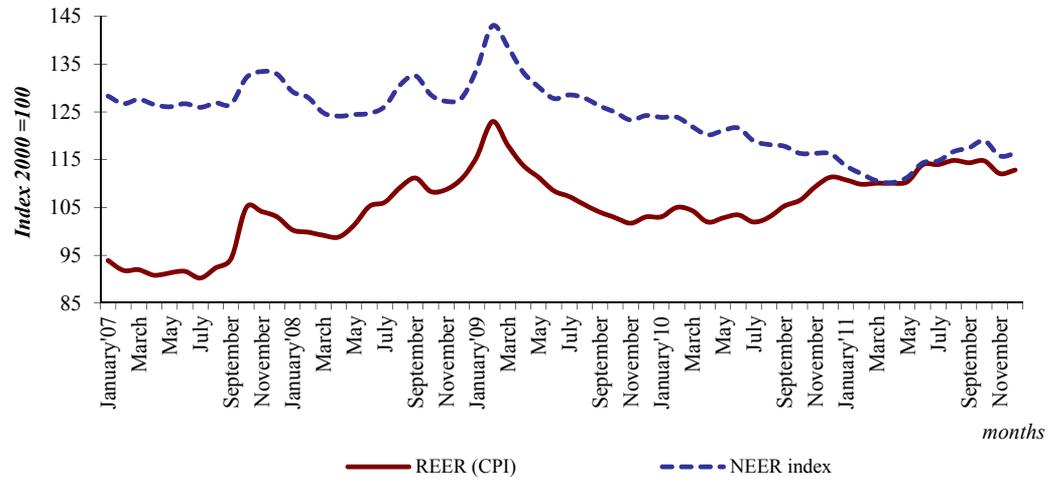
Note: the following formula was applied to calculate the real interest rate:

$$r = (i - p) / (p + 100) * 100, \text{ where the "i" - is the nominal interest rate}$$

r - real interest rate; p - annual rate of inflation

**Chart 9**

Nominal and Real Effective Exchange Rates



NBKR data

**NBKR Periodical Publications and Other Information Tools**

Nº	Title <sup>1</sup>	Language of Publication	Frequency	Contents	Distribution
1	2	3	4	5	6
1.	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, the description of the decisions and actions of the National Bank in the monetary sphere. Includes information on economic development, monetary policy, financial statements and general information on the National Bank, as well as statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
2.	Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian, and English	Quarterly	The publication reflects the recent external sector development trends and contains statistical data on the balance of payments, foreign trade, international reserves, external debt and international investment position, as well as meta data and information base used to compile the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
3.	Banking System Development Trends	Kyrgyz, Russian, and English		The analysis and assessment of the banking system development, as well as evaluation of stability preconditions of the banking system of Kyrgyzstan.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.

<sup>1</sup> – the titles of publications are given in an alphabetical order

4.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian, and English	Monthly	Statistical data on major economic and financial indicators. For preparation of the bulletin the materials of the National Statistical Committee, Ministry of Finance, commercial banks, Financial Market Supervision and Regulation Service of the Kyrgyz Republic, and NBKR data are used.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
5.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Weekly	On-line information on official exchange rates set by the National Bank of the Kyrgyz Republic, the results of inter-bank currency auctions, the situation on market of GT-Bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on basic directions of the NBKR activities, as well as the chronicle of events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Mass Media.
6.	Inflation Report in the Kyrgyz Republic	Kyrgyz, Russian, and English	Quarterly	The description of the dynamics of consumer prices in the country and its regions, the analysis of the basic inflation factors. The publication provides information on the decisions of the NBKR in the area of monetary policy and inflation forecast for the upcoming period	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
7.	Statutory Acts of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Monthly	Regulations, instructions and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, commercial banks, financial and credit institutions, the Courts of the Kyrgyz Republic ministries and agencies, higher educational institutions and libraries of the Kyrgyz Republic.
8.	Information Booklets and Instructions	Kyrgyz, Russian	Updated according to work plans of Structural	Informational brochures and methodological manuals are published on the various lines of the NBKR activities.	The Jogorku Kenesh of the Kyrgyz Republic, the President Office of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic.

9.	Official Web-site of the NBKR <a href="http://www.nbkr.kg">www.nbkr.kg</a>	Kyrgyz, Russian, and English	Updates in real-time mode	<p>Information on the activities of the NBKR, including: information on banking legislation, regulatory legal acts of the NBKR governing monetary policy, the activities of commercial banks and other FCIs, on the organization of payment system and cash turnover, and draft documents are brought to discussion, regularly updated list of commercial banks and non-bank FCIs, licensed by the National Bank, as well as information on tariffs for services provided by commercial banks. The site also hosts: review materials on the system of commercial banks and non-bank financial sector; statistics on the monetary survey, external economic indicators, balance of payments, international reserves, external debt and international investment position of the country; information on the history of the national currency; information and analytical materials and the Internet versions of the official publications of the National Bank: "Bulletin of the National Bank", "Annual Report", "Review of the Inflation in the Kyrgyz Republic", "Balance of Payments of the Kyrgyz Republic", "Press Release of the NBKR", "Banking System Development Trends in the Kyrgyz Republic" - updated according to the frequency of each publication.</p> <p>On the special section the forms of the documents are posted: on recruitment, on the opening of bank, exchange offices, and microfinance institutions. The information on transactions involving the NBKR, the official exchange rate and the discount rate set by the National Bank, and the chronicle of events in the NBKR are updated in real-time mode.</p>	Open (public) access to information
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10.	Radio Program “Uluttuk Bank Bildiret” (The National Bank Information)	Kyrgyz	Twice per week	News of the financial market: market conditions, the discount rate and discount rate of foreign currencies, the chronicle of major events in the bank's activities, interviews with the NBKR Experts on current issues of the monetary policy and banking legislation, on implementation of the strategic government programs for the development of banking sector, payment systems, micro-financing market. Answers to common questions of the citizens are covered under the heading “The NBKR Public Chamber Answers Your Questions”.	Broadcast on Radio “Kyrgyzstan Obondoru”
11.	TV Program “Natsbank Soobshaet” (The National Bank Informs)	Russian	Monthly	Coverage of major events in the NBKR activities, a weekly review of the financial market, information on official exchange rates set by the National Bank of the Kyrgyz Republic and the overall macroeconomic indicators of the Republic; interview with the NBKR Experts on the current issues of the monetary policy, banking and payment system, banking legislation; under the heading “The NBKR Public Chamber Answers Your Questions” the explanations on the questions asked by the citizens are provided.	Broadcast on the Republican TV Channel “Public TV and Radio Broadcasting Corporation”

**Appendix 4**  
to the NBKR Report for 2011

### List of Abbreviations

ADB	Asian Development Bank
BCS	Bulk Clearing System
CAMELS	Commercial Banks Rating System
CFT/AML	Combating the Financing of Terrorism and Anti-Money Laundering
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CPI	Consumer Price Index
CT MoF	Central Treasury of the Ministry of Finance
CU	Credit Union
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility of the IMF
EDB	Eurasian Development Bank
ESF	External Shock Facility
ETS	Exchange Trading System
EurAsEC	Eurasian Economic Community
FCI	Finance and Credit Institutions
FCSDCU	Financial Company for Support and Development of Credit Unions
FL	Fuels and Lubricants
FOB	Price at the Frontier of Country-Exporter (free on board)
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation (Deutsche Gesellschaft fuer Internationale Zusammenarbeit)
GS	Government Securities
GT-Bills	Government Treasury Bills
GT-Bills (s)	Government Treasury Bills for Settlement
GT-Bonds (s)	Government Treasury Bonds for Settlement
GTO	Government Treasury Obligations
IDB	Islamic Development Bank
IMF	International Monetary Fund
IR	International Reserves
ISB	Interstate Bank
KR	Kyrgyz Republic
LLC	Limited Liability Company
LLP	Loan Loss Provisions
MAC	Multi-Access Center

MCA	Microcredit Agency
MCC	Microcredit Company
MFC	Microfinance Company
MFO	Microfinance Organization
MM	Mass Media
MP	Monetary Policy
MSC	Multisectoral Commission on Increasing the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic
MTMDS	Mid-Term Microfinance Development Strategy
NBKR	National Bank of the Kyrgyz Republic
NEER	Nominal Effective Exchange Rate
NFCI	Nonbank Finance and Credit Institution
NSC	National Statistical Committee
NTRBC	National Television and Radio Broadcasting Corporation
OJSC	Open Joint Stock Company
OPEC	Organization of Petroleum Exporting Countries
RCF	Rapid Credit Facility of the IMF
REER	Real Effective Exchange Rate
RLA	Regulatory Legal Act
ROA	Return on Assets
ROE	Return on Equity
RTGSS	Real Time Gross Settlement System
SDR	Special Drawing Rights
SECO	Swiss Cooperation Office in the Kyrgyz Republic
SFBR	Specialized Fund for Banks Refinancing
TO	Treasury Obligations
USA	United States of America
VAT	Value Added Tax